



NORTH CAROLINA GENERAL ASSEMBLY

2021 Session

Legislative Fiscal Note

Short Title: 2022 Appropriations Act
Bill Number: House Bill 103 (Fourth Edition)
Sponsor(s): Rep. Stevens

Note: This fiscal memorandum only addresses Section 42 of the 2022 Appropriations Act, pertaining to taxation.

SUMMARY TABLE

FISCAL IMPACT OF TAX PROVISIONS IN H.B. 103, v4 (\$ in millions)

	<u>FY 2022-23</u>	<u>FY 2023-24</u>	<u>FY 2024-25</u>	<u>FY 2025-26</u>	<u>FY 2026-27</u>
State Impact					
General Fund Tax Revenue	(201.0)	(402.9)	(630.1)	(657.9)	(686.9)
General Fund Fee Revenue		[Not addressed within this Fiscal Note]			
Less Expenditures		[Not addressed within this Fiscal Note]			
General Fund Impact	(201.0)	(402.9)	(630.1)	(657.9)	(686.9)
Highway Fund Revenue					
Highway Fund Revenue	193.1	100.3	157.1	164.0	171.2
Less Expenditures		[Not addressed within this Fiscal Note]			
Highway Fund Impact	193.1	100.3	157.1	164.0	171.2
Highway Trust Fund Revenue					
Highway Trust Fund Revenue	-	300.9	471.2	491.9	513.6
Less Expenditures		[Not addressed within this Fiscal Note]			
Highway Trust Fund Impact	-	300.9	471.2	491.9	513.6
NET STATE IMPACT	(\$7.9)	(\$1.7)	(\$1.8)	(\$2.0)	(\$2.1)
Local Impact					
Local Revenue	(2.7)	No estimate available; see Fiscal analysis section			
NET LOCAL IMPACT	(\$2.7)				

FISCAL IMPACT SUMMARY

HB 103 makes four finance-related changes to tax revenue:

- Section 42.1 expands the individual income tax exclusion of military retirement pay to include retirement pay for service in all uniformed services, to include retirees of the National Oceanic and Atmospheric Administration (NOAA) and the U.S. Public Health Service (USPHS). This change is estimated to reduce General Fund revenues by \$1.6 million in Fiscal Year 2022-23, increasing to \$2.1 million in Fiscal Year 2026-27.
- Section 42.2 expands an exemption from sales and use tax for purchases by interstate air and ground couriers of certain equipment, including conveyor systems, purchased for use at package sorting facilities. This change is estimated to reduce General Fund revenues by \$6.3 million in Fiscal Year 2022-23 and to reduce local government revenue by \$2.7 million in FY 2022-23. No estimate is available in years thereafter because Fiscal Research is only aware of one entity that would qualify for this exemption at this time.
- Section 42.3 of the bill transfers a portion of the net sales and use tax proceeds collected at the general rate of tax, ranging from 2% of proceeds to 6% of proceeds, from the General Fund to the Highway Fund and Highway Trust Fund. This change is estimated to reduce General Fund revenues by \$193.1 million in Fiscal Year 2022-23; General Fund revenue will decrease to \$684.8 million in Fiscal Year 2026-27. Total Highway Fund and Highway Trust revenue is expected to increase by the same amounts.
- Section 42.4 shifts from annual to quarterly the motor fuel tax refund available for the off-highway use of motor fuel. This change is not expected to have a fiscal impact, other than an unknown impact on the timing of net collections.

FISCAL ANALYSIS

The following section discusses Fiscal Research's methodology for estimating the revenue impact of the four tax-related portions of the bill. Estimates for each of these provisions are shown in a table at the end of this section.

Section 42.1, Expand Military Retirement Income Exclusion.

To arrive at the bill's estimated impact of expanding the military retirement income exclusion from personal income, Fiscal Research obtained data from the U.S. Coast Guard's (USCG) Pay and Personnel Center as it administers National Oceanic and Atmospheric Administration (NOAA) and U.S. Public Health Service (USPHS) retirement benefits. The USCG provided non-identifiable data on the number of North Carolina residents and the corresponding benefit amounts received by NOAA or USPHS retirees. Using this information, Fiscal Research arrived at the estimated General Fund revenue reduction of expanding this exemption. As the table at the end of this section shows, Fiscal Research estimates this portion of the bill will reduce revenues by \$1.6 million in Fiscal Year 2022-23, increasing to \$2.1 million in Fiscal Year 2026-27.

Section 42.2, Sales Tax Exemption for Certain Purchases by Interstate Air and Ground Courier Package Facilities.

The second tax piece of the bill would expand the current sales tax exemption for equipment purchased by qualifying entities to include conveyor systems purchased by interstate air and ground couriers for use at package sorting facilities. Fiscal Research relied on proprietary data

from an interstate air and ground courier’s estimated expenditures on such systems to arrive at the sales tax revenues foregone by both the State and local governments as a result of this exemption. With this, General Fund revenues are estimated to decrease by \$6.3 million in Fiscal Year 2022-23, and a local government’s sales tax revenues to decrease by \$2.7 million in the same fiscal year. Because Fiscal Research is unaware of any other such facilities in the state that would qualify for and use this exemption, no fiscal estimate is available for years after Fiscal Year 2022-23.

Section 42.3. Sales Tax Transfer to the Highway Fund and Highway Trust Fund.

Third, the bill transfers a percentage of General Fund sales and use tax revenues collected at the general rate of tax to the Highway Fund and Highway Trust Fund beginning in Fiscal Year 2022-23. The table below shows the percentages and estimated amounts that would be transferred each year as the bill directs. The estimates are based on the May 2022 General Fund Consensus Forecast for sales and use tax revenue and historical data from the Department of Revenue about the amount of sales tax revenues collected at the general rate of tax. Fiscal Research estimates this transfer will reduce General Fund revenues by \$193.1 million in Fiscal Year 2022-23, increasing to \$684.8 million in Fiscal Year 2026-27.

FY	Highway Fund		Highway Trust Fund		Total Transfer from General Fund (\$ in millions)
	Transfer %	Amount of Transfer (\$ in millions)	Transfer %	Amount of Transfer (\$ in millions)	
FY 2022-23	2.0%	193.1	0.0%	-	193.1
FY 2023-24	1.0%	100.3	3.0%	300.9	401.2
FY 2024-25	1.5%	157.1	4.5%	471.2	628.3
FY 2025-26	1.5%	164.0	4.5%	491.9	655.9
FY 2026-27	1.5%	171.2	4.5%	513.6	684.8

Section 42.4. Shift Frequency of Motor Fuel Rebate.

The fourth tax-related change in the bill is shifting from annual to quarterly the motor fuel tax refund available for the off-highway use of motor fuel. This change is expected to impact the timing of motor fuel tax refunds and sales tax collections but is not expected to change overall net collections.

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Tax Changes in HB 103 (\$ in millions) **FY 2022-23** **FY 2023-24** **FY 2024-25** **FY 2025-26** **FY 2026-27**

PERSONAL INCOME TAX

<ul style="list-style-type: none"> Expand income tax exclusion of military retirement pay to National Oceanic and Atmospheric Administration (NOAA) and U.S. Public Health Service (USPHS) retirees. (Effective 1/1/22). 	(1.6)	(1.7)	(1.8)	(2.0)	(2.1)
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SALES AND USE TAX

<ul style="list-style-type: none"> Expand sales tax exemption for conveyor systems purchased by air and ground couriers for use at package sorting facilities. (Effective 7/1/22). 	(6.3)		No estimate available		
<ul style="list-style-type: none"> Transfer a portion of the sales and use tax proceeds collected at the general rate of tax, ranging from 2%-6% of proceeds over three years and 6% thereafter, to the Highway Fund and Highway Trust Fund for transportation needs. (Effective upon adoption). 	(193.1)	(401.2)	(628.3)	(655.9)	(684.8)
Subtotal: Sales and Use Tax	(199.4)	(401.2)	(628.3)	(655.9)	(684.8)
Subtotal: General Fund Impact	(201.0)	(402.9)	(630.1)	(657.9)	(686.9)

HIGHWAY FUND

<ul style="list-style-type: none"> Highway Fund revenues from the transfer of sales tax proceeds collected at the general rate as follows: FY23-2%, FY24-1%, FY25 and thereafter-1.5%. (Effective upon adoption). 	193.1	100.3	157.1	164.0	171.2
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HIGHWAY TRUST FUND

<ul style="list-style-type: none"> Highway Trust Fund revenues from the transfer of sales tax proceeds collected at the general rate as follows: FY23-0%, FY24-3%, FY25 and thereafter-4.5%. (Effective upon adoption). 	-	300.9	471.2	491.9	513.6
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LOCAL SALES TAX

<ul style="list-style-type: none"> Expand sales tax exemption for conveyor systems purchased by air and ground couriers for use at package sorting facilities. (Effective 7/1/22). 	(2.7)		No estimate available		
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TECHNICAL CONSIDERATIONS

N/A.

DATA SOURCES

Commissioned Officers Association of the U.S. Public Health Service; Department of Revenue; Maryland Military Coalition; May 2022 Consensus Revenue Forecast; Proprietary Interstate Air and Ground package courier; U.S. Coast Guard Pay and Personnel Center.

LEGISLATIVE FISCAL NOTE – PURPOSE AND LIMITATIONS

This document is an official fiscal analysis prepared pursuant to Chapter 120 of the General Statutes and rules adopted by the Senate and House of Representatives. The estimates in this analysis are based on the data, assumptions, and methodology described in the Fiscal Analysis section of this document. This document only addresses sections of the bill that have projected direct fiscal impacts on State or local governments and does not address sections that have no projected fiscal impacts.

CONTACT INFORMATION

Questions on this analysis should be directed to the Fiscal Research Division at (919) 733-4910.

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