

GENERAL ASSEMBLY OF NORTH CAROLINA



Session 2007

Legislative Fiscal Note

BILL NUMBER: House Bill 2509 (Second Edition)

SHORT TITLE: Sales Tax Refund for Certain Nonprofits

SPONSOR(S): Representative Gibson

FISCAL IMPACT					
	Yes (X)	No ()	No Estimate Available ()		
	<u>FY 2008-09</u>	<u>FY 2009-10</u>	<u>FY 2010-11</u>	<u>FY 2011-12</u>	<u>FY 2012-13</u>
REVENUES:					
General Fund	(\$402,000)	(\$425,000)	(\$465,000)	(\$502,000)	(\$543,000)
Local Impact	(\$210,000)	(\$187,000)	(\$196,000)	(\$212,000)	(\$228,000)
EXPENDITURES:					
POSITIONS					
(cumulative):					
PRINCIPAL DEPARTMENT(S) & PROGRAM(S) AFFECTED: North Carolina Department of Revenue					
EFFECTIVE DATE: Effective for purchases made on or after July 1, 2008.					

BILL SUMMARY: In 2004, the General Assembly expanded the property tax exemption for educational property¹ by exempting property held by a nonprofit entity for the sole benefit of a university located in the State and by expanding the definition of educational purposes to include the operation of a student housing facility or a student dining facility.² The proposed committee substitute for House Bill 2509 would expand the list of nonprofit organizations allowed a semi-annual refund of sales and use tax to include nonprofit organizations that procure, design, construct, or provide facilities to a constituent institution of the University of North Carolina.³

Some University of North Carolina constituent institutions use nonprofit organizations to procure, design, and construct facilities, such as student housing and dining facilities, on their behalf. HB

¹ G.S. 105-278.4.

² S.L. 2004-173.

³ A constituent institution would include the universities as well as the North Carolina School of the Arts and the North Carolina School of Science and Mathematics. G.S. 116-4.

2509 clarifies that purchases made on or after July 1, 2008 by these organizations are eligible for sales and use tax refunds.

ASSUMPTIONS AND METHODOLOGY:

HB 2509 represents \$612,000 in state and local tax expenditures for the 2008-09 fiscal year and roughly \$700,000 to \$800,000 in subsequent years. The North Carolina Department of Revenue reports \$1.7 million in outstanding, construction related sales and use tax refund claims from University of North Carolina constituent institutions (purchases made between January 1, 2004 and December 31, 2007).

To estimate the impact of HB 2509, Fiscal Research applied an annual inflation rate of eight percent to the amount being claimed annually by UNC constituent institutions. The eight percent inflation rate, a figure provided by Fiscal Research's Capital Appropriations Team, captures the volatility in construction costs and construction rates. The annual sales and use tax refunds represent \$567,000 or one-third of the \$1.7 million in outstanding, construction related sales and use tax refund claims from University of North Carolina constituent institutions.

Should construction related costs increase by eight percent annually, Fiscal Research estimates that sales and use tax refunds provided under HB 2509 will represent \$612,000 in tax expenditures for the 2008-09 fiscal year.

SOURCES OF DATA: North Carolina Department of Revenue

TECHNICAL CONSIDERATIONS:

FY2008-09 estimates incorporate local and state sales tax rate changes occurring on October 1, 2008; Assumes local sales tax rate of 2.5% for three months and 2.25% for nine months; also assumes state sales tax rate of 4.25% for three months and 4.5% for nine months.

FY2009-10 estimates incorporate local and state sales tax rate changes occurring on October 1, 2009; Assumes local sales tax rate of 2.25% for three months and 2.50 % for nine months; also assumes state sales tax rate of 4.50% for three months and 4.75% for nine months.

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