

# GENERAL ASSEMBLY OF NORTH CAROLINA



Session 2009

## Legislative Fiscal Note

**BILL NUMBER:** House Bill 1913 (First Edition)

**SHORT TITLE:** ATV and PWC Sales Tax Holiday

**SPONSOR(S):** Representative Wray

<b>FISCAL IMPACT (\$ In Millions)</b>					
	<b>Yes (X)</b>	<b>No ( )</b>	<b>No Estimate Available ( )</b>		
	<b><u>FY 2010-11</u></b>	<b><u>FY 2011-12</u></b>	<b><u>FY 2012-13</u></b>	<b><u>FY 2013-14</u></b>	<b><u>FY 2014-15</u></b>
<b>REVENUES</b>					
<b>State</b>	(0.359)	(0.305)	(0.312)	(0.319)	(0.326)
<b>Local</b>	(0.125)	(0.128)	(0.132)	(0.135)	(0.137)
<b>EXPENDITURES</b>					
<b>POSITIONS (cumulative):</b>					
<b>PRINCIPAL DEPARTMENT(S) &amp; PROGRAM(S) AFFECTED:</b> North Carolina Department of Revenue					
<b>EFFECTIVE DATE:</b> When the bill becomes law.					

**BILL SUMMARY:** HB 1913 creates a sales tax holiday for personal watercraft (jet skis) and personal all-terrain vehicles during the third weekend of June. This bill becomes effective when it becomes law.

**ASSUMPTIONS AND METHODOLOGY:** Fiscal Research estimates that enacting HB 1913 would reduce General Fund availability by \$359,000 in FY 2010-2011. Using data from the Motorcycle Industry Council, Personal Watercraft Industry Association, and the North Carolina Wildlife Resources Commission, the estimate assumes that five percent of personal watercraft and all-terrain vehicle (ATV) sales will 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; consumers shift the timing of their purchases to the "holiday

weekend.”<sup>1</sup> Therefore, the true cost of a holiday is contingent on how many consumers shift their purchases to the tax exempt time period. In North Carolina’s past sales tax holidays, roughly five percent of annual sales occurred during the holiday weekends.

*Personal Watercraft*

Fiscal estimates that the sales tax holiday for personal watercraft under HB 1913, if enacted, would reduce General Fund availability by \$229,400 during the 2010-11 fiscal year. In 2007, the North Carolina Wildlife Resources Commission began requiring that all PWC owners register their vehicles with the Commission. The table below represents the number of new PWC registrations that the Commission received between 2007 and 2009. Fiscal used the number of newly registered vehicles as a proxy for the number of PWCs purchased annually.

<b>New Personal Watercraft (PWC) Registrations, by Year</b>	
<b>Year</b>	<b>PWC Registrations</b>
2007	7,912
2008	7,740
2009	7,350
<b>Average</b>	<b>7,667</b>
Source: North Carolina Wildlife Resources Commission	

According to the 2006 Personal Watercraft Industry Report, the average cost of a personal watercraft purchased in 2004 equaled \$ 9,226. Earmarking this figure by the average annual inflation between 2004 and 2009, of 2.1%, equals the average cost of a PWC in 2009, \$10,236. Fiscal estimated the impact of a PWC sales tax holiday by calculating the gross receipts received from PWC sales during the tax exempt period, earmarking this figure for inflation during the 2010-11 fiscal year, and then multiplying the 2010-11 expected gross receipts by the current State or local sales tax rates (7,667 \* 5% \* \$10,236 \* 1.65% \* 5.75%/2%). The fiscal impact of a sales tax holiday for PWC equals a \$229,400 reduction in General Fund availability and a \$79,800 reduction in local sales tax revenue during the 2010-11 fiscal year.

*All Terrain Vehicles*

According to the Motorcycle Industry Council, major ATV manufacturers reported \$44.4 million in North Carolina sales during the 2009 calendar year. Earmarking this figure by the annual inflation rate of 1.65% and assuming that 5% of these sales would occur during the sales tax holiday, the fiscal impact of a sales tax exemption would apply to \$2.6 million in ATV sales. To calculate the fiscal impact of a sales and use tax exemption during the third weekend in June, Fiscal Research multiplied the expected sales during the first weekend in June by the State and local tax rates of 5.75% and 2%, listed respectively. The sales tax holiday proposed in HB 1913 would reduce General Fund availability by \$130,000 in FY 2010-11 and by \$110,000 to \$120,000 in subsequent years.

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<sup>1</sup> The Tax Foundation. “Florida’s Sales Tax Holiday and Film Tax Credit Proposals Will Not Deliver.” Published February 17, 2010. Available at: <http://www.taxfoundation.org/research/show/25850.html>.

**SOURCES OF DATA:**

Media Relations, Motorcycle Industry Council, Motorcycle Industry Council, “Retail Sales Report, 2009.”

North Carolina Wildlife Resources Commission

Personal Watercraft Industry Association, “The History, Evolution, and Profile of Personal Watercraft, 2006.” Available at: <http://www.pwia.org/UserFiles/File/History-PWC.pdf>.

**TECHNICAL CONSIDERATIONS:** None

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