

GENERAL ASSEMBLY OF NORTH CAROLINA

Session 2013

Legislative Fiscal Note

BILL NUMBER: House Bill 1144 (First Edition)

SHORT TITLE: Expand 1%/\$80 Rate for Mill Machinery.

SPONSOR(S): Representatives Malone, Lewis, Starnes, and Collins

FISCAL IMPACT					
(\$ in millions)					
<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> No Estimate Available					
State Impact	FY 2014-15	FY 2015-16	FY 2016-17	FY 2017-18	FY 2018-19
General Fund Revenues:	1.4	0.5	0.5	0.5	0.5
General Fund Expenditures:	8.3	2.8	2.9	2.9	3.0
Secondary Metal Recyclers	Fiscal impact of secondary metals recycler estimated at \$5-6 million annually. True fiscal impact unknown.				
NET STATE IMPACT	(\$6.9)	(\$2.4)	(\$2.4)	(\$2.4)	(\$2.5)
Local Impact					
Revenues:					
Expenditures:	3.5	1.2	1.2	1.2	1.2
NET LOCAL IMPACT	(\$3.5)	(\$1.2)	(\$1.2)	(\$1.2)	(\$1.2)
PRINCIPAL DEPARTMENT(S) & PROGRAM(S) AFFECTED:					
North Carolina Department of Revenue					
EFFECTIVE DATE: July 1, 2013					
TECHNICAL CONSIDERATIONS:					
None					

BILL SUMMARY: HB 1144, Expand 1%/\$80 for Mill Machinery amends G.S. 105-187.51B (a), Article 5F adding subsections (6) and (7). Subsection (6) imposes a privilege tax at a rate of 1% of the sales price on the equipment or personal property up to \$80 per item for a company engaged in fabrication of metal work. This preferential rate applies to purchases of equipment or an attachment or repair part that is (1) capitalized by the company for tax purposes, (2) used by the company in the fabrication of metal products or used to create equipment for the fabrication of metal products, and (3) considered mill machinery under G.S. 105-187.51. The proposed legislation expands the preferential sales tax rate under Article 5F to three types of industries:

- 1) NAICS 332312, fabricated structural metal manufacturing,
- 2) NAICS 332313 plate work manufacturing, and
- 3) NAICS 332322, sheet metal work manufacturing.

The bill also adds subsection 7, providing a sales tax exemption to secondary metal recyclers, as defined by G.S. 66-420. In absence of the sales tax, HB 1144 provides this bill is effective retroactively, July 1, 2010.

ASSUMPTIONS AND METHODOLOGY:

Expanding Article 5F, the 1% or \$80 privilege license tax for mill machinery will reduce General Fund Availability by approximately \$3.0 million per fiscal year. Fiscal Research relied on data from the 2007 Economic Census (EC) and the Annual Capital Expenditures Survey (ACES) to estimate the fiscal impact of expanding the preferential rate provided to mill machinery to three industries, 1) fabricated structural metal manufacturing, 2) plate work manufacturing, and 3) sheet metal work manufacturing.

In 2007, these North Carolina industries made an investment of \$69.84 million in capital. The ACES provides data at the national level on capital spending for new and used structures and equipment by all U.S. nonfarm businesses. 80.6% of all manufacturing capital expenditures were associated with the cost of equipment. Fiscal Research applied this percentage to capital investment within the three industries to estimate the net amount expended on equipment.

Fiscal Research utilized annual wage data to estimate growth in the industry sectors between 2007 and 2013. Table 1 provides more detail on how the 2007 figures were adjusted to represent 2013 estimates.

Table 1: Calculation of Capital Expenditures for HB 1144 (\$ in Millions)				
NAICS	Description	2007 Total capital expenditures	2007-2011 Change in annual payroll	2013 Total capital expenditures¹
332312	Fabricated structural metal manufacturing	\$21.27	53%	\$32.57
332313	Plate work manufacturing	\$7.91	31%	\$10.35
332322	Sheet metal work manufacturing	\$26.05	3%	\$26.92
TOTAL		\$55.23		\$69.84

¹Equipment purchases accounted for 80.6% of all capital expenditures in the manufacturing sector. Table 4b. 2011 Annual Capital Expenditures Survey, Capital Expenditures for Structures and Equipment for Companies With Employees by Industry: 2010
Sources: 2007 Economic Census, County Business Patterns, 2007 & 2011, Revised

After estimating the amount spent annually on manufacturing equipment for the 1) fabricated structural metal manufacturing, 2) plate work manufacturing, and 3) sheet metal work manufacturing industries, Fiscal calculated the difference between current sales tax collections and projected collections under Article 5F, the 1%/\$80 tax. Capital equipment expenditures currently generate \$2.8 million per fiscal year in sales and use taxes. The State, under Article 5F, would collect \$0.5 million in revenue, an annual difference of roughly \$2.3 million. The retroactive component of HB 1144 increases the first year fiscal impact of HB 1144 to \$11.5 and assumes that the Department would administer a sales tax refund process for subsections (6) and (7).

Table 2: Fiscal Impact of HB 1144, (\$ in millions)						
	FY 2013-14	FY 2014-15	FY 2015-16	FY 2016-17	FY 2017-18	FY 2018-19
State sales tax collections	\$2.67	(\$2.75)	(\$2.81)	(\$2.86)	(\$2.91)	(\$2.96)
Collections under Article 5F		\$0.46	\$0.47	\$0.48	\$0.49	\$0.50
General Fund Impact		(\$2.29)	(\$2.34)	(\$2.38)	(\$2.42)	(\$2.46)
Local sales tax collections						
	\$1.13	(\$1.16)	(\$1.18)	(\$1.20)	(\$1.23)	(\$1.25)
Sources: 2007 Economic Census, County Business Patterns, 2007 & 2011						

HB 1144 also adds subsection (7) making secondary metals recyclers an industry eligible to purchase equipment at the reduced tax rate, the excise tax rate on mill machinery. The true fiscal impact of adding subsection (7) to G.S. 105-187.51B is unknown. As described, the legislation applies the %1 or \$80 excise tax to machinery purchased by a broad array of industries. Secondary metals recycler as defined in G.S. 66-420 includes: demolition companies, recycling facilities, trash companies, and landfills. Due to the retroactive aspect of the bill, this would affect outstanding assessments for 15 companies of \$1.5 million. From a data survey of the industries included and conversations with the Department of Revenue, Fiscal Research estimates that applying the 1%/\$80 could range between \$5.0 million to \$6.0 million, annually.

SOURCES OF DATA:

U.S. Census Bureau, <http://www.census.gov/econ/aces/report/2011/capitalspendingreport2011.pdf>
 2007 Economic Census,
 County Business Patterns, 2007 & 2011
 North Carolina Department of Revenue

TECHNICAL CONSIDERATIONS: None

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