NORTH CAROLINA GENERAL ASSEMBLY

LEGISLATIVE FISCAL NOTE

BILL NUMBER: H.B. 1433 PCS

SHORT TITLE: Use Tax Payment/Other Changes

SPONSOR(S): Rep. Miller

FISCAL IMPACT

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

$ Millions

	FY 1999-00	FY 2000-01	FY 2001-02	FY 2002-03	FY 2003-04
REVENUES					
State					
Revenue Gain	**3.33**	**3.50**	**3.68**	**3.86**	**4.05**
Less Expend.	**(0.70)**	**-**	**-**	**-**	**-**
Net Change	**2.63**	**3.50**	**3.68**	**3.86**	**4.05**
Local					
Net Change	**1.67**	**1.75**	**1.84**	**1.93**	**2.03**

PRINCIPAL DEPARTMENT(S) & PROGRAM(S) AFFECTED: Department of Revenue, Department of Administration, all other state agencies have purchasing authority.

EFFECTIVE DATE: Sections 1 and 2 of this act are effective for taxable years beginning on or after January 1, 1999. The remainder of this act becomes effective July 1, 1999.

BILL SUMMARY: The bill makes several changes to the policies and procedures surrounding North Carolina's use tax, income tax, and state purchasing. **Sections 1 and 2** require individuals who file an income tax return to include with that return a use tax payment for purchases made by retailers that do not charge sales tax. The tax shall be calculated at a standard rate of 6%. If the taxpayer does not know the amount due, the taxpayer may pay the tax actually due on purchases of $1000 or more, and an estimated amount on purchases of less than $1000. The estimated amount due for the small purchases is either 0.06% of the individual's North Carolina taxable income or the equivalent amount provided in a table calculated by the Secretary of Revenue. Individuals who do not file an income tax return are still required to submit a use tax report. These sections also direct the Department of Revenue to provide appropriate space and information on the use tax requirements on the state's income tax materials. Section 2 also directs to the Secretary of Revenue to distribute one-third of the net use tax proceeds to the cities and counties.

Section 3 allows the Secretary of Revenue to draw up to $150,000 in FY 1999-00 to provide taxpayer assistance related to the use tax. **Section 4** requires that the Department of Revenue implement a program to allow businesses that are required to file sales and use taxes twice a month to file their sales tax returns electronically. It allows the Secretary to draw up to $500,000 in FY 1999-00 from net sales tax collections to pay for the program. **Section 5** directs the Department to contract for collection of delinquent taxes owed by nonresidents and foreign entities. Funding for the contract shall be drawn from use tax proceeds. The results must be reported annually to Revenue Laws. **Section 6** directs the Department of Revenue to conduct a study, and identify and evaluate proposals for more efficient collection of taxes, including the use of electronic commerce and other technologies. The State Controller is directed to assist with the study. This section also authorizes the Secretary to draw up to $50,000 for the 1999-00 fiscal year to fund the study. A report with recommendations must be made to Revenue Laws by May 1, 2000. **Section 7** bars the Secretary of Administration and all other state purchasing entities from contracting with vendors if that vendor (or its affiliate) refuses to collect the use tax on sales delivered to North Carolina. It directs the Department of Revenue to supply the Secretary of Administration with a list of such vendors. **Section 8** directs the Secretary of Revenue to provide public access to a database containing the names and account numbers of taxpayers who are not required to pay sales and use taxes because they are either exempt or are authorized to pay the Department directly.

ASSUMPTIONS AND METHODOLOGY: The bill makes several changes to tax collection and government purchasing procedures.

Sections 1& 2: These sections of the bill direct the Department of Revenue to alter their procedures for assessing and collecting individual use tax payments. The bill directs the Department to include specific space on the individual income tax return to report use tax payments, and provide a table to assist taxpayers in calculating their potential use tax liability.

Currently the Department of Revenue includes a form for individual use tax payments in the income tax instructions. However, the Department believes placing a special line for use tax payments on the individual income tax form will be much more effective and result in higher use tax payments. Based on a recent Department conducted survey, the Department of Revenue believes that at least seven other states now have a line item on their individual income tax form for use tax payments. Two of the states with a line on the form are Maine and Connecticut. Maine indicated to the North Carolina Department of Revenue that they collected $1.7 million in use taxes on individual income tax returns filed for 1997. Of the 576,000 returns filed, Maine reports that approximately 95,000 paid some use taxes. The North Carolina Department of Revenue receives approximately 3,000,000 returns annually. Based on this information and the data from Maine, the Sales Tax Division estimates that North Carolina will see a revenue increase of approximately $5,000,000. This amount is increase by 5% each year to reflect future growth. Because this revenue would be divided between the state and local governments, the actual fiscal impact is as follows:

	FY 1999-00	FY 2000-01	FY 2001-02	FY 2002-03	FY 2003-04
State	3,333,333	3,500,000	3,675,000	3,858,750	4,051,688
Local	1,666,667	1,750,000	1,837,500	1,929,375	2,025,844
Total	5,000,000	5,250,000	5,512,500	5,788,125	6,077,531

Section 3: This section allows the Secretary of Revenue to deduct up to $150,000 from use tax proceeds to fund taxpayer assistance. This is amount is shown in the chart as a loss to the potential revenue stream created by the bill.

Section 4: This section authorizes the Secretary of Revenue to deduct up to $500,000 from use tax proceeds to fund electronic filing of semi-monthly sales tax returns. Under the bill businesses are not required to file electronically, they are merely given the option. This may increase revenues, as the Department may be able to draw more interest on the “float”. However, because the electronic filing language is permissive, allowing retailers to decide if they will file electronically, no reliable estimate of the potential revenue change is possible. The note does assume that the Secretary will draw the $500,000. This amount is shown as a loss to the potential revenue stream.

Section 5: This section directs the Department to contract out the collection of out of state delinquent taxes. Because no contract has been negotiated, no accurate cost estimate is possible. It handled appropriately, contracting out should increase collections. However, no estimate is available on the potential gains. Since this information is not available no estimate is possible on the net potential revenue gain from this section of the Bill.

Section 6: This section directs the Department and the State Controller to study more efficient ways to collect taxes, and report their findings and recommendations to Revenue Laws. The note assumes the Secretary will draw the full $50,000 allowed for the study. No other fiscal impact is expected.

Section 7: This section of the bill bars the Department of Administration and other state purchasing entities from contracting with an out of state vendor that refuses to collect use tax on purchases delivered to North Carolina. Fiscal Research appropriations staff members do not believe this will have a fiscal impact on the Department of Administration or other organizations. There will be cost associated with Revenue compiling the list of barred vendors. However, the Department believes they can administer this portion of the bill without additional appropriations.

Section 8: This section directs the Department to create a public access database of those not required to pay sales taxes to vendors. While there may be some cost associated with this section of the bill, the Department should be able to fund this change through existing resources and those committed elsewhere in the bill.

Total Impact: Given the revenue increase created in Sections 1 and 2, and the expenses in the remainder of the bill, the net revenue gain as a result of the legislation is as follows:

	FY 1999-00	FY 2000-01	FY 2001-02	FY 2002-03	FY 2003-04
State					
Revenue Gain	3,333,333	3,500,000	3,675,000	3,858,750	4,051,688
Less Expend.	(700,000)	-	-	-	-
Net Change	2,633,333	3,500,000	3,675,000	3,858,750	4,051,688
Local					
Net Change	1,666,667	1,750,000	1,837,500	1,929,375	2,025,844

TECHNICAL CONSIDERATIONS: The bill requires a fairly significant change in the state purchasing process. As a result, the Departments of Revenue and Administration may require some time to transition their systems and inform all appropriate entities. Therefore, Fiscal Research suggests the effective date be delayed at least three months to allow for a smooth transition.

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