

NORTH CAROLINA GENERAL ASSEMBLY

LEGISLATIVE FISCAL NOTE

BILL NUMBER: Senate Bill 1253 (First Edition)

SHORT TITLE: Correct Streamlined Sales Tax Inequity.

SPONSOR(S): Senator Allran

FISCAL IMPACT					
	Yes (X)	No ()	No Estimate Available ()		
		(\$)			
	<u>FY 2004-05</u>	<u>FY 2005-06</u>	<u>FY 2006-07</u>	<u>FY 2007-08</u>	<u>FY 2008-09</u>
REVENUES	(204,549)	(364,331)	(379,997)	(396,337)	(412,587)
PRINCIPAL DEPARTMENT(S) & PROGRAM(S) AFFECTED: North Carolina Department of Revenue, Sales Tax Division.					
EFFECTIVE DATE: October 1, 2004.					

BILL SUMMARY: Under current law, postage that is embedded in a direct mail item is subject to sales tax, as are any other delivery charges. This provision would make embedded postage exempt from sales tax if the postage were separated from printing charges associated with direct mail, when the client is billed. It would also exempt the remaining delivery charges for direct mail from sales tax, if the charges were separately stated.

ASSUMPTIONS AND METHODOLOGY:

In May and June 2004, Fiscal Research surveyed the largest printers of direct mail in North Carolina, based on an industry association provided list of their largest members. These printers were asked to examine their 2002 records and identify the amount of postage that would have been subject to sales tax in 2002, but would not be under the legislation. The four printers that responded with data indicated that their change in tax liability for 2002, in total, would have been \$46,409.

According to the Print Market Atlas, in 2002 there were \$1,096,280,000 in North Carolina shipments of the category, “general commercial printing”. All these shipments are assumed to be direct mail printing. The atlas also listed \$99,640,000 in “quick printing”, a portion of which was likely direct mail. Using the total amount for “general commercial printing” and 25% of the

amount for “quick printing” creates a proxy for the total North Carolina direct mail market of \$1.121 billion. Industry data suggests that the four responding printing companies, in total, represent approximately 15.52% of the direct mail market. Using this number as a proxy for tax liability suggests total industry tax liability of \$299,027 in 2002. Adjustments are made in the fiscal impact box for inflation and the January 1, 2005 effective date.

The legislation also affects the taxability of shipping charges for printed material that is later delivered as direct mail. The four responding companies indicated that they did not deliver their product in this manner. However, industry representatives indicate that at least some direct mail printers deliver their products in this manner. As such, the estimate has been increased by 10% to account for this type of delivery.

While the Streamlined Sales Tax Agreement does not require the change, it allowed under that program.

SOURCES OF DATA: 2003 Print Market Atlas and the Printing Industry of the Carolinas, Inc, individual company data.

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Signed Copy Located in the NCGA Principal Clerk's Offices