

**NORTH CAROLINA GENERAL ASSEMBLY**

**LEGISLATIVE FISCAL NOTE**

**BILL NUMBER:** SB 1230 (First Edition)

**SHORT TITLE:** Motor Fuel Tax Changes

**SPONSOR(S):** Senators Kerr, et al.

<b>FISCAL IMPACT</b>					
	<b>Yes (X)</b>	<b>No ( )</b>	<b>No Estimate Available ( )</b>		
	<b><u>FY 1998-99</u></b>	<b><u>FY 1999-00</u></b>	<b><u>FY 2000-01</u></b>	<b><u>FY 2001-02</u></b>	<b><u>FY 2002-03</u></b>
<b>REVENUES</b>					
Highway Fund					
Racing Fuel	(\$8,154)	(\$8,154)	(\$8,154)	(\$8,154)	(\$8,154)
Kerosene Inventory	\$1,271,100				
Motor Carrier Refunds	<u>(\$240,000)</u>	<u>(\$240,000)</u>	<u>(\$240,000)</u>	<u>(\$240,000)</u>	<u>(\$240,000)</u>
	\$1,022,946	(\$248,154)	(\$248,154)	(\$248,154)	(\$248,154)
Highway Trust Fund	\$423,700				
General Fund	\$73,429	\$73,429	\$73,429	\$73,429	\$73,429
Local Funds	\$36,714	\$36,714	\$36,714	\$36,714	\$36,714
<b>PRINCIPAL DEPARTMENT(S) &amp; PROGRAM(S) AFFECTED:</b> Department of Revenue - Motor Fuels Tax Division					
<b>EFFECTIVE DATE:</b> The change made in section 1 applies to credits generated from reports filed by motor carriers for the reporting period beginning July 1, 1998. The changes made in sections 3,5,6,8,9, and 10 become effective July 1, 1998. The remaining sections are effective when the bill becomes law.					

**BILL SUMMARY:** The bill exempts racing fuel from the motor fuels tax, provides automatic refunds of motor fuel taxes to motor carriers each quarter, clarifies the taxation of kerosene, and makes other changes in the motor fuel tax laws.

**ASSUMPTIONS AND METHODOLOGY:**

The following sections of SB 1230 have a fiscal impact:

### **Section 1**

A motor carrier operating in North Carolina is taxed on the amount of motor fuel it uses in the state and is entitled to a credit for the motor fuels tax it paid on purchases made in the state. Under current law, a carrier has two years to request a refund when its tax credits exceed its tax liability. If the motor carrier fails to request a refund within two years of tax payment, then the Department of Revenue keeps the overpayment. From 1990 to 1996, the Department of Revenue earned \$6 million or approximately \$83,300 per quarter from lapsed refunds. Since the complete implementation of the International Fuel Tax Agreement (IFTA) in 1996, motor carriers have been more aggressive in seeking refunds owed to them. Based on a review of the second quarter of 1997, the amount of lapsed refunds was down to \$60,000. **Under this bill, carriers would automatically receive refunds and the Highway Fund would no longer receive \$240,000 in unanticipated revenues from lapsed refunds each year.**

### **Section 3**

This section exempts racing fuel from the motor fuels tax and subjects the retail price of this fuel to the 6% state and local sales tax. Purchasers of racing fuel now receive a refund of the excise tax minus an administrative and inspection fee equal to 1.25 cents per gallon. Beginning in January 1998, sales tax was imposed on racing fuel based on the average wholesale price of regular motor fuel for the prior 12 months. Based on data supplied by the Department of Revenue, 652,347 gallons of racing fuel were purchased in the North Carolina in 1996. Assuming 1996 racing fuel purchases as the standard, the fiscal impact of this tax change is as follows:

**Highway Fund** = By exempting racing fuel, **the Highway Fund would lose \$8,154 from the administrative and inspection fee.** (652,347 gallons X \$.0125)

**General Fund** = Racing fuel is now subject to the average wholesale price of regular motor fuel. This price was 68.59 cents per gallon in 1997. The average retail price of racing fuel is \$3.50 per gallon. This bill will tax motor fuel at the actual retail price as shown in the example below.

652,347 gallons X \$3.50	=	\$136,993	Retail price
652,347 gallons X \$ .6859	=	<u>\$ 26,850</u>	Wholesale price
Net Change		\$110,143	

**The General Fund would receive \$73,429 of this increase and local governments would receive \$36,714.**

### **Section 7**

This section imposes a new penalty on licensed distributors or licensed importers who deduct an exempt sale when paying the excise tax to a supplier and then fail to report the exempt sale when filing a reconciling return. **The Department anticipates a revenue gain from this penalty, but cannot estimate the amount.**

## **Section 12**

As of July 1, 1998, any kerosene in the inventory of retailers, suppliers, distributors, and importers will be taxed at the motor fuel rate. When a similar inventory was taken in 1995, there were 7.6 million gallons of kerosene reported to the Department of Revenue. Assuming the 1998 inventory will mirror 1995, then 7.6 million gallons of kerosene will be taxed at 22.3 cents per gallon to yield a **one-time revenue gain of \$1,694,800. This gain will be divided 75% to the Highway Fund (\$1,271,100) and 25% to the Highway Trust Fund (\$423,700).**

**FISCAL RESEARCH DIVISION**

**733-4910**

**PREPARED BY:** Richard Bostic

**APPROVED BY:**

**DATE:** May 24, 1998



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