GENERAL ASSEMBLY OF NORTH CAROLINA

Session 2009

Legislative Fiscal Note

BILL NUMBER: House Bill 1973 (Third Edition)

SHORT TITLE: Keep North Carolina Competitive Act.

SPONSOR(S): Representatives Owens, Gibson, Wainwright, and Brubaker

FISCAL IMPACT ($ In Millions)					
	Yes (X)	No ( )	No Estimate Available ( )		
REVENUES:	**FY 2010-11**	**FY 2011-12**	**FY 2012-13**	**FY 2013-14**	**FY 2014-15**
Part 1.–Art. 3J Changes	$0.0	-$4.9	-$11.0	-$22.0	-$32.9
Part II–Film Credit	$0.0	-$2.4	-$56.3	-$53.8	-$53.8
Part III–IDM Credits	*See Assumptions and Methodology*				
Part IV –Sales Tax Incentives	-$8.9	-$13.7	-$10.0	-$5.6	-$0.6
Part 5.1–Renewable Fuel	*No significant impact*				
Part 5.2–Biodiesel Production	-$0.7	-$1.3	-$1.3	-$0.7	$0.0
Part 5.3–Passenger Air Carrier and Motorsports Aviation	$0.0	-$2.5	-$5.1	-$4.4	-$2.2
Part VI–Eco-Park	*No estimate available*				
Part VII–Woodchipper	$ (0.03)	$ (0.03)	$ (0.03)	$ (0.03)	$ (0.03)
TOTAL	**($9.6)**	**($24.8)**	**($83.7)**	**($86.5)**	**($89.5)**

PRINCIPAL DEPARTMENT(S) & PROGRAM(S) AFFECTED: NC DOR; NC Department of Commerce

EFFECTIVE DATE: Becomes effective when law except where otherwise specified.

BILL SUMMARY:

Part I extends the sunset for the Article 3J Credits for Growing Businesses from January 1, 2011 to January 1, 2014. It also lowers the credit rate percentage from 3.5% to 2.5% for Tier III business investments and increases the minimum investment threshold from $2 million to $3 million.

Part II of the bill makes the following changes to the film production credit:

- Increases the applicable percentage used to calculate the credit from 15% of the amount of qualifying expenses to 25% and eliminates the alternate credit;
- Increases the cap on the amount of credit per feature film from $7.5 million to $20 million;
- Removes the cap on expenses paid to highly compensated individuals that can be included as eligible expenses. Currently, compensation over $1 million paid to one individual is not considered an eligible expense;

- Allows employee fringe contributions and per diems to be included as eligible expenses;
- Extends the sunset of the film credit by one year to January 1, 2015.

Part III of the bill establishes a tax credit for digital interactive media productions. The credit is equal to 15% of eligible expenses. Taxpayers may take annual credits of up to 50% of tax liability and unused credits can be carried forward for eight years.

A second credit would be available for IDM producers with a company headquarters in the State who create and maintain for at least 3 years a minimum of 20 new, full-time jobs at the headquarters within a 24-month period. After the job creation requirement is satisfied, the taxpayer may claim the credit for jobs created over a three-year period in an amount equal to $5,000 for each new full-time job, limited to $500,000.

Part 4.1 amends GS 105-164.3(8e) to provide additional criteria for designating a facility as an eligible internet datacenter. The change also expands the sales and use tax exemption for machinery, equipment, and electricity sold to eligible internet datacenters under G.S. 105-164.13 (55).

Part 4.2 amends G.S. 105-164.14(j) making a facility eligible for an annual refund of sales and use taxes under the subsection if the facility primarily performs paper-from-pulp manufacturing or manufactures turbine and/or turbine generator set units, creates at least 200 additional jobs, and pays an average weekly wage equal to or greater than the average wage in the county. This refund would apply to taxes paid in purchasing building materials, supplies, fixtures, and equipment.

Part 4.3 amends G.S. 105-187.50 replacing the general sales and use tax rate applicable to property purchased for use in a datacenter with the 1%, $80 per article cap excise tax under Article 5F. The Article 5F excise tax applies to machinery and equipment purchased by an eligible internet datacenter.

Part 4.4 amends G.S. 105-187.51 C(d) extending the sunset for the 1%, $80 per article excise tax under Article 5F from July 1, 2013 to July 1, 2015.

Part IV also provides that a facility owner loses eligibility and must forfeit all refunds if the facility fails to maintain the required number of created jobs.

Part V extends the sunsets for several existing credits from January 1, 2011 to January 1, 2014. Section 5.1 extends the sunsets for the Article 3B credits for constructing renewable fuel facilities. Section 5.2 extends the sunset for the credit for biodiesel producers.

Part 5.3 extends the sunsets of two sales tax incentives found under G.S. 105-164.14 (a1) and (l). Under G.S. 105-164.14 (a1), an interstate passenger air carrier is allowed a refund of the net amount of sales and use tax paid by it in this State on fuel during a calendar year in excess of two million five hundred thousand dollars ($2,500,000). The "net amount of sales and use tax paid" is the amount paid less the refund allowed under subsection (a) of this section.

G.S. 105-164.14(l) authorizes sales and use tax refunds for aviation fuel used during motorsport events. A professional motorsports racing team or a motorsports sanctioning body is allowed a refund of the sales and use tax paid by it in this State on aviation fuel that is used to travel to or from a motorsports event in this State, to travel to a motorsports event in another state from a location in this State, or to travel to this State from a motorsports event in another state. For the purposes of this subsection, a "motorsports event" includes a motorsports race, a motorsports sponsor event, and motor sports testing.

For both of the incentives a request for a refund must be in writing and must include any information and documentation the Secretary requires. The requests are due within six months after the end of the State's fiscal year.

Part VI would create economic development incentives and favorable tax treatment for Eco-Industrial Parks.

Part VII of this proposal exempts from the State sales and use tax wood chipping machinery. Machinery qualifies for the exemption if said equipment has an assigned seventeen-digit vehicle identification number (VIN) from the National Highway Transportation Safety Association.

ASSUMPTIONS AND METHODOLOGY:

Part I extends the Article 3J credits from January 1, 2011 to January 1, 2014. The Article 3J Credits for Growing Businesses replaced the William S. Lee Act credits in 2007 and includes credits for creating jobs, investing in business property and investing in real property. The credits can be used to offset up to 50 percent of the taxpayer's state income and/or franchise tax liability and must be taken in four (jobs and business property) or seven (real property) annual installments. Unused credits can be carried forward for five years for the jobs and business investment credits. The real property investment credits can be carried forward for fifteen years.

The annual impact of Article 3J is based on the two reports available from the Department of Revenue. The 2009 report provides credits generated and taken for the first year of Article 3J. The amount of activity for the first year is assumed to be relatively low because taxpayers were allowed for that year only to elect to take either Bill Lee or Article 3J credits. Therefore, the credits generated from the 2010 report are considered to be more reflective of future activity.

For purposes of this analysis, a simulation was developed to estimate the potential impact of the Article 3J extension. The simulation assumes that credits continue to be generated each year at the same level as in the 2010 report. The assumption for the percentage of credits taken each year is based on the percentage taken in the 2009 report (data for credits taken in the 2010 report is not yet available). Credits taken represented 10.7% of credits generated for that year; thus, the installments for each tax year are calculated by multiplying the credits generated (based on the 2010 report) by the percentage taken ($112,579,981 * 10.7% = $12,082,452). The annual impacts for each fiscal year of the credit extension are calculated by adding the credit installments that would be taken each year as shown in Table 1.

The Article 3J extension would have no impact on revenues in FY 2010-11 because taxpayers cannot take any credits until the tax year following the year they are generated. Credits would be

generated beginning in calendar year 2011 and would be taken for tax year 2012. FY 2011-12 revenues would be impacted by taxpayers who reduce April and June estimated payments in 2012. This impact is estimated to be 45% of the full-year impact of the credit extension.

Table 1. Fiscal Impact of Art. 3J Credit Extension by Fiscal Year ($millions)					
	FY 2010-11	**FY 2011-12**	**FY 2012-13**	**FY 2013-14**	**FY 2014-15**
Tax Year					
2012	$0.0	$5.4	$12.1	$12.1	$12.1
2013	$0.0	$0.0	$0.0	$12.1	$12.1
2014	$0.0	$0.0	$0.0	$0.0	$12.1
Total Impact	**$0.0**	**$5.4**	**$12.1**	**$24.2**	**$36.3**

Finally, the fiscal impacts are adjusted to reflect the change in threshold and credit percentage for Tier III business investments. Department of Revenue Article 3J reports were used to determine the impact of the threshold adjustment. Any projects less than $3 million were removed from the list of eligible projects. Furthermore, because the amount of the threshold is not included as an eligible expense, each remaining project was reduced by $1 million to reflect the $1 million increase in the amount of the threshold ($2 million to $3 million). This resulted in a 7.5 % reduction in the fiscal impact of the Tier III business investment credit and a 2% reduction in the fiscal impact of the Article 3J credits. The credit rate percentage reduction from 3.5% to 2.5% represents a 28.6% reduction in the Tier III business investment credit and a 7.8% reduction in the Article 3J credits. The final step in the fiscal analysis of the Article 3J extension is to apply these percentages to the impacts in Table 1. The results are shown in Table 2 below:

Table 2. Fiscal Impact of Credit Rate Reduction and Threshold Increase on Article 3J Impacts ($millions)					
	FY 2010-11	**FY 2011-12**	**FY 2012-13**	**FY 2013-14**	**FY 2014-15**
Impact at 3.5% and $2 million Threshold	$0.0	-$5.4	-$12.1	-$24.2	-$36.3
Impact at 2.5% and $3 million Threshold	$0.0	-$4.9	-$11.0	-$22.0	-$32.9
Difference	**$0.0**	**$0.5**	**$1.1**	**$2.2**	**$3.4**

Part II: Currently, the film production credit is 15% of eligible expenses, with an alternate credit equal to 25% of eligible expenses, less the difference between the amount of tax paid on purchases subject to the privilege tax on mill machinery and the amount of tax that would be paid if the purchases had been subject to the combined general rate of sales tax. The bill eliminates this alternate credit and increases the credit from 15% to 25%. This portion of the bill has an insignificant impact because eligible expenses are already subject to the 25% rate under the alternate credit, and the add-back of the sales tax differential has a minimal effect.

The fiscal impact of the remaining changes in the bill was determined using an analysis provided by the Department of Commerce. The Department used actual studio budgets to estimate the impact of projected changes based on the number and size of additional film productions resulting

from the bill. The analysis assumes that without the proposed expansion, baseline film production activity would include one episodic television production with $22 million in-state spending and five $10-million film productions with $6 million in-state spending.

The estimates for film production activity under the proposed expansion assume the same current film activity, plus two $25-million productions, four $50-million productions and one $75-million production. Based on the studio budget information, the Department was able to determine the amount of eligible spending attributable to each film, including the spending on fringe benefits, per diems and highly compensated individuals, which are included as eligible expenses under the bill. The estimates assume that no individual is paid more than $1 million on the $10-million and $25-million productions. Fiscal Research agrees with the Department's analysis.

Table 1 provides the projected annual number and cost of films resulting from the expanded credit. Due to production cycles, the film credit is not expected to reach this level of activity and impact until FY 12-13.

Table 1. Projected Film Production Spending ($millions)			
Total Production Spending	**Total Qualified Spending**	**Number of Productions**	**Total Cost of Film Credit**
$75	$49.8	1	$12.5
$50	$38.6	4	$38.6
$25	$13.2	2	$6.6
$10	$4.7	5	$5.8
$44	$23.5	1	$5.9
Total Cost			**$69.4**
Source: NC Department of Commerce			

Table 2 provides the projected fiscal year impacts of the credit expansion based on the expected production cycles. These costs represent the net impact of the credit expansion as proposed in H1957. The impact of film activity related to current law is not included.

H1957 is not expected to generate any production activity that would impact the general fund in FY 2010-11. A small impact is expected in FY 2011-12, with the full impact of the credit expansion beginning in FY 2012-13. The impact also factors in the credit add-back; North Carolina requires the value of the tax credit to be added back to taxable income. The analysis assumes that the add-back will be taxed at an average rate of 7 percent.

Table 2. Net Fiscal Impact of Film Production Credit Changes by Fiscal Year ($millions)					
	FY 2010-11	**FY 2011-12**	**FY 2012-13**	**FY 2013-14**	**FY 2014-15**
Additional Cost of Credit	$0.0	-$2.6	-$60.5	-$57.9	-$57.9
Credit Add-back	$0.0	$0.2	$4.2	$4.1	$4.1
Net Fiscal Impact	**$0.0**	**-$2.4**	**-$56.3**	**-$53.8**	**-$53.8**

Part III: This section would provide a 15% tax credit for eligible expenses related to the production of digital interactive media productions. The credit is taken against the income or franchise tax; the maximum credit for a single production is $7.5 million. IDM credits may not exceed 50% of tax liability and unused credit can be carried forward for 8 years. A credit of $5,000 per job is available for companies that establish a headquarters in the state and create a minimum of 20 jobs at the headquarters within a 24-month period.

Based on discussions with industry representatives, there are approximately thirty companies in North Carolina that would potentially qualify for the credit. Production cycles average from one to three years and expenses range from $200,000 to several million per production.

A simulation was developed to explore the potential fiscal impact of the credit. Because of the duration of the production cycle, it is unexpected that any productions would qualify for the credit in FY 2010-11. The simulation assumes a total of $30 million annually (an average of $1 million per company) in qualified expenditures beginning in FY 2011-12 with credits taken evenly over a period of 9 years (initial tax year, plus 8 carryforward years).

In addition, the simulation assumes that 200 jobs qualify for the jobs credit each year. Based on these assumptions, the following fiscal impacts result:

Interactive Digital Media Fiscal Impacts Based on Simulation				
FY 2010-11	**FY 2011-12**	**FY 2012-13**	**FY 2013-14**	**FY 2014-15**
$0.0	-$0.5	-$1.75	-$2.25	-$2.75

Part IV: Using data provided by the North Carolina Department of Commerce (Commerce), Fiscal Research estimates that enacting Section 3 of H1973 will reduce General Fund availability by $8.85 million in FY 10-11 and by $ 13.70 million in FY 11-12. The data from Commerce represents the most accurate information currently available. However, if enacted, the North Carolina Department of Revenue will have data on the actual value of the sales and use tax refund created in Section 4 one year after the incentive has been in effect. The estimate above represents the fiscal impact of three types of tax incentives. The following paragraphs describe each incentive in detail.

Section 4.1: The tax incentive, amending the definition of an eligible internet datacenter, expands the types of companies eligible for a sales tax exemption on machinery and electricity purchases. As shown in table below, the electricity and machinery tax exemption totals $8.2 million in the 2010-11 fiscal year. If enacted, eligible manufacturers will receive a sales and use tax exemption

certificate, which will exempt all eligible internet datacenter purchases from the sales tax. Since exempted purchases are not reported to the Department of Revenue, the true cost of this tax incentive will be unverifiable after enactment.

Sales and Use Tax Exemption for Machinery and Equipment					
Fiscal Year	**Qualified Investment (Machinery and Equipment)**	**Cost Estimate per Fiscal Year (4.75-5.75% Rate)**	**Qualified Investment (Electricity)**	**Cost Estimate per Fiscal Year (3% Rate)**	**Total Cost Estimate per Fiscal Year**
2010-11	$148,750,000	$7,864,063	$10,725,000	$321,750	$8,185,813
2011-12	$197,812,500	$10,085,156	$21,450,000	$643,500	$10,728,656
2012-13	$125,000,000	$6,587,500	$26,325,000	$789,750	$7,377,250
2013-14	$65,000,000	$3,737,500	$31,200,000	$936,000	$4,673,500
2014-15	$0	$0	$21,450,000	$643,500	$643,500
Total	**$536,562,500**	**$28,274,219**	**$111,150,000**	**$3,334,500**	**$31,608,719**

By expanding the definition of eligible Internet datacenters, the bill also expands the types of facilities entitled to a sales and use tax exemption on electricity purchases. Commerce estimates that the definition change will reduce General Fund availability by $321,750 during the 2010-11 fiscal year and by $600,000 to $900,000 in subsequent years. Table 1 provides additional detail. Under current law, these companies are subject to the general sales tax rate on electricity of 3%. Modifying the definition under G.S. 105-164.3 expands the number of facilities eligible for sales and use tax exemptions under G.S. 105-164.13(55). If successful, the newly attracted companies will create an additional 38-60 jobs at an approximate wage of $50,000 per job. These companies are expected to invest more than $830 million in industrial related property (i.e. buildings and machinery).

Section 4.2: According to Commerce, providing sales and use tax incentives to construct facilities utilized in paper-from-pulp, turbine, or turbine generator set unit manufacturing will generate refunds of $1.1 million during the 2011-10 fiscal year. The Department of Revenue, if the law is enacted, will verify the true cost of this tax incentive through the processed refunds beginning in the year following enactment.

The following table describes the amount of qualified investments and expected sales and use tax refunds per fiscal year. Purchases made during the 2010-11 fiscal year are reflected in the 2011-12 refunds. Companies eligible for sales and use tax incentives under G.S. 105-164.14 (j) apply and receive tax refunds six months after the end of the fiscal year in which the purchases are made.

Sales and Use Tax Refund for the Construction of Manufacturing Plants		
Fiscal Year	**Qualified Investment (Construction Materials)**	**Cost Estimate per Fiscal Year (Refunds Lag Purchases by a Fiscal Year)**
2010-11	$19,750,000	$0
2011-12	$15,750,000	$1,135,625
2012-13	$5,500,000	$905,625
2013-14	$0	$316,250
2014-15	$0	$0
Total	**$41,000,000**	**$2,357,500**

The sales tax refund provided under G.S. 105-164.14 (j) applies to purchases made on or before January 1, 2013. The January 2013 sunset limits the fiscal impact of this statutory change to three fiscal years.

If the recruitment efforts are successful, the $2.36 million tax incentive will create 1,025 jobs and generate $348 million in industrial investments. The average wage in the paper manufacturing facility is estimated at $37,897 per job. Wages at the turbine manufacturer are expected to pay an average annual wage of $64,400 per job.

Section 4.3 and Section 4.4: Amends G.S. 105-187.51C replacing the general sales and use tax rate applicable to property purchased for use in a datacenter with the 1%/$80 per article cap excise tax under Article 5F. The tax incentive, amending the definition of an eligible datacenter, expands the types of companies eligible for a sales tax exemption on machinery. Machinery purchased by a datacenter as tax exempt under Article 5 is subject to the 1%/$80 excise tax under Article 5F. For each piece of machinery purchased, companies must remit 1% of the purchase price to the Department of Revenue.

Tax liability is capped at $80 per piece of equipment. As illustrated in the Table below, Commerce estimates that $12.5 million in equipment purchases will be made during the 2010-11 fiscal year. The fiscal impact of exempting this equipment from the sales tax equals the purchase price of the machinery, multiplied by 4.75% (the North Carolina State sales and use tax rate less 1%). This number is then multiplied by 1.25. The 25% increase in forgone sales tax revenue represents the fiscal impact of the $80 cap per piece of machinery.

Datacenter Machinery and Equipment under Article 5F		
Fiscal Year	Qualified Investment (Machinery and Equipment)	Cost Estimate per Fiscal Year (1%/$80 Tax Rate)
2010-11	$12,500,000	$664,063
*2011-12	$37,500,000	$1,835,938
2012-13	$37,500,000	$1,757,813
2013-14	$12,500,000	$585,938
2014-15	No Data	$0
Total	**$100,000,000**	**$4,843,750**
*Sales tax rate changes from 5.75% to 4.75% effective July 1, 2011. The tax for purchases made in the later portion of 2010-11 will be remitted in FY 2011-12.		

The first table used to describe Section 4.1 of this bill also reflects a reduction in the State sales and use tax rate of 1%, which is set to take effect July 1, 2011. Purchases made on or after that date will only be subject to a 4.75% sales and use tax rate. The sales and use tax exemption for mill machinery purchased by an eligible datacenter sunsets on July 1, 2015.

Should the bill become law, the Department of Revenue will be able to verify the tax incentive's true cost through self-reported information provided by the eligible companies. Under the 1%/$80 excise tax, companies are exempt from the sales tax by the seller. The businesses (the exempt purchasers) then self-report to the Department the amount of machinery and equipment purchased and remit the due tax. The $4.8 million sales and use tax incentive for datacenters is expected to create 20-25 new jobs at an average wage of $60,000 per job.

Section 5.1: This section extends the sunset for the credit for constructing renewable fuel facilities from January 1, 2011 to January 1, 2014. The Department of Revenue Tax Expenditure Report projects no significant impact for this credit in FY 2009-10. FRD is aware of an ethanol plant, which opened in 2010 and may qualify for the credit for constructing renewable fuel processing facilities; however, because the plant is being completed before the existing sunset, any fiscal impact would be realized under current law. As a result, the extension of the credit is expected to have no significant impact.

Section 5.2: This section extends the sunset for the tax credit for biodiesel producers from January 1, 2011 to January 1, 2014. The credit is equal to the per gallon excise tax paid under Article 36C of Chapter 105. The credit does not apply to biodiesel blend. According to the Department of Revenue Tax Expenditure Report, there are 8 biodiesel producers in North Carolina and annual production is assumed to be 4 million gallons per year. Based on a projected motor fuels tax rate of 31.7 cents per gallon, the credit is estimated to cost $1.3 million annually.

The bill would sunset the credit in January 2014. This would result in a partial year impact for FY 2013-14, and no impact for FY 2014-15.

Section 5.3

Extending the sunsets for sales and use tax incentives found under G.S. 105-164.14 (a1) and (l) till January 1, 2014 will reduce General Fund availability by $0.0 in FY 2010-11 and by $2.5 million in FY 2011-12. For each full fiscal year the refunds are extended, the incentives reduce General Fund availability by $5.0 to $4.0 million. The Department between 2006 and 2009 awarded an

average of $ 3.8 million in sales tax refunds under G.S. 105-164.14(a1), the aviation fuel refund. During that same period, G.S. 105-164.14(l), the sales tax refund for aviation fuel used in motorsports events, generated $0.1 million in tax refunds.

The two refunds on average equal a total of $3.9 million per fiscal year. After indexing this figure for inflation and changes in the sales and use tax rate, purchases made January thru June 2010 associated with the two incentives are expected to generate $2.5 million in refunds. Eligible companies can apply for a refund of the sales and use tax paid January 2010 thru June 2010 in the first six months of the 2010-11 fiscal year, July thru December 2010. Purchases made July 2010 through June 2011 are expected to generate approximately $5.1 million in sales tax refunds. These refunds will be awarded during the 2012-13 fiscal year.

Part VI: Section 6.1 would designate certain Eco-Industrial Parks as Tier One. If such a Park were located in a Tier Two or Three County, this new designation would change their status and requirements for grants from the Job Development Investment Grant (JDIG), the Industrial Fund, the Utility Fund, and the Article 3J tax credits for growing businesses. At this point, it is not known how many such parks might exist and where they are located, so Fiscal Research cannot provide an estimate as to the potential impact. It is expected that there would be no impact in FY 10-11 and FY 11-12.

Section 6.2 requires that the Green Business Fund give priority to projects in an Eco-Industrial Park. Additionally it allows Commerce to create a cap on the grant size and allows Commerce to require matching funds for the grant, except for those grants given to Eco-Industrial Parks. This section would change the way Green Business Fund grants are prioritized but will not have an impact on appropriations.

Section 6.3 gives priority for JDIG awards to projects that are Eco-Industrial Parks. This section would change the way JDIG grants are prioritized but will not have an impact on appropriations.

Part VII: Fiscal Research estimates that exempting VIN-assigned wood chippers would reduce General Fund availability by $32,000 in the 2010-11 fiscal year and by $28,000 in subsequent years. This information is based on the fiscal impact of a similar tax credit in Oregon designed to reduce pollution caused through forestry-linked burning. The fiscal impact of exempting wood-chippers in North Carolina was calculated by: 1) estimating the value of industrial wood chippers purchased in Oregon, 2) apportioning Oregon's wood-chipper purchases to North Carolina, and 3) calculating the State and local impact of this bill using the sales and use tax rates effective under current law.

Step 1: Estimate the Value of Wood Chippers Purchased in Oregon:
Designed as a pollution control initiative, Oregon offers tax credits equal to 35% of the purchase price of large industrial wood chippers. In reviewing data provided by the Oregon Environmental Quality Commission, purchasers of industrial wood chippers valued at $696,000 apply annually for the tax credit. Due to the fact that the tax credit requires an application process, Fiscal estimates that the $696,000 only represents a portion, 80%, of Oregon's total qualified purchases. Total purchases in Oregon are estimated at $870,000 ($696,000/80%). While the utilization rate of the tax credit is unknown, North Carolina Department of Revenue data highlights that the

application process hinders a portion of eligible taxpayers from applying for applicable tax refunds and credits. Under an exemption program, no application process would be necessary, automatically excluding all VIN-assigned wood chippers from the sales tax.

Step 2: Apportioning Wood-Chipper Purchases to North Carolina
Fiscal estimated the number of wood chipper purchases made in North Carolina using 2007 Economic Census information on the wood product industry. According to the 2007 Economic Census, capital outlays by the Oregon wood product industry represented 7.6% of national wood product capital outlay expenditures. North Carolina's wood product industry's capital outlays represented 4.8% of relevant national expenditures. Applying this ratio to wood chipper purchases, North Carolina's wood chipper purchases equaled $549,887, or 63.2% Oregon's purchases for the 2008-09 fiscal year ($870,000 * 4.8%/7.6%).

Step 3: Calculating the fiscal impact using forthcoming sales and use tax rates
Using the estimate calculated in Step 2, $549,887, Fiscal applied the 2009-10 and 2010-11 fiscal year inflation rates, quantifying North Carolina's 2010-11 fiscal year qualified wood chipper purchases at $564,404. The current State sales tax rate of 5.75% and local rate of 2% was then applied equaling a $32,000 reduction in General Fund availability. The fiscal estimate also accounts for the forthcoming percentage point State sales tax rate reduction effective July 1, 2011.

SOURCES OF DATA:

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NC Department of Commerce

Preservation NC, State Historic Preservation Office

Section 7: 1) 2007 Economic Census. Sector 31: EC0731A1: Manufacturing: Geographic Area Series: Industry Statistics for the States. 2) Oregon Environmental Quality Commission Meeting. August 2008. Attachment F, "Certified Wood Chipper Report, January 1, 2008 through June 30, 2008." Available at: http://www.deq.state.or.us/about/eqc/agendas/attachments/2008aug/K-AttAEF-TaxCreditWorksheets.pdf

TECHNICAL CONSIDERATIONS: None

FISCAL RESEARCH DIVISION: (919) 733-4910

PREPARED BY: Rodney Bizzell

APPROVED BY: Marilyn Chism, Director
Fiscal Research Division

DATE: June 17, 2010

Signed Copy Located in the NCGA Principal Clerk's Offices