



# NORTH CAROLINA GENERAL ASSEMBLY

Session 2019

## Fiscal Analysis Memorandum

**CONFIDENTIAL**

**Requestor:** Rep. Howard and Sen. Newton  
**Analyst(s):** Denise Canada  
**RE:** Various Sales Tax Changes

### SUMMARY TABLE

#### FISCAL IMPACT OF Revenue Laws Bill Draft 2019-SVfz-15\* [v.8]

	<u>FY 2020-21</u>	<u>FY 2021-22</u>	<u>FY 2022-23</u>	<u>FY 2023-24</u>	<u>FY 2024-25</u>
<b>State Impact</b>					
General Fund Revenue	-	-	-	-	-
Less Expenditures	-	-	-	-	-
<b>General Fund Impact</b>	<b>Likely Insignificant Revenue Loss - Refer to Fiscal Analysis section</b>				

#### NET STATE IMPACT

#### Local Impact

Local Revenue	-	-	-	-	-
Less Local Expenditures	-	-	-	-	-
	<b>Likely Insignificant Revenue Loss - Refer to Fiscal Analysis section</b>				

#### NET LOCAL IMPACT

### FISCAL IMPACT SUMMARY

The bill changes the State's sales and use tax law regarding 1) Auctioneers and estate sales, 2) digital property, and 3) equipment purchases. Each change is expected to reduce State and local sales tax revenue by an unknown but likely insignificant amount.

### FISCAL ANALYSIS

#### Auctioneers and Estate Sale Companies

The changes to the taxation of sales conducted by auctioneers and estate sales are expected to reduce State and local tax revenue, but by an unknown amount. Similarly, the taxation grace

period provided by Section 1.(d) of the bill will reduce State and local tax revenue, but by an unknown amount.

No estimate is available because staff cannot predict how many taxpayers might be eligible for either the grace period or the new livestock exemption or the volume of sales that might qualify for the exemption.

### Digital Property

The bill makes clarifications to the existing taxation of digital property that should have no effect on tax collections. However, it also expands the State's sales and use tax exemptions for sales of certain digital items, a change which will reduce both State and local tax revenue. However, the digital economy is difficult to quantify, and the North Carolina Department of Revenue does not collect data from retailers on the amount of tax remitted from sales of the digital items in question. Consequently, no estimate is available.

### Equipment Purchased by a Large Fulfillment Facility

Under North Carolina tax law, sales of tangible personal property are subject to sales or use taxes unless the tangible personal property is specifically exempted from tax in statute. However, G.S. 105-164.13.5(o) provides the following exemption conditional on certain economic investment and employment thresholds being met by the taxpayer:

Sales of equipment, or an accessory, an attachment, or a repair part for equipment, that:

- a. Is sold to a large fulfillment facility.
- b. Is used at the facility in the distribution process, which includes receiving, inventorying, sorting, repackaging, or distributing finished retail products and
- c. Is not electricity.

The bill draft expands this exemption as of July 1, 2020 for instances when the items listed above are purchased by a contractor or subcontractor if the purchase is for use in the performance of a contract with a qualifying facility and also expands the exemption to apply to equipment used for baling previously-used packaging for resale, sanitizing as required by federal law, and material handling.

Expanding the sales tax exemption will reduce both State and local government sales tax revenue, but it is impossible to predict how many companies might take advantage of this preferential tax treatment in their purchases of eligible equipment or what the total sales price for eligible equipment might be. The impact on total State and local tax collections is expected to be minimal.

## **TECHNICAL CONSIDERATIONS**

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N/A.

## **DATA SOURCES**

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North Carolina Department of Revenue.

## **FISCAL ANALYSIS MEMORANDUM – PURPOSE AND LIMITATIONS**

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