

**NORTH CAROLINA GENERAL ASSEMBLY
LEGISLATIVE FISCAL NOTE**

BILL NUMBER: House Bill 1806 (First Edition)

SHORT TITLE: Some Electricity Tax Exempt

SPONSOR(S): Representative Miller

| FISCAL IMPACT | | | | | |
|------------------------------------------------------------------------------------------------------------------|-------------------|-------------------|---------------------------|-------------------|-------------------|
| | Yes (X) | No () | No Estimate Available () | | |
| | <u>FY 2000-01</u> | <u>FY 2001-02</u> | <u>FY 2002-03</u> | <u>FY 2003-04</u> | <u>FY 2004-05</u> |
| REVENUES | | | | | |
| General Fund | (\$1,687,500) | (\$1,350,000) | (\$1,350,000) | (\$1,350,000) | (\$1,350,000) |
| EXPENDITURES | | | | | |
| PRINCIPAL DEPARTMENT(S) & PROGRAM(S) AFFECTED: Department of Revenue – Sales and Use Tax Division | | | | | |
| EFFECTIVE DATE: The act becomes effective March 1, 2000, and applies to sales made on after that date. | | | | | |

BILL SUMMARY: The bill exempts sales to manufacturers of electricity used in arc furnaces, induction furnaces, and aluminum manufacturing processes from the sales and use tax.

BACKGROUND: The Secretary of Revenue issued a Directive on February 14, 2000 that ruled electricity is not “an ingredient or component part of the materials being produced by a manufacturer in the operation of an arc furnace or an induction furnace”. The Secretary determined that electricity is a form of energy, not a form of matter or tangible property that the Legislature intended to exempt from tax. The Directive overruled previous private letter rulings from the Sales and Use Tax Division of the Department of Revenue that allowed a sales tax exemption for arc furnaces. Effective March 1, 2000, electricity used in arc furnaces is once again subject to the 2.83% sales tax (3% is not separately metered). The Directive clarified that electricity used in induction furnaces is not tax exempt.

ASSUMPTIONS AND METHODOLOGY:

The Tax Research Division of the Department of Revenue estimates a General Fund revenue loss of \$1.35 million a year if HB 1806 is approved. The estimate of tax paid on electricity used in

arc furnaces, induction furnaces, and aluminum manufacturing processes is based on information taken from sales and use tax returns and from requests for refund of sales and use tax paid. Due to a March 1, 2000 effective date, the Department will also refund \$337,500 in FY 2000-01 for three months of collections in the last quarter of FY 1999-00.

TECHNICAL CONSIDERATIONS:

FISCAL RESEARCH DIVISION 733-4910

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DATE: June 19, 2000



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