GENERAL ASSEMBLY OF NORTH CAROLINA

Session 2005

Legislative Fiscal Note

BILL NUMBER: House Bill 1915 (First Edition)

SHORT TITLE: SSTA Sales Tax Defn/Sales Tax Payments.

SPONSOR(S): Representative Hill

FISCAL IMPACT

	Yes (X)	No ( )	No Estimate Available ( )		
	FY 2005-06	FY 2006-07	FY 2007-08	FY 2008-09	FY 2009-10
REVENUES:	See Assumptions and Methodology				
EXPENDITURES:	See Assumptions and Methodology				
POSITIONS (cumulative):					

PRINCIPAL DEPARTMENT(S) & PROGRAM(S) AFFECTED: North Carolina Department of Revenue.

EFFECTIVE DATE: Sections 9 through 11 (semi-monthly filers) becomes effective October 1, 2007. The remainder becomes effective January 1, 2007.

BILL SUMMARY: The legislation makes three changes related to the Streamlined Sales Tax Agreement (SSTA). First, it alters the definition of telecommunications services and adds a definition of "ancillary services" to the sales tax statutes. This change is required to comply with the Streamlined Agreement. Second, the bill changes the sales tax payment schedule for semi-monthly filers. Under existing law the state's largest taxpayers, those who regularly owe at least $10,000 a month in sales taxes, must make sales tax payments twice a month. The first payment is due the 25th of the month and reflects sales made between the 1st and 15th of that month. The second payment reflects sales made after the 16th day of the month, and is due the 10th day of the following month. The proposal replaces the twice a month payment with a single monthly payment. The new payment, due on the 20th, should reflect sales made in the previous month along with an estimated amount for the current month. The estimated amount is to be 65% of either 1) the current month's liability, 2) the liability for the same month in the previous year, or 3) the average monthly liability for the past calendar year. The taxpayer can choose their method of calculation. Finally, the legislation eliminates statutory provisions to deal with small underpayments; as such a provision is no longer necessary with the proposed pre-payment plan. While these last two changes are related to SSTA, they are not required for compliance with the Agreement.

ASSUMPTIONS AND METHODOLOGY: Sections 1 and 2 make several changes to telecommunications related definitions. Definitions altered or added include ancillary service, prepaid wireless calling service, and telecommunications service. The first to of these changes are technical in nature and are not expected to have a fiscal impact. The third – telecommunications service – actually consolidates and clarifies some definitions already addressed by the General Assembly in previous sessions. This change is also not expected to have a significant fiscal impact. Section 1 also updates the reference date for the Agreement, which has no fiscal affect.

Section 3 addresses the sourcing of sales of prepaid wireless services. Because it only impacts local revenues, no state impact is expected. Moreover, because the change is not expected to actually alter the treatment of these sales, no local impact is expected.

Section 4 makes conforming definitional changes and is not expected to have a fiscal impact.

Section 5 moves to the exemption statute the items that were formerly excluded from the definition of telecommunications and are not intended to be taxed. The items in exemption section were all in the prior telecommunication section statutes. No fiscal impact is expected.

Sections 6 – 8 make conforming changes by inserting the newly defined term 'ancillary services', with the term 'telecommunications services'. All items covered under the new definitions are currently taxed under the existing definition of telecommunications services. While the new definitions create two separate categories – ancillary services and telecommunications services – they are both subject to the general sales tax. As a result, this change is only technical and has no revenue impact.

Sections 9 – 11 alter the sales tax payment schedules for the state's largest retailers. According to the North Carolina Department of Revenue, these retailers represent approximately 68% of total sales tax collections. Because the legislation does not affect the retailer's liability there is no recurring cost or gain associated with the bill. However, the shift from semi-monthly to monthly payments does create a potential one time revenue change. By shifting the payment date for part of the liability from the 25th to the 20th, the state gains five days of interest on the float, creating a small revenue gain. However, because retailers can select which method they will use to calculate their pre-payment, there is a potential for a short term revenue loss, as the state would lose interest on the under-payment. The Department of Revenue indicates that if average pre-payments fall below 60% of actual liabilities, the state could see a small fiscal loss. Given the uncertainty surrounding retailer responses, it is not possible to estimate the potential loss or gain. However, data from the Department indicate that whatever change is seen in either direction would likely be substantially less than $1.0 million. There may also be some computer programming costs associated with the payment schedule change. However, at this point Fiscal Research cannot determine the exact cost associated with this computer change.

SOURCES OF DATA: North Carolina Department of Revenue.

TECHNICAL CONSIDERATIONS: None

FISCAL RESEARCH DIVISION: (919) 733-4910

PREPARED BY: Linda Millsaps and Brenna Erford

APPROVED BY: Lynn Muchmore, Director
Fiscal Research Division

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