

**NORTH CAROLINA GENERAL ASSEMBLY**

**LEGISLATIVE FISCAL NOTE**

**BILL NUMBER:** SB 1230 (House Finance Committee Substitute)

**SHORT TITLE:** Motor Fuel Tax Changes

**SPONSOR(S):** Senators Kerr, et al.

**FISCAL IMPACT**

**Yes (X)      No ( )      No Estimate Available ( )**

**FY 1998-99   FY 1999-00   FY 2000-01   FY 2001-02   FY 2002-03**

**REVENUES**

Highway Fund

Racing Fuel	(\$8,154)	(\$8,154)	(\$8,154)	(\$8,154)	(\$8,154)
Motor Carrier Refunds	<u>(\$240,000)</u>	<u>(\$240,000)</u>	<u>(\$240,000)</u>	<u>(\$240,000)</u>	<u>(\$240,000)</u>
	(\$248,154)	(\$248,154)	(\$248,154)	(\$248,154)	(\$248,154)

**PRINCIPAL DEPARTMENT(S) &**

**PROGRAM(S) AFFECTED:** Department of Revenue - Motor Fuels Tax Division

**EFFECTIVE DATE:** The change made in section 1 applies to credits generated from reports filed by motor carriers for the reporting period beginning July 1, 1998. Sections 3, 9a and 9b (racing fuel) are effective August 1, 1998. Section 7 (penalty) is effective September 1, 1998. Sections 8 and 9 apply to kerosene sold on or after July 1, 1998. The remaining sections are effective when the bill becomes law.

**BILL SUMMARY:** The bill exempts racing fuel from the motor fuels tax, clarifies the sales tax paid on racing fuel, provides automatic refunds of motor fuel taxes to motor carriers each quarter, clarifies the taxation of kerosene, and makes other changes in the motor fuel tax laws.

**ASSUMPTIONS AND METHODOLOGY:**

The following sections of SB 1230 PCS have a fiscal impact:

**Section 1**

A motor carrier operating in North Carolina is taxed on the amount of motor fuel it uses in the state and is entitled to a credit for the motor fuels tax it paid on purchases made in the state. Under current law, a carrier has two years to request a refund when its tax credits exceed its tax liability. If the motor carrier fails to request a refund within two years of tax payment, then the Department of Revenue keeps the overpayment. From 1990 to 1996, the Department of Revenue earned \$6 million or approximately \$83,300 per quarter from lapsed refunds. Since the complete implementation of the International Fuel Tax Agreement (IFTA) in 1996, motor carriers have been more aggressive in seeking refunds owed to them. Based on a review of the second quarter of 1997, the amount of lapsed refunds was down to \$60,000. **Under this bill, carriers would automatically receive refunds and the Highway Fund would no longer receive \$240,000 in unanticipated revenues from lapsed refunds each year.**

### **Section 6**

This section exempts racing fuel from the motor fuels (excise) tax and subjects the retail price of this fuel to the 6% state and local sales tax. Purchasers of racing fuel now receive a refund of the excise tax minus an administrative and inspection fee equal to 1.25 cents per gallon. Beginning in January 1998, sales tax was imposed on racing fuel based on the average wholesale price of regular motor fuel for the prior 12 months. Based on data supplied by the Department of Revenue, 652,347 gallons of racing fuel were purchased in the North Carolina in 1996. Assuming 1996 racing fuel purchases as the standard, the fiscal impact of this tax change is as follows:

**Highway Fund** = By exempting racing fuel, **the Highway Fund would lose \$8,154 from the administrative and inspection fee.** (652,347 gallons X \$.0125)

### **Section 7**

This section imposes a new \$250 penalty on licensed distributors or licensed importers who deduct an exempt sale when paying the excise tax to a supplier and then fail to report the exempt sale when filing a reconciling return. **The Department anticipates a revenue gain from this penalty, but cannot estimate the amount.**

### **Sections 9a and 9b**

These sections clarify that the tax paid on racing fuel is based on the wholesale price of gasoline. This continues the current practice of the Motor Fuels Division of the Department of Revenue thus there is no revenue gain.

**FISCAL RESEARCH DIVISION (733-4910)**

**PREPARED BY:** Richard Bostic

**APPROVED BY:** Tom Covington

**DATE:** June 30, 1998



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