

**NORTH CAROLINA GENERAL ASSEMBLY  
LEGISLATIVE FISCAL NOTE**

**BILL NUMBER:** Senate Bill 1088 CS  
**SHORT TITLE:** Diesel Fuel Payment Method  
**SPONSOR(S):** Senators Lee and Smith (original bill)

<b>FISCAL IMPACT:</b>	<b>Expenditures:</b>	<b>Increase (X)</b>	<b>Decrease ( )</b>
	<b>Revenues:</b>	<b>Increase ( )</b>	<b>Decrease (X)</b>
	<b>No Impact ( )</b>	<b>No Estimate Available ( )</b>	

**FUND AFFECTED:**     **General Fund ( ) Highway Fund (X) Local Govt. (X)**  
                                 **Other Funds (X) Highway Trust Fund, Wildlife**  
   **Resources Fund**

**BILL SUMMARY:**     The bill changes the tax rate on diesel fuel into two taxes, a base tax of 10.5 cents and a surtax of 7 cents. The current tax on all motor fuels is 17.5 cents plus 7% of the weighted average price of fuel averaged over a six-month period. The surtax applies only to diesel fuel used in a motor vehicle that weighs over 26,000 lbs. Suppliers and user-sellers will be required to include with their monthly or quarterly special fuel tax reports any information specified by the Secretary of Revenue needed to determine liability for the special fuels tax or the surtax.

All motor carriers operating diesel-propelled vehicles are required to file reports and remit the surtax either quarterly or annually. Under current law, a motor carrier who operates only within the State is not required to file a road tax report.

To compensate the Highway Fund and the Highway Trust Fund for revenue losses occurring from lowering the diesel fuel tax, diesel-powered vehicles that weigh under 26,000 lbs. will pay an additional annual registration tax which is \$50 for vehicles up to 16,500 lbs. and \$150 for vehicles between 16,500 and 26,000 lbs.

**EFFECTIVE DATE:** October 1, 1993, with a sunset of October 1, 1996

**PRINCIPAL DEPARTMENT(S)/PROGRAM(S) AFFECTED:** Motor Fuels Tax Division, Department of Revenue; Division of Motor Vehicles, Department of Transportation

**FISCAL IMPACT**

	<u>FY94</u>	<u>FY95</u>	<u>FY96</u>	<u>FY97</u>
	<u>FY98</u>			
<b>REVENUES:</b>				
<b>GENERAL FUND</b>				
<b>HIGHWAY FUND</b>	(\$5,368,125)	(\$157,500)	\$5,368,125	
<b>HIGHWAY TRUST FUND</b>	(\$1,801,875)	(\$52,500)	\$1,801,875	
<b>WILDLIFE RESOURCES FUND</b>	(\$25,000)			\$25,000
<b>LOCAL</b>	Municipalities receive 6.5% of annual revenues deposited in the			

Highway Trust Fund as Powell Bill supplemental funds. A reduction of \$1.8 million in Trust Fund collections equates to a reduction of \$117,000 in distributions to municipalities in FY94-95.

**EXPENDITURES** The Department of Revenue will require an additional data entry operator and tax auditor to implement and administer this change in the method of collecting diesel fuel taxes. These personnel equate to an additional annual appropriation of \$64,337 from the Highway Fund. The Division of Motor Vehicles will expend an additional \$45,000 to train branch agents for collecting the additional registration fees, for reprogramming vehicle registration computer programs to accommodate the new registration tax information, and to print materials to distribute to the public to inform taxpayers of the new registration requirements. It is expected that branch agents will request additional compensation for collecting a new registration fee. This cost is unknown because the number of diesel vehicles in North Carolina is unknown.

**POSITIONS:** 2 additional positions in the Motor Fuels Tax Division of the Department of Revenue

**ASSUMPTIONS AND METHODOLOGY:** The \$7 million reduction in fuel tax collections in the first year of implementation occurs from moving the frequency of collection from a monthly to a quarterly basis. FY93-94 will receive 10 months of surtax collections compared to a full 12 months under current law. In conversations with the State Treasurer's office, it was determined that the annual loss in investment earnings from the State foregoing the use of \$7 million in the first 2 months of each quarter was estimated at \$210,000, \$157,500 for the Highway Fund and \$52,500 for the Highway Trust Fund.

The issue of whether this will increase or decrease sales of taxable diesel fuel in North Carolina has not been addressed in this fiscal note. However, the experience of another state may be helpful. In September of 1991, Connecticut reduced its diesel fuel tax from 26 cents to 18 cents per gallon. This was a change proposed by that state's association of truck stop operators. The argument was made during the legislative debate that a lower tax would result in a lower retail price, and diesel fuel sales would increase sharply. In the first year under the reduced diesel tax, Connecticut's taxable diesel sales statewide increased by less than 5%.

Another impact on Highway Fund and Highway Trust Fund revenues that has not been calculated is the adequacy of the additional registration fees to offset the reduction in fuel taxes from the lower tax rate. If the new fees are too low to recapture losses in fuel tax revenues from diesel vehicles not subject to the surtax, total revenues will decline. A list of diesel vehicles registered in North Carolina cannot be generated at DMV until an additional edit module is purchased for the vehicle registration computer system.

**SOURCES OF DATA:** NC Department of Transportation and Division of Motor Vehicles, NC Department of Revenue

**TECHNICAL CONSIDERATIONS:**

**FISCAL RESEARCH DIVISION 733-4910**  
**PREPARED BY:** Ruth Sappie  
**APPROVED BY:** THOMAS L. COVINGTON **TOMC**  
**DATE:** June 16, 1993



**Signed Copy Located in the NCGA Principal Clerk's Offices**