GENERAL ASSEMBLY OF NORTH CAROLINA

Session 2007

Legislative Fiscal Note

BILL NUMBER: Senate Bill 1852 (Second Edition)

SHORT TITLE: Tax on Short-Term Heavy Equipment Rentals.

SPONSOR(S): Senator Brunstetter

FISCAL IMPACT

	Yes (x)	**No ( )**	**No Estimate Available ( )**		
	FY 2008-09	**FY 2009-10**	**FY 2010-11**	**FY 2011-12**	**FY 2012-13**
REVENUES:					
General Fund	***No General Fund Impact***				
Local Governments	***Slight revenue gain for local governments – individual jurisdictions may experience changes in revenue based on where sales occur – see assumptions and methodology***				

PRINCIPAL DEPARTMENT(S) & PROGRAM(S) AFFECTED: Local governments; NC Department of Revenue.

EFFECTIVE DATE: Gross receipts taxes can become effective January 1, 2009. Property tax on heavy equipment rentals is repealed effective July 1, 2009.

BILL SUMMARY:
SB 1852 repeals the property tax on heavy equipment owned and offered for short-term rental or lease by a person whose principal business is the short-term lease or rental of heavy equipment at retail, and enacts in its place local option county and city gross receipts taxes on the short-term heavy equipment rentals. The second edition establishes a gross receipts tax rate of 1.2% for counties and 0.8% for municipalities, for a total of 2% for rentals occurring within municipal boundaries. The bill also clarifies that the tax is sourced based on the place from which the equipment is delivered and makes other clarifying changes.

ASSUMPTIONS AND METHODOLOGY:
Five major heavy equipment rental companies provided information on annual gross receipts and property tax payments to allow Fiscal Research to calculate a revenue-neutral gross receipts tax rate. The companies represent approximately 70% of the heavy equipment rental market in North Carolina. The revenue-neutral rate is the rate, when applied to gross receipts from the rental of heavy equipment, will yield the same amount of revenue as the current property tax.

The tax is a local option for cities and counties; therefore, the total amount of revenue generated will be less than the amount currently received from the property tax if some jurisdictions decide not to levy the tax.

The revenue-neutral tax rate is calculated by dividing the property tax paid on heavy equipment rentals by the rental revenue received. The revenue-neutral rate is 1.75%. This bill establishes the rate at 2.0%, so it is expected that the gross receipts tax will generate slightly more revenue than the property tax (approximately $1million in additional revenue).

The rate is divided into a 1.2% rate for counties and a 0.8% rate for municipalities. The breakdown of the tax rate for cities and counties is based on the ratio of tax rates for counties versus cities for urban areas of the state (where rentals are likely to occur).

Although the tax rate will generate slightly more revenue for local governments overall, the share of the total revenue received by individual local governments will vary. This is because the tax will be distributed to cities and counties based on where the equipment is rented. The current property tax is paid based on where the equipment is located on January 1 of each year.

SOURCES OF DATA: NC Department of Revenue, North Carolina Heavy Equipment Dealers

TECHNICAL CONSIDERATIONS: None

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