

Council Budget Questions and Requests for Information
2019-20 Council Retreat
Question #6

QUESTION: What is the impact of new retail on sales tax?

RESPONDENT: Amy Oland, Business Management Director
Matt Brinkley, Budget Manager

RESPONSE: Because of the complexity of the distribution formulas for sales taxes in NC it is impossible to calculate total sales taxes applicable to the point of sale municipal jurisdiction accurately starting from an estimated retail sales number. The following is an explanation of how to make a rough estimate of the sale taxes received by the **Town** based on a retail sales number.

- Currently there are three pieces of the sales tax that are distributed to Towns: Article 39 One Cent Tax - Allocated on a point-of-origin basis, Article 40 One-half Cent Tax Allocated among counties on a per-capita basis, and Article 42 One-half Cent Tax Allocated on a point-of-origin basis.
- The two point-of -origin portions (Article 39 and Article 42) are 1.5% combined. The tax levy on \$1,000 of sales would be \$15. That 15% would be distributed to the County and further distributed to the Town on a per-capita basis. Currently our per-capita distribution is 25.29%. So of the \$15 distributed to the County the Town would receive \$3.79 per \$1,000 of sales.
- Article 40 is allocated on a per-capita basis. Proceeds from this 1/2 cent tax are collected in a pool from all counties and distributed based on the population of the County relative to the population of the state. Orange County is about 1.4% of the total population of the state and therefore would receive that percentage from the pool. That amount is then multiplied by the County per-capita distribution percentage (25.29%) to get to the Town's distribution. That would make the Town's percentage distribution from the total pool 0.35%. That is, the Town will be receiving that percentage from all of the funds contributed to the Article 40 Pool, including the amount originating from the town. Using our \$1,000 example, the Town would receive 0.35% of the \$5 per \$1,000 tax levied or 2 cents.
- To recap, the Town receives about \$3.81 for every \$1,000 of Chapel Hill sales subject to sales tax. Of course this is a theoretical number because we are not allowed to know the actual sales tax payments made, so we are starting off with a guess. Also, due to the distribution method of Article 40, calculating the amount attributable to local collections is of limited value. Also this does not take into consideration the

new hold-harmless payment which is calculated by subtracting 25% of Article 39 from 50% of Article 40 and adding it to the original hold harmless which is 50% of the Article 40 distribution. I'm not sure how to tease out the local amount from that mess. But it is safe to say that \$3.81 per thousand is a minimum number.