


North Carolina Sales Tax Refunds

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November 3, 2009

 STUDY OF NORTH CAROLINA'S TAX STRUCTURE
INTERIM JOINT HOUSE AND SENATE FINANCE COMMITTEES

Nonprofit and Government Refunds

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Which Nonprofits Receive Refunds?

- Nonprofit Hospitals
- Continuing Care Retirement Facilities
 - Must be excluded from property tax under 105-278.6A
- University affiliated nonprofits involved in design or construction of university facilities
- Most 501(c)(3) organizations
 - Educational Institutions
 - Churches and other Religious Institutions
 - Charitable

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Eligible 501(c)(3)s

- S.L. 2008-107, Sec. 28.22 provides a definitive category of the type of nonprofit entity entitled to a sales and use tax refund.
- Includes all but three 501(c)(3) organizations in the National Taxonomy of Exempt Entities. Includes categories that were already exempt:
 - Religious Organizations
 - Educational Institutions
 - Charitable Organizations
 - Volunteer Fire and EMS Departments (some are structured as 501(c)(4)) (SL 2009-233)

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Ineligible 501(c)(3)s

- Community Improvement and Capacity Building (Economic Development, Community Improvement/Development)
- Public and Societal Benefit (Public Utilities, Financial Institutions, Telecommunications Services)
- Mutual and Membership Benefit (Insurance Providers, Retirement/Pension Funds)

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Nonprofit Sales Tax Refunds – FY 2008-09

Exemption / Exclusion	Refunds Issued	Percentage
Hospitals	231,285,709	80%
Educational	40,744,808	14%
Religious	2,615,262	1%
Charitable	10,235,823	4%
Retirement Facilities	4,323,835	1%
Total	\$ 289,205,437	100%

Source: Statistical Abstract of North Carolina Taxes, NC DOR

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Governmental Entities

- Counties
- Municipalities
- Special Districts
- LEAs (local portion only)



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2005 Changes to LEA Refund Eligibility

- Repealed both the state and local sales and use tax refund for LEAs
 - Effective for all purchases made after July 1, 2005
 - Local refund was reinstated in S.L. 2006-66 to reflect original legislative intent to repeal only the state tax refund
- Instituted transfer from Department of Revenue to the State Public School Fund (SPSF) in its place
 - Transfer started in Fiscal Year 2006-07
 - Transfers made quarterly in the amount of:
 - $\frac{1}{4}$ the prior year total adjusted by the percentage change in total state tax collections




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Government Sales Tax Refunds – FY 2008-09

Exemption / Exclusion	Refunds Issued	Percentage
Counties	\$ 56,983,541	30%
Municipalities	\$ 64,154,598	34%
Public Schools	\$ 20,658,916	11%
Special Districts/Authorities	\$ 7,458,198	4%
U.S. Government	\$ 4,049,026	2%
University System	\$ 11,262,406	6%
Other	\$ 22,769,630	12%
Total	\$ 187,336,314	100%

Source: Statistical Abstract of North Carolina Taxes, NC DOR

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Incentive Related Refunds

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Economic Development

- Interstate Carriers/Utility Companies
- Passenger Air Carriers
- Major Recycling Facilities
- Low Tier Machinery
- Nonprofit Insurance Companies
- Certain Industrial Facilities
- Motorsports
- Analytical Services
- Railroad Intermodal Facilities

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Interstate Carriers/Utility Companies

- Long standing refund for interstate carriers, utility companies added in 2006 effective for purchases made on or after July 1, 2006
- Does not appear to have been any particular beneficiary anticipated
- Provides for a periodic apportioned refund for sales and use taxes paid on locomotives and railway cars and fuel, lubricants, repair parts, and accessories for motor vehicles, railroad cars, locomotives, or airplanes
- DOR estimates the refund cost \$5.1 million in FY 07-08

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Major Recycling Facilities

- Enacted in 1998, effective for purchases made on or after July 1, 1998
- Anticipated beneficiary was Nucor
- Provides an annual refund for taxes paid directly or indirectly on building materials, building supplies, fixtures, and equipment
- Due within 6 months after the end of the facility's fiscal year
- DOR estimates this refund cost less than \$100,00 in FY 07-08

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Lower-Tier Machinery

- Enacted in 1999, effective for purchases made on or after January 1, 2000
- No particular anticipated beneficiary
- Provides a refund of sales and use taxes paid at the general rate for machinery and equipment used in an industry eligible for credits under the Bill Lee Act or Article 3J
 - Most mill machinery is not eligible for this refund because it is subject to an excise tax at the rate of 1%/\$80 rather than a sales tax at the general rate
- Due within 6 months after the end of the calendar year.
- DOR estimates this refund cost \$200,000 in FY 07-08

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Nonprofit Insurance Companies

- Enacted in 1999, effective for purchases made on or after May 1, 1999
- REPEALED effective January 1, 2008
- Anticipated beneficiary was TIAA-CREF
- Provides an annual refund for taxes paid directly or indirectly on building materials, building supplies, fixtures, and equipment
- Due within 6 months after the end of the taxpayer's fiscal year.
- DOR estimates this refund cost less than \$100,00 in FY 07-08

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Certain Industrial Facilities

- Originally enacted in 2003 2nd Extra Session, effective for purchases made on or after January 1, 2004
- Expires for purchases made on or after January 1, 2013
- Significantly expanded over the years to include more industry group
- Provides an annual refund for taxes paid directly or indirectly on building materials, building supplies, fixtures, and equipment
- Investment thresholds must be met – additional requirements for particular industries
- Due within 6 months after the end of the taxpayer's fiscal year

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Certain Industrial Facilities

- Eligible Industries
 - Air courier services
 - Aircraft manufacturing
 - Bioprocessing
 - Computer manufacturing
 - Financial services
 - Motor vehicle manufacturing
 - Pharmaceuticals and medicine
 - Semiconductor manufacturing
 - Solar electricity generating materials manufacturing
- Anticipated beneficiaries
 - Fed Ex
 - Merck
 - Dell
 - Fidelity Investments
- DOR estimates
 - \$677,000 claimed in calendar year 2007
 - \$1.1 million claimed by 2 taxpayers in 2008

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Passenger Air Carriers

- Enacted in 2005, effective for purchases made on or after July 1, 2005
- Expires for purchases made on or after January 1, 2011
- Anticipated beneficiary was US Airways
- Provides an annual refund of the net amount of sales and use taxes paid on fuel in excess of \$2.5 million annually
- In addition to refund allowed for interstate carriers in general
- Due within 6 months after the end of the calendar year.
- DOR estimates this refund cost \$3 million in FY 07-08

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Motorsports – Aviation Fuel

- Enacted in 2005, effective for purchases made on or after July 1, 2005
- Expires for purchases made on or after January 1, 2011
- It was anticipated that this would have the greatest impact on several NASCAR teams based in North Carolina
- Allows an annual refund for sales taxes paid on aviation fuel used to travel to and from a motorsports event.
- Due within 6 months of the end of the State's fiscal year.
- DOR estimates \$173,000 claimed in 2007 calendar year, \$101,001 claimed in 2008 calendar year

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Motorsports – Vehicle Parts

- Enacted in 2006, effective for purchases made on or after July 1, 2007
- It was anticipated that this would have the greatest impact on several NASCAR teams based in North Carolina
- Allows an annual refund of 50% of sales taxes paid on property other than tires or accessories that comprises any part of a profession motor racing vehicle
- Due within 6 months of the end of the State's fiscal year.
- DOR does not have a specific estimate on this provision, but it is expected to be minimal

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Analytical Services

- Enacted in 2007, for purchases made on or after July 1, 2007
- Anticipated beneficiary was Labcorp
- Allows an annual refund equal to 50% of the greater of
 - Eligible taxes paid on tangible personal property that are consumed in analytical service activities – eligible taxes are those that exceed the amount paid in FY 06-07
 - Sales and use taxes paid on medical reagents
- Due within 6 months of the end of the State's fiscal year
- DOR does not have a specific estimate on this provision
- Original estimates from Fiscal Research put the cost at \$5.5 million to \$6 million annually

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Railroad Intermodal Facilities

- Enacted in 2007, effective January 1, 2007
- Anticipated beneficiary was Norfolk Southern
- Provides an annual refund for taxes paid directly or indirectly on building materials, building supplies, fixtures, and equipment
- Due within 6 months of the end of the State's fiscal year
- Fiscal information unavailable from DOR – impact of less than \$200,000 expected from all incentives (income/franchise taxes, sales tax exemptions, sales tax refunds) for railroad intermodal facilities

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