

NORTH CAROLINA GENERAL ASSEMBLY

LEGISLATIVE FISCAL NOTE

BILL NUMBER: HB 449

SHORT TITLE: Farm Baling Equipment Tax Change

SPONSOR(S): Rep. Edd Nye

FISCAL IMPACT				
	Yes (X)	No ()	No Estimate Available ()	
	(\$ Millions)			
	<u>FY 1999-00</u>	<u>FY 2000-01</u>	<u>FY 2001-02</u>	<u>FY 2002-03</u> <u>FY 2003-04</u>
REVENUES				
General Fund	(0.55)	(0.55)	(0.28)	minimal loss
Local Governments	(0.38)	(0.38)	(0.19)	minimal loss
PRINCIPAL DEPARTMENT(S) & PROGRAM(S) AFFECTED:	Department of Revenue, Sales Tax Division.			
EFFECTIVE DATE:	This act becomes effective October 1, 1999, and applies to sales made on or after that date.			

BILL SUMMARY: The legislation adds tobacco balers to the list of farm equipment that is taxed at the 1% sales tax rate with an \$80 per item tax liability cap. Tobacco balers are now taxed at 6%.

ASSUMPTIONS AND METHODOLOGY: Agricultural researchers at N.C. State indicate that tobacco balers have only recently been introduced to the North Carolina market. They report that as of July 1998 there were only 25 balers in the state, most of which were constructed by the farmers themselves. Today they believe that there are approximately 1,250 purchased tobacco balers in North Carolina. These same researchers suggest that market saturation will be about 7,500 balers. They believe market saturation will be reached in two to three years. These numbers suggest that approximately 6,250 tobacco balers will be purchased before saturation is reached (7,500 total market – 1,250 existing = 6,250 potential). While there are several different kinds of balers in a broad price range, N.C. State indicates that the average sales price is between \$7,000 and \$8,000. Using the midpoint of \$7,500 as a proxy for the average price, the total value of the potential market is \$46,875,000. Apply the 6% sales tax rate suggests that the purchase of these balers will raise approximately \$2,812,500 in sales tax revenue. Of this

amount 2/3 or \$1,875,000 goes to the general fund and \$937,500 goes to local governments. This is a sales tax liability of approximately \$450 per baler.

Because the bill effectively eliminates the local sales tax on these balers (the 1% rate with an \$80 cap is a state only tax), local governments will loose the entire \$937,500. Assuming that loss is spread out over the next 2.5 years (the mid-point of the 2-3 year estimate for market saturation), the annual local loss for the period will be approximately \$375,000 statewide.

The bill also effectively reduces the state tax from 4% to 1% with an \$80 cap. As mentioned previously, the total sales tax liability for a tobacco baler is estimated to be \$450. Two thirds of that amount or \$300 is the state tax liability. The bill will lower that liability to the \$80 maximum tax cap. Therefore the state will loose \$220 per baler sold, or \$1,375,000 over two to three years. Assuming the loss is spread out over the next 2.5 years (the mid point of the 2-3 year estimate for market saturation), the annual state tax loss will be \$550,000.

N.C. State researchers believe demand for tobacco balers will drop of significantly after three years, as most farmers will already own a baler, and few new tobacco farmers are expected. If this is correct, only replacement balers will be purchased. As such, the number of baler purchases, and the associated tax loss, is expected to be minimum after three years.

Note: The Department of Revenue indicates that these items are taxed at the 6% rate because they are not used directly in “planting, cultivating, harvesting, or curing of farm crops” as is required by G.S. 105-164.4(a)(1d)a for the lower tax rate.

FISCAL RESEARCH DIVISION 733-4910

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DATE: Tuesday, July 06, 1999



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