

GENERAL ASSEMBLY OF NORTH CAROLINA



Session 2007

Legislative Fiscal Note

REVISED

BILL NUMBER: House Bill 2605 (First Edition)

SHORT TITLE: Energy Star Sales Tax Holiday.

SPONSOR(S): Representatives Luebke, Harrison, Weiss, and Allen

<b>FISCAL IMPACT</b>					
	<b>Yes (X)</b>	<b>No ( )</b>	<b>No Estimate Available ( )</b>		
	<b>(In Millions)</b>				
	<b><u>FY 2008-09</u></b>	<b><u>FY 2009-10</u></b>	<b><u>FY 2010-11</u></b>	<b><u>FY 2011-12</u></b>	<b><u>FY 2012-13</u></b>
<b>REVENUES</b>					
<b>General Fund Impact</b>	<b>(1.18)</b>	<b>(1.28)</b>	<b>(1.32)</b>	<b>(1.35)</b>	<b>(1.38)</b>
<b>Local Impact</b>	<b>(0.62)</b>	<b>(0.56)</b>	<b>(0.56)</b>	<b>(0.57)</b>	<b>(0.58)</b>
<b>EXPENDITURES</b>					
<b>POSITIONS (cumulative):</b>					
<b>PRINCIPAL DEPARTMENT(S) &amp; PROGRAM(S) AFFECTED:</b> The North Carolina Department of Revenue					
<b>EFFECTIVE DATE:</b> The sales and use tax holiday will begin at 12:01 a.m. on the first Friday of November and end at 11:59 p.m. on the following Sunday.					

**BILL SUMMARY:**

This legislation establishes a state and local sales and use tax holiday for the “Energy Star qualified products” outlined in the Governor’s 2008-09 budget. The list of eligible items includes:

- Clothes washers, dishwashers, refrigerators, and freezers,
- Room air conditioners, dehumidifiers,
- Compact fluorescent bulbs, and programmable thermostats.

**ASSUMPTIONS AND METHODOLOGY:**

The Fiscal Research Division estimates a \$1.8 million fiscal impact of enacting an Energy Star sales tax holiday in FY 2008-09. North Carolina sales of Energy Star refrigerators, dishwashers, clothes washers, room air conditioners, dehumidifiers, and programmable thermostats (data on light bulbs and freezers is unavailable) generate approximately \$36 million dollars in state and

local sales and use tax revenue each year. The \$1.8 million fiscal impact assumes that five percent of the annual purchases would occur during the sales tax holiday weekend.

According to the Tax Foundation, sales and use tax holidays encourage two behaviors. In the absence of a tax, retailers raise prices; and consumers shift the timing of their purchases to the “holiday weekend.”<sup>i</sup> Therefore, the true cost of a holiday is contingent on how many consumers shift their purchases to the tax exempt time period. During Florida’s 2006 energy efficient sales tax holiday, roughly five percent of the state’s Energy Star sales took place during the holiday week.<sup>ii</sup>

Table 1 provides the associated sales tax revenue if five percent of Energy Star product purchases occur during the tax holiday. Table 2 provides the prices and quantities of Energy Star products sold in North Carolina that are eligible for the tax holiday.

<b>Table 1: Estimated Sales and Use Tax Revenue Forgone by Including Select Energy Star Products in a Sales Tax Holiday Weekend, FY08-09</b> (in Millions) Assumes a 6.75% sales tax rate	
Annual sales of Energy Star products	\$534.0
State and local sales tax if 5% of purchases are made during the sales tax holiday weekend	1.8

<b>Table 2. Price and Quantity of Energy Star Products Sold in North Carolina</b>		
	<b>North Carolina Energy Star Sales (Quantity)</b>	<b>Average Price per Unit</b>
Clothes washers	93,682	\$ 966
Dishwashers	202,459	620
Refrigerators	133,812	1,470
Room air conditioners	282,157	360
*Dehumidifiers	60,163	150
*Programmable thermostats	115,912	92
<b>Total sales (in millions)</b>		\$534
<b>Associated state and local sales and use tax (in millions)</b>		\$36
Information on pricing and quantity sold for clothes washers, dishwashers, refrigerators, room air conditioners based on 2007 sales; data provided by D&R International The data for programmable thermostats and dehumidifiers uses national data and calculates a state figure based on the assumption that North Carolina represents five percent of national product purchases. ICF International provided the 2006 sales data, pricing information provided by <a href="http://www.energystar.gov">www.energystar.gov</a> cost savings calculator.		

**SOURCES OF DATA:**

Information on pricing and quantity sold for clothes washers, dishwashers, refrigerators, room air conditioners based on 2007 sales; data provided by D&R International.. The data for programmable thermostats and dehumidifiers uses national data and calculates a state figure based on the assumption that North Carolina represents five percent of national product purchases. ICF International provided the 2006 sales data, pricing information provided by [www.energystar.gov](http://www.energystar.gov) cost savings calculator.

**TECHNICAL CONSIDERATIONS:** None

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**DATE:** May 28, 2008

**Signed Copy Located in the NCGA Principal Clerk's Offices**

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<sup>i</sup> Two states, Texas and Virginia, will hold a sales tax holiday for energy efficient products in 2008 according to the Federation of Tax Administrators. Florida, in 2006, enacted a sales tax holiday on Energy Star products, but rescinded the holiday in 2007.

<sup>ii</sup> According to a *Gainesville Sun* news article the Florida Legislature estimated that the Energy Efficient Tax Holiday would save consumers \$2.7 million. The Florida holiday limited the tax exemptions to products purchased for non-commercial use and valued below \$1,500. Using the same product restrictions in North Carolina, a tax holiday costing \$2.7 million would assume that 5% of consumers would purchase their products during the holiday weekend. [Bloomberg, Marina. *The Gainesville Sun*. "Tax Holiday on Energy-Efficient Appliances Starts Today." Published October 5, 2006.]