

**LEGISLATIVE FISCAL NOTE**

**BILL NUMBER:** Senate Bill 943; Finance Committee Substitute  
**SHORT TITLE:** Motor Fuel/Use Tax Changes  
**SPONSOR(S):** Senator John Kerr, original sponsor

**FISCAL IMPACT:**    **Expenditures:**    **Increase ( )**        **Decrease (X)**  
                          **Revenues:**            **Increase (X)**        **Decrease ( )**  
                          **No Impact ( )**  
                          **No Estimate Available ( )**

**FUND AFFECTED:**    **General Fund ( )**    **Highway Fund (X)**    **Local Govt. ( )**  
                          **Other Funds (X)** Highway Trust Fund

**BILL SUMMARY:** Sections 1, 2 and 3 of the bill change the point of taxation for gasoline and diesel fuel to the terminal rack. Current law places motor fuel tax liability at the point of the first sale of gasoline in the state and at the first sale for highway use of diesel fuel.

Section 4 of the bill repeals the \$40 minimum highway use tax for a single transaction and allows the 3% rate to apply to the value of the vehicle.

Section 5 of the bill provides the Department of Revenue with a formula for assessment of unpaid fuel taxes when it is determined that a motor carrier is operating in North Carolina yet is not reporting any mileage in the state on the motor carrier's quarterly fuel tax reports. The bill also establishes a new civil penalty for understatement of the liability for the road tax paid by motor carriers. The penalty would be equal to two times the amount of the tax deficiency.

**EFFECTIVE DATE:** Changing the point of motor fuel tax collection effective January 1, 1996; minimum highway use tax repeal effective July 1, 1996; penalty for road tax understatement effective October 1, 1995.

**PRINCIPAL DEPARTMENT(S)/PROGRAM(S) AFFECTED:** Department of Revenue, Department of Transportation

**FISCAL IMPACT**

	<u>FY96</u>	<u>FY97</u>	<u>FY98</u>	<u>FY99</u>
	<u>FY00</u>			
<b>REVENUES (in \$millions):</b>				
<b>GENERAL FUND</b>				
<b>HIGHWAY FUND</b>	\$7.5	\$15.0	\$ 15.0	\$15.0
<b>HIGHWAY TRUST FUND</b>				
Fuel Tax Changes	\$2.5	\$ 5.0	\$ 5.0	\$ 5.0
Use Tax Change		(\$12.0)	(\$12.0)	(\$12.0)
Net Impact/Trust Fund		(\$ 7.0)	(\$ 7.0)	(\$ 7.0)
Net Impact/All highway funds		\$ 8.0	\$ 8.0	\$ 8.0

**LOCAL**

**EXPENDITURES** The reduction of 1000 reports submitted to the Department of Revenue, Motor Fuel Tax Division will decrease total administrative costs associated with processing those reports.

**POSITIONS:** None

**ASSUMPTIONS AND METHODOLOGY:** The revenue estimate assumes that annual state gasoline tax collections would increase by 2% and diesel fuel tax collections would increase by 5% upon implementation of this legislation. These assumptions are based on actual collection experience of the Federal government and three other states who have already moved their point of motor fuel tax collection to the terminal rack. The impact on revenues in the first year after implementation in other states is as follows:

Michigan - Gasoline tax collections increased 3.4%;  
Diesel tax collections increased 19%

Indiana - Gasoline already taxed at terminal rack;  
Diesel tax collections increased 16%

Wisconsin - Motor fuel tax revenues increased 15%

The revenue estimate of the repeal of the minimum use tax is an annual loss in the range of \$10 to \$12 million. This estimate comes from the results of two surveys of title transactions, one done by the Department of Transportation and one done by the Fiscal Research Division. An analysis of these surveys determined that the repeal of the minimum use tax decreases total highway use tax revenues by 3% annually.

**SOURCES OF DATA:** Department of Revenue; Department of Transportation; North Carolina Oil Jobbers Association; North Carolina Petroleum Marketers Association

**TECHNICAL CONSIDERATIONS:** None

**FISCAL RESEARCH DIVISION 733-4910**

**PREPARED BY:** Ruth Sappie

**APPROVED BY:**

**DATE:** May 19, 1995

What is a daisy chain?

A tax evasion scheme that involves buying tax-free fuel, then creating a paper trail of sales to several other distributors. At the end of this chain of false invoices, the tax is shown to be paid. The fuel is sold with the tax included, and the company pockets the tax.

**NEW VERSION - MAY 26, 1995**

<Font=9>**NORTH CAROLINA GENERAL ASSEMBLY  
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