NORTH CAROLINA GENERAL ASSEMBLY
LEGISLATIVE FISCAL NOTE

BILL NUMBER: Senate Bill 36
SHORT TITLE: Fix Piped Natural Gas Inequity
SPONSOR(S): Proposed Committee Substitute

NOTE:
The revenue impact has changed from the earlier version. The General Fund loss was estimated using a 3% sales tax on piped natural gas as the current rate. The current correct rate is 2.83%.

($ MILLIONS)
FISCAL IMPACT
Yes (X) No ( ) No Estimate Available ( )

	FY 1997-98	FY 1998-99	FY 1999-00	FY 2000-01	FY 2001-02
REVENUES					
Utility Sales	$ 3.4	$ 4.68	$ 4.77	$ 4.87	$ 4.97
2% Sales	(3.3)	(4.53)	(4.71)	(4.89)	(5.08)
Net GF Impact	0.1	.15	.06	(0.02)	(0.11)

PRINCIPAL DEPARTMENT(S) &
PROGRAM(S) AFFECTED: Department of Revenue Sales and Use Tax Division

EFFECTIVE DATE: October 1, 1997

BILL SUMMARY:
The proposed act eliminates the distinction between a natural gas utility and a natural gas marketer and reduces the sales tax rate on natural gas sold to farmers and manufacturers.

The distinction between a utility and marketer is eliminated by adding "business entity" to the definition(s) of a utility under the sales and use tax statutes. As a result of regulatory changes in the natural gas industry persons other than a utility, such as a marketer, are allowed to sell piped natural gas. The State's sales tax laws are designed to be applied to only one type of seller, a natural gas utility. This act clarifies that sales of natural gas, by a natural gas marketer to an end user located within the State, are subject to sales and use tax. A municipality that sells natural gas is not considered a "business entity" under this act.

The sales tax rate on piped natural gas sold to farmers and manufacturers is reduced from 2.83% to 2%. Under current law, fuel other than electricity and piped natural gas when sold to farmers, manufacturers, and dry cleaners for use in their business operations is taxed at 1% for sales and use tax purposes.

ASSUMPTIONS AND METHODOLOGY:
The loss in revenue from the State's failure to clarifying the distinction between a gas marketer and a gas utility, for sale tax purposes, is expected to cost the General Fund $4.68 million in fiscal year 1998-99. The average annual growth is assumed to be the national average of 2% for fiscal years 1997-98 through 2001-02. It is estimated that in 1996, 50 million dekatherms sold in the State escaped the sales and use tax. The average price per dekatherm is assumed to be $3.00. If the 3% tax rate had been applied to the $150 million in sales then, $4.5 million in sales tax revenue would have been collected. The collection period in fiscal year 1997-98 is nine months due to an effective date of October 1, 1997.

The base data used to estimate the fiscal impact of the rate reduction is the forecast data for sales tax collections from natural gas as predicted in the General Fund financial model for fiscal years 1997-98, 1998-99, 1999-00, 2000-01, and 2001-02. The State Utility Commission reports that 54% of the gas sales are to industrial users and 37% of electric power sales are to industrial and farm users. These percentages were applied to gas and electric power sales tax collections to determine industrial sales tax collections by utility. The difference in tax revenues from a rate of 2.83% and a rate of 2% on industry sales is the recorded loss by fiscal year.

The expected fiscal year loss is the difference between the revenue derived from clarifying the definition of a gas utility and the loss in revenue from reducing the sales tax rate on certain sales of natural gas.

SOURCES OF DATA:
North Carolina Utilities Commission Annual Reports
Department of Revenue, Sales and Use Tax Division
Department of Revenue, Corporate Income and Franchise Tax Division
General Fund Financial Model

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Signed Copy Located in the NCGA Principal Clerk's Offices