

**NORTH CAROLINA GENERAL ASSEMBLY
LEGISLATIVE FISCAL NOTE**

BILL NUMBER: HOUSE BILL 1187
SHORT TITLE: COUNTY/CITY TAX EXEMPTION
SPONSOR(S): REP. DECKER

| FISCAL IMPACT | | | | | |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------|-------------------|---------------------------|-------------------|-------------------|
| | Yes (X) | No () | No Estimate Available () | | |
| | <u>FY 1997-98</u> | <u>FY 1998-99</u> | <u>FY 1999-00</u> | <u>FY 2000-01</u> | <u>FY 2001-02</u> |
| REVENUES (\$Million) | | | | | |
| State General Fund: | | | | | |
| Loss of Interest Income | -2.9 | -3.1 | -3.2 | -3.4 | -3.6 |
| Reduced Local Reimbursement | +2.9 | +2.9 | +2.9 | +2.9 | +2.9 |
| Net Impact | | -.2 | -.3 | -.5 | -.7 |
| Local Government: | | | | | |
| Gain In Interest Income | +2.9 | +3.1 | +3.2 | +3.4 | +3.6 |
| Reduced State Reimbursement | -2.9 | -2.9 | -2.9 | -2.9 | -2.9 |
| Net Impact | | +.2 | +.3 | +.5 | +.7 |
| EXPENDITURES: | Would lead to one-time postage costs of \$50,000* | | | | |
| EFFECTIVE DATE: | July 1, 1997 | | | | |
| *Could be eliminated if effective date moved until October 1, 1997 or later as change could be incorporated into regular late-September mailing of Department of Revenue announcing sales tax changes. | | | | | |

BILL SUMMARY: (1) Currently counties, cities, and specifically-named local authorities are eligible for an annual refund of state and local sales taxes paid. The refund is normally granted in February and applies to the taxes paid during the most recent fiscal year. The bill would replace the refund with a sales tax exemption. To be eligible for the exemption the local unit must register with the Department of Revenue, make the purchase by the unit's check or voucher, and provide the seller with the exemption certificate. In addition, the finance officer of the unit shall have the duties of registering for the exemption, signing the exemption certificate, and verifying that all property purchased with the exemption is for use by the unit. (2) Reduces the state reimbursement to local government for the repeal of the intangibles tax by \$2.9 million per year.

ASSUMPTIONS AND METHODOLOGY: The shift from a sales tax refund for counties and cities to a front-end exemption would shift interest income on cash balances from the state to local units. The reason is that the refund is normally paid during the first 7 months of the fiscal year after the fiscal year in which the local purchases are made. To determine this impact, the Department of Revenue furnished the total amount of tax refunds for local units for the 1995-96 fiscal year. This number was adjusted to 1997-98 terms by using 6% annual growth (approximates the estimate of state personal income growth used in the General Fund Financial Model). Next, it was assumed that the purchase rate of local units was the same for each month of the year. Finally, the estimate of the monthly exemption was applied to a monthly interest rate factor using an annual interest rate of 7% (slightly higher than the short-term investment return earned by the State Treasurer in recent years). For this analysis, it is assumed that all eligible local units take advantage of the shift from a tax refund to an exemption at the time of purchase and that all of the refunds are made in the 7th month after the end of the fiscal year for which the local purchases are made.

FISCAL RESEARCH DIVISION (733-4910)

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DATE: May 1, 1997



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