

**GENERAL ASSEMBLY OF NORTH CAROLINA**



**Session 2007**

**Legislative Fiscal Note**

**BILL NUMBER:** Senate Bill 2113 (Second Edition)

**SHORT TITLE:** Air Carrier/Reduce Tax on Home Heating Fuel.

**SPONSOR(S):** Senator Clodfelter

<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>Air Carrier Refund</b>					
<b>General Fund Impact</b>		<b>(1.5)</b>	<b>(3.1)</b>	<b>(1.5)</b>	
<b>Local Impact</b>		<b>(0.8)</b>	<b>(1.4)</b>	<b>(0.6)</b>	
<b>Home Heating Fuel to 1%</b>					
<b>General Fund Impact</b>	<b>(25.7)</b>	<b>(30.8)</b>	<b>(30.8)</b>	<b>(30.4)</b>	<b>(29.9)</b>
<b>PRINCIPAL DEPARTMENT(S) &amp; PROGRAM(S) AFFECTED:</b> North Carolina Department of Revenue					
<b>EFFECTIVE DATE:</b> Extends the sunset date on an existing sales and use tax provision from January 1, 2009 to January 1, 2011. The reduction in the rate for home heating fuel takes effect October 1, 2008.					

**BILL SUMMARY:** Senate Bill 2113 extends the sunset on the refund for sales and use taxes paid by an interstate passenger air carrier on the fuel it uses from January 1, 2009, to January 1, 2011. The second edition reduces the State sales and use tax rate on home heating fuel to 1%, effective for sales made on or after October 1, 2008.

**ASSUMPTIONS AND METHODOLOGY:**

**Section 1 - Air Carrier Sales Tax Refund**

According to the North Carolina Department of Revenue, the sales and use tax refund provided to interstate passenger air carriers under G.S. 105-164.14(a1) represents \$3.0 million in state tax expenditures for the 2007-08 fiscal year. Fiscal Research estimates that extending the cap on the sales tax paid for aviation fuel used in interstate passenger air carriers represents roughly \$4.5 million in tax expenditures per fiscal year (Table 1).

Using the North Carolina Department of Revenue’s \$3.0 million tax expenditure figure, Fiscal Research applied Moody’s Economy.com annual inflation rates to estimate impact of extending the sunset. Moody’s inflation rates, as shown in Table 2, project steady or declining fuel prices over the next two years, keeping the fiscal impact of the sunset extension relatively constant. Should fuel prices continue to rise, the fiscal impact of this sunset will increase as sales prices and air carrier sales and use tax refunds increase.

G.S. 105-164(a1) provides sales and use tax refunds for requests received within six months after the end of the calendar year in which the purchases were made. For example, purchases made between January 1, 2009 and December 31, 2009 would be eligible for refunds until July 1, 2010. Purchases, therefore, do not always coincide with the fiscal year. The fiscal note attempts to account for this six month lag between purchase date and receipt of refund as noted in Table 1. FY2009-10 estimates reflect purchases made between January 1, 2009 and July, 1, 2009. Purchases made between July 1, 2009 and July 1, 2010 are included in FY 2010-11. FY2011-12 estimates include purchases made between July 1, 2010 and January 1, 2011.

<b>Table 1. The Fiscal Impact of Extending the Sunset Under G.S. 105-164.14(a1) thru January 1, 2011</b>			
<b>Fiscal Year (Purchase Period)</b>	<b>FY 2009-10* (Jan 09-June 09)</b>	<b>FY 2010-11** (July 09-June 10)</b>	<b>FY 2011-12 (July 10-Dec 10)</b>
State Sales Tax Impact	(1.5)	(3.1)	(1.5)
Local Sales Tax Impact	(0.8)	(1.4)	(0.6)
<b>Total Impact</b>	<b>(2.2)</b>	<b>(4.5)</b>	<b>(2.1)</b>
*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			

<b>Table 2. Inflation Rates for Gas</b>			
	<b>FY 2008-09</b>	<b>FY 2009-10</b>	<b>FY 2010-11</b>
Source: Moody's Economy.com (Feb 2008)	-1.7%	-1.9%	-3.8%

**Sections 2-4 - Reduction in Sales Tax Rate for Home Heating Fuel**

Sales of fuel oil, propane, kerosene and other deliverable fuel sources used for home heating purposes are subject to the combined general sales tax rate of 6.75 percent. Projected sales for home heating fuels in North Carolina are calculated by estimating the amount of fuel sold in North Carolina and multiplying by the projected price of fuel. Consumption for future years is based on projections reported by the Energy Information Administration (EIA). Actual consumption will vary based on weather conditions and other variables. The table below provides consumption data for each category.

<b>NC Residential Consumption (thousands of gallons)</b>					
	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>
<b>No. 2 Fuel</b>	77,426	76,563	77,166	77,815	78,100
<b>Kerosene</b>	51,412	50,840	51,240	51,671	51,860
<b>Propane</b>	187,000	188,000	190,000	191,500	193,000

Projected consumption for each fuel category is multiplied by projected fuel prices to determine taxable sales. Fuel prices are estimated based on EIA projections and are also subject to change. The fiscal impact of reducing the State sales tax rate to 1% is calculated by estimating State sales tax revenue for each year at the current tax rate and subtracting the revenue that would be generated at a rate of 1%. The impact reflects changes in the State sales tax rate related to the State assumption of the local Medicaid share. The first year impact reflects a partial year loss due to the October 1, 2008 effective date.

**SOURCES OF DATA:** North Carolina Department of Revenue. *2007 Tax Expenditure Report*. Available at: [http://www.dornc.com/publications/nc\\_tax\\_expenditure\\_report\\_07.pdf](http://www.dornc.com/publications/nc_tax_expenditure_report_07.pdf) ; Energy Information Administration; Moody's Economy.com

**TECHNICAL CONSIDERATIONS:** None

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