

GENERAL ASSEMBLY OF NORTH CAROLINA

Session

Legislative Fiscal Note



BILL NUMBER: House Bill 2509 (Fourth Edition)

SHORT TITLE: Sales Tax Refund for Certain Nonprofits

SPONSOR(S): Representative Gibson

	FISCAL IMPACT				
	Yes (X)	No ()	No Estimate Available ()		
	<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	(\$1,502,000)	(\$425,000)	(\$465,000)	(\$502,000)	(\$543,000)
Local Impact	(\$810,000)	(\$187,000)	(\$196,000)	(\$212,000)	(\$228,000)
PRINCIPAL DEPARTMENT(S) & PROGRAM(S) AFFECTED: North Carolina Department of Revenue					
EFFECTIVE DATE: January 1, 2004					

BILL SUMMARY: In 2004, the General Assembly expanded the property tax exemption for educational property¹ by exempting property held by a nonprofit entity for the sole benefit of a university located in the State. The legislation also expanded the definition of organizations eligible for a property tax exemption to include the operation of a student housing facility or a student dining facility.² HB 2509 would expand the list of nonprofit organizations allowed a semi-annual refund of sales and use taxes to include nonprofit organizations that procure, design, construct, or provide facilities to a constituent institution of the University of North Carolina.³

Some University of North Carolina constituent institutions use nonprofit organizations to procure, design, and construct facilities, such as student housing and dining facilities, on their behalf. The fourth edition of HB 2509 applies the semi-annual refund to these institutions retroactively to January 1, 2004.

¹ G.S. 105-278.4.

² S.L. 2004-173.

³ A constituent institution would include the universities as well as the North Carolina School of the Arts and the North Carolina School of Science and Mathematics. G.S. 116-4.

ASSUMPTIONS AND METHODOLOGY:

The FY 08-09 fiscal impact of HB 2509, \$2.3 million in state and local sales and use tax refunds, represents the refunds due for past and future purchases made by UNC constituent institutions. The retroactive portion FY 08-09 represents outstanding, construction related sales and use tax refund claims for purchases made between January 1, 2004 and December 31, 2007. These claims equal \$1.1 million for the State and \$600,000 for local governments. The retroactive portion of HB 2509 clarifies that these claims are in fact eligible for sales and use tax refunds. The prospective portion of HB 2509 for FY 08-09 is composed of a \$402,000 impact to the State and \$210,000 for local governments.

To estimate the prospective portion of HB 2509, Fiscal Research first calculated the annual amount of sales and use tax refunds being claimed annually by UNC constituent institutions. Fiscal Research then applied an eight percent inflation rate to estimate future construction related refunds. The annual sales and use tax refund claims from University of North Carolina constituent institutions equal one-third of the \$1.7 million in refunds due for purchases made between 2004 and 2009. The annual eight percent inflation rate, a figure provided by Fiscal Research’s Capital Appropriations Team, captures the volatility in construction costs and construction rates.

The projections also incorporate future sales and use tax rate changes. FY 2008-09 estimates incorporate local and state sales tax rate changes occurring on October 1, 2008. The estimates assume a local sales tax rate of 2.5% for three months and 2.25% for nine months and a state sales tax rate of 4.25% for three months and 4.5% for nine months during FY 2008-09.

FY 2009-10 estimates incorporate local and state sales tax rate changes occurring on October 1, 2009. The estimates assume a local sales tax rate of 2.25% for three months and 2.50 % for nine months and a state sales tax rate of 4.50% for three months and 4.75% for nine months during FY 2009-10.

SOURCES OF DATA: North Carolina Department of Revenue

TECHNICAL CONSIDERATIONS: None

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