

NORTH CAROLINA GENERAL ASSEMBLY

LEGISLATIVE FISCAL NOTE

BILL NUMBER: H.B. 1578 (1st Edition)

SHORT TITLE: Remove Scrap Tire Tax Sunset.

SPONSOR(S): Rep. Gibson

FISCAL IMPACT					
	Yes (X)	No ()	No Estimate Available ()		
	(\$ Millions)				
	<u>FY 2002-03</u>	<u>FY 2003-04</u>	<u>FY 2004-05</u>	<u>FY 2005-06</u>	<u>FY 2006-07</u>
REVENUES					
Scrap Tire Disposal Tax	5.35	5.62	5.90	6.20	6.51
EXPENDITURES					
Solid Waste Management					
Trust Fund	0.27	0.28	0.30	0.31	0.33
Scrap Tire Disposal Acct.	1.45	1.52	1.59	1.67	1.76
County Governments	3.64	3.82	4.01	4.21	4.42
* Of the net tax proceeds, the SWMTF receives 5%, the Scrap Tire Disposal Account receives 27% and the counties receive 68%.					
POSITIONS:	See Expenditures under Assumptions and Methodology				
PRINCIPAL DEPARTMENT(S) & PROGRAM(S) AFFECTED: Department of Environment and Natural Resources, Department of Revenue, County Governments.					
EFFECTIVE DATE: When it becomes law.					

BILL SUMMARY: The bill amends the scrap tire management laws of the state. The bill removes the June 30, 2002, expiration date for the sales tax imposed on new tires sold in North Carolina.

ASSUMPTIONS AND METHODOLOGY: Under existing law, the scrap tire disposal tax is based on the bead diameter of the new tire sold or purchased. The tax is 2% of the sales price for a tire with a bead diameter of less than 20 inches and 1% for a tire with a bead diameter of at least 20 inches. Under current law, the tax reverts to 1% on all tires as of June 30, 2002. The bill removes the sunset on the current tax structure, thus keeping the 2% and 1% rates.

Since the 2% tax rate for smaller tires would have been reduced to 1% on June 30, 2002, passage of this bill will increase tax revenue beginning in FY 2002-03. In FY 1999-00, the 2% tax generated \$9.1 million or 87% of the \$10.5 million total revenue collected. Since 1996, tax revenue has grown approximately 5% a year. The chart below uses a 5% annual growth rate and divides the revenue between the 2% (87%) and 1% (13%) tax rates. The first column on the chart below shows the total amount of revenue generated. The amount in the far right column of the chart below shows the additional revenue generated by removing the sunset (i.e., keeping the 2% tax instead of reducing it to 1%).

	Projected Revenue	Less Than 20 inches 2%	At Least 20 inches 1%	Less Than 20 inches 1%
FY 02-03	\$12,303,706	\$10,704,224	\$1,599,482	\$5,352,112
FY 03-04	12,918,891	11,239,435	1,679,456	5,619,718
FY 04-05	13,564,836	11,801,407	1,763,429	5,900,704
FY 05-06	14,243,078	12,391,478	1,851,600	6,195,739
FY 06-07	14,955,232	13,011,052	1,944,180	6,505,526

The allocation of the Scrap Tire Disposal Tax is set out in GS 105-187.19. Before distributing any of the tax proceeds, the Department of Revenue is allowed to retain up to \$225,000 a year for the administrative expenses related to cost of collection of the taxes. The Secretary of Revenue then distributes the net tax proceeds on a quarterly basis as follows:

1. Five percent to the Solid Waste Management Trust Fund administered by the Department of Environment and Natural Resources (DENR), for waste management grants and technical assistance programs.
2. Twenty-seven percent to the Scrap Tire Disposal Account, administered by DENR, for grants to local governments to assist in disposing of scrap tires, for grants to encourage the use of processed scrap tire materials and for the clean up of nuisance scrap tire collection sites.
3. The remaining 68 percent is distributed among the counties on a per capita basis to fund local tire disposal programs.

Since the 2% tax rate for smaller tires would have been reduced to 1% on June 30, 2002, passage of this bill will increase the revenue beginning in FY 2002-03. This increase in tax proceeds would be allocated and expended according to statute. The chart below shows how much each of the beneficiaries listed above would receive.

Fiscal Year	Solid Waste	Scrap Tire	Counties
2002-03	\$267,606	\$1,445,070	\$3,639,436
2003-04	280,986	1,517,324	3,821,408
2004-05	295,035	1,593,190	4,012,479
2005-06	309,787	1,672,850	4,213,103
2006-07	325,276	1,756,492	4,423,758

FISCAL RESEARCH DIVISION: (919) 733-4910

PREPARED BY: Linda Struyk Millsaps, Richard Bostic Jennifer Hoffman

APPROVED BY: James D. Johnson

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