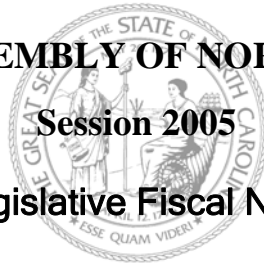


GENERAL ASSEMBLY OF NORTH CAROLINA



Session 2005

Legislative Fiscal Note

BILL NUMBER: Senate Bill 1789 (First Edition)

SHORT TITLE: Manufacturers Energy Tax Exemptions.

SPONSOR(S): Senator Garrou

	FISCAL IMPACT (\$ in millions)				
	Yes (X)	No ()	No Estimate Available ()		
	<u>FY 2006-07</u>	<u>FY 2007-08</u>	<u>FY 2008-09</u>	<u>FY 2009-10</u>	<u>FY 2010-11</u>
REVENUES:					
General Fund	(\$41.7)	(\$45.1)	(\$46.2)	(\$47.2)	(\$48.3)
Municipalities	(\$5.6)	(\$8.0)	(\$8.2)	(\$8.4)	(\$8.6)
PRINCIPAL DEPARTMENT(S) & PROGRAM(S) AFFECTED: NC Department of Revenue, NC Municipalities					
EFFECTIVE DATE: July 1, 2006					

BILL SUMMARY: Senate Bill 1789 would exempt electricity and piped natural gas sold to manufacturers from the sales and use tax and the excise tax on piped natural gas.

ASSUMPTIONS AND METHODOLOGY: Electricity sold to manufacturers is currently taxed at a rate of 2.83% of sales. According to the Department of Revenue, the amount of tax collected in this category for FY 2004-05 was approximately \$32 million.

The NC Public Utilities Commission reported that the excise tax on piped natural gas sold to large industrial customers generated approximately \$16.5 million during FY 2004-05. This analysis assumes that the exemption would apply to those customers classified as large industrial customers by the major gas utilities. To be classified as large industrial, a customer must have a daily consumption of 50 dekatherms or greater.

Of the total amount collected, half of the tax attributable to activity within municipal boundaries is distributed to municipalities. The percentage of overall piped gas collections distributed to municipalities is approximately 40%. This analysis assumes that manufacturing facilities are located within municipal boundaries to a greater extent than other piped natural gas consumers and uses 45% as the portion distributed to municipalities.

The table below shows the amount of tax loss to the state and municipal governments attributable to the exemptions for electricity and piped gas.

Estimated Impact of S1789 for FY 2006-07			
	State	Municipalities*	TOTAL
Piped Gas	\$9.0	\$5.6	\$14.6
Electricity	\$32.7	\$0	\$32.7
TOTAL	\$41.7	\$5.6	\$47.3

* Municipalities receive piped gas tax distributions quarterly. Only three of the four distributions received during FY 2006-07 would reflect the manufacturing exemption.

First-year estimates for both the sales tax on electricity and the piped natural gas tax are adjusted to account for collection and distribution lags. Inflation forecasts from Economy.com are used to project impacts in future years.

SOURCES OF DATA: NC Department of Revenue, NC Utilities Commission, Moody's Economy.com

TECHNICAL CONSIDERATIONS: None

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Signed Copy Located in the NCGA Principal Clerk's Offices