

GENERAL ASSEMBLY OF NORTH CAROLINA



Session 2007

Legislative Fiscal Note

BILL NUMBER: Senate Bill 1703 (First Edition)

SHORT TITLE: Exempt Disaster Assistance Debit Sales

SPONSOR(S): Senator Hartsell

FISCAL IMPACT					
	Yes (X)	No ()	No Estimate Available ()		
	(In Millions)				
	<u>FY 2008-09</u>	<u>FY 2009-10</u>	<u>FY 2010-11</u>	<u>FY 2011-12</u>	<u>FY 2012-13</u>
REVENUES					
General Fund Impact	(0.129)	(0.139)	(0.014)	(0.147)	(0.150)
Local Impact	(0.067)	(0.061)	(0.060)	(0.061)	(0.063)
EXPENDITURES					
POSITIONS (cumulative):					
PRINCIPAL DEPARTMENT(S) & PROGRAM(S) AFFECTED: North Carolina Department of Revenue					
EFFECTIVE DATE: July 1, 2008					

BILL SUMMARY: This bill would exempt from sales tax tangible personal property purchased with a client assistance card (debit card) issued for disaster assistance relief by a State agency or a federal agency or instrumentality. The American Red Cross is an instrumentality of a federal agency. Effective July 1, 2008, the exemption would apply to purchases made on or after that date.

CURRENT LAW: The State may not impose its sales tax on purchases made by the federal government or an instrumentality of the federal government. G.S. 105-164.13(17) specifically exempts sales which a state would be without power to tax under the limitations of the Constitution or laws of the United States or under the Constitution of this State. The American Red Cross (ARC) is an instrumentality of a federal agency. Therefore, sales made pursuant to a disbursing order issued by the ARC are considered a sale to the ARC and is exempt from taxation.

In the past, the ARC provided disaster assistance relief by giving disaster victims a disbursing order reimbursement form to purchase items, but in recent years began giving disaster victims client assistance cards to make these purchases. Debit cards prove more efficient, effective, and

less bureaucratic for the victim and require less administrative effort and expense from ARC. However, for purposes of the sales tax exemption, there is a significant difference between a debit card and a disbursing order. The purchaser, for purposes of the sales tax exemption, is the disaster victim when a debit card is used. The ARC is the purchaser when the disbursing order is used. Therefore, purchases made with a disaster assistance debit cards are subject to sales tax.

ASSUMPTIONS AND METHODOLOGY:

The fiscal impact of exempting client assistance cards from state and local sales and use tax is based on data provided by the Triangle ARC. During the 2006-07 fiscal year, North Carolina American Red Cross chapters provided an estimated \$3.9 million dollars in disaster relief assistance with approximately 70 percent of the \$3.9 million (\$2.8 million) in the form of client assistance cards.

Based on Moody’s Economy.com inflation rates, Fiscal Research estimates that ARC will provide roughly three million dollars in disaster relief assistance via debit cards in FY2008-09. Should client assistance cards receive a tax exemption, state and local sales tax revenues would decline by approximately \$196,000 during this same period (Table1).

Table 1 provides information on the projected sales tax revenue forgone by exempting disaster relief assistance debit cards from state and local sales and use taxes. The table also accounts for state and local sales and use tax changes occurring on October 2008 and October 2009.

Table 1: Revenue Impact of Exempting Disaster Relief Client Assistance Card Disbursements from Sales Tax, by Fiscal Year (in millions)					
	*FY 2008-09	**FY 2009-10	FY 2010-11	FY 2011-12	FY 2012-13
Disaster Relief via Debit Card	2.903	2.964	3.017	3.084	3.155
General Fund Impact	(0.129)	(0.139)	(0.143)	(0.147)	(0.150)
Local Impact	(0.067)	(0.061)	(0.060)	(0.061)	(0.063)
State and Local Impact (6.75% sales tax)	(0.196)	(0.200)	(0.204)	(0.208)	(0.213)
* FY2008-09 estimates incorporate local and state sales tax rate changes occurring on October 1, 2008; Assumes local sales tax rate of 2.5% for three months and 2.25% for nine months; Also assumes state sales tax rate of 4.25% for three months and 4.5% for nine months					
* *FY2009-10 estimates incorporate local and state sales tax rate changes occurring on October 1, 2009; Assumes local sales tax rate of 2.25% for three months and 2% for nine months; Also assumes state sales tax rate of 4.5% for three months and 4.75% for nine months					
Source: Triangle American Red Cross Documentation of FY07 Financial & Material Assistance					

SOURCES OF DATA:

Triangle American Red Cross
Moody's Economy.com

TECHNICAL CONSIDERATIONS: None

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