

**NORTH CAROLINA GENERAL ASSEMBLY**

**LEGISLATIVE FISCAL NOTE**

**BILL NUMBER:** SB 1252 (Second Edition)

**SHORT TITLE:** Simplify Privilege License Tax

**SPONSOR(S):** Senators Hoyle, Cochrane, Kerr, and Hartsell

<b>FISCAL IMPACT</b>					
	<b>Yes (X)</b>	<b>No ( )</b>	<b>No Estimate Available ( )</b>		
	<b><u>FY 1998-99</u></b>	<b><u>FY 1999-00</u></b>	<b><u>FY 2000-01</u></b>	<b><u>FY 2001-02</u></b>	<b><u>FY 2002-03</u></b>
<b>REVENUES</b>					
General Fund					
No Half Year License		\$14,375	\$14,375	\$14,375	\$14,375
Amusements		<b>No Impact</b>			
Banks		1,400	1,400	1,400	1,400
Installment Paper Dealers		(10,990)	(10,990)	(10,990)	(10,990)
ABC Licenses & Permits		<b>Revenue Neutral</b>			
Beer Excise Tax		<b>Revenue Neutral</b>			
<b>Net Change - G.F. Revenue</b>		<b>\$4,785</b>	<b>\$4,785</b>	<b>\$4,785</b>	<b>\$4,785</b>
<b>EXPENDITURES</b>					
General Fund (savings)		<b>\$68,877</b>	<b>\$71,042</b>	<b>\$73,346</b>	<b>\$75,799</b>
<b>Net Fiscal Impact - GF</b>		<b>\$73,662</b>	<b>\$75,827</b>	<b>\$78,131</b>	<b>\$80,584</b>
<b>POSITIONS:</b> Abolish 3 clerical positions in the Department of Revenue beginning FY 99-00.					
<b>PRINCIPAL DEPARTMENT(S) &amp; PROGRAM(S) AFFECTED:</b> Department of Revenue, Alcoholic Beverage Commission					
<b>EFFECTIVE DATE:</b> Sections 1 through 13, 27, and 28 (privilege licenses) become effective July 1, 1999 and remaining sections (ABC licenses and permits) become effective May 1, 1999.					

**BILL SUMMARY:** The act repeals the state privilege license taxes for amusements, installment paper dealers, and alcoholic beverages. It increases the tax on tax on installment paper dealers from .275% to .277%. It changes the privilege tax on new banks and eliminates the proration of license fees for loan agencies and professionals. It creates a uniform malt beverage tax, raises the fee on ABC permits, and simplifies the filing and reporting requirements for alcoholic beverages.

#### **ASSUMPTIONS AND METHODOLOGY:**

##### Section 2

Part (c) of section 2 of the bill ends the practice of charging half the privilege license tax to an individual who applies after the midpoint of the fiscal year. Upon passage of this bill, only professionals and loan agencies remain subject to annual license fees. Except for accountants, the Department of Revenue does not have data on the number of licenses that were paid for half year. 675 accountants paid \$25 for a half year license in FY 1996-97 and 472 bought a half year license in FY 1995-96. Averaging the two years, this note assumes 575 accountants needing a partial year license will pay the full \$50 in FY 1999-00. **This will generate a revenue gain to the General Fund of \$14,375.**

##### Sections 4 & 5

In FY 1996-97, there were 323 privilege licenses issued to amusements, circuses, dances, and rodeos generating \$17,737 in General Fund income. For this group the license fee serves as advance payment toward the 3% gross receipts tax collected on their performances. Except for the small amount of interest that the Department may earn on license revenue, **there is no fiscal impact from eliminating the annual license fee.**

##### Section 9

Section 9 eliminates the \$100 license fee for installment paper dealers who engage in the business of “dealing in, buying, or discounting installment paper, notes, bonds, contracts, or evidences of debt”. Unlike the amusements license, the \$100 paid by installment paper dealers is not an advance payment for the tax they pay. Based on FY 1996-97 collections, this change will produce a loss of \$123,800 annually beginning in FY 1999-00. These dealers also pay a tax of .275% of the face value of the financial instruments they handle. To offset the revenue loss, this tax rate is increased to .277% to raise \$112,810. **The net revenue impact from eliminating the \$100 fee and increasing the tax rate to .277% is a revenue loss of \$10,990.**

##### Section 10

Banks pay an annual privilege tax equal to \$30 for each million dollars of assets they hold. However, a new bank pays a \$100 privilege tax until it has been in operation for a year. This \$100 fee is eliminated in section 10 and replaced with a requirement for new banks to pay the regular tax prorated by the number of days it operated during the fiscal year.

According to Ray Grace of the North Carolina Banking Commission, the establishment of new banks is cyclical and influenced both by the economy and by actions of the mega-banks. There were no new banks in 1993 and 1994. There were 2 in 1995 and 3 in 1996. In 1997, there were 10 new banks plus the conversion of a thrift to a bank. Mr. Grace anticipates 6 new banks in 1998.

This note assumes three new banks are established each year and uses FY 1996-97 as a model. The chart below shows the date each bank was chartered by the Banking Commission in 1996 and the average assets for the three banks in the four quarters of 1996-97. Under this bill, instead of paying \$100 in their first year, the banks would pay \$30 for each million dollars in assets with an adjustment for the number of days in operation. For example, Bank A would pay \$30 x 13.239 (\$13,239,250/\$1,000,000) x (344 days/365 days) = \$374.13

	<u>Established</u>	<u>Avg. Assets</u>	<u>Est. Tax</u>	<u>Current Tax</u>	
Bank A	7/22/96	\$13,239,250	\$374.13	\$100	
Bank B	11/18/96	\$30,036,333	\$555.06	\$100	
Bank C	7/31/96	\$28,317,750	<u>\$779.00</u>	<u>\$100</u>	
			\$1,708.19	\$300	<u>Difference = \$1,408.19</u>

**In summary, this note assumes additional revenue of \$1,400 per year due to the change in section 10.**

Sections 14 - 30

Under current law, a business that sells beer, wine, and/or spirituous liquor is required to secure the appropriate permits from the State Alcoholic Beverage Commission (ABC) and the appropriate commercial and retail licenses from the Department of Revenue. Sections 17 & 18 repeal the Department of Revenue’s annual commercial and retail licensing requirements. New businesses filing permit applications with the ABC will no longer have to file a license application with the Department of Revenue. The Department collected an estimated \$3.1 million from 40,000 licensees in FY 1996-97. This note assumes the revenue from ABC licenses in FY 1998-99 and beyond would have been \$3.3 million per year. To offset this loss, ABC permit fees are increased in sections 29 and 30 of the bill. Using 1996-97 data on the number of ABC permits issued, the ABC worked with the Fiscal Research Division of the General Assembly to propose increased permit fees that would make the repeal of the retail licenses revenue neutral.

Since ABC permits are business specific (malt beverage, fortified wine, etc.), some businesses may be required to hold more than one permit. All ABC permits are continuing except for the brown bagging and the special occasions permits. This means as long as the permittee meets the qualifications of a permit, the permit does not have to be renewed annually. Under the proposed act, all businesses that currently hold licenses and permits prior to May 1, 1999 will not be affected by this act as long as they continue to meet the qualifications of their ABC permit. If an existing business fails to qualify, then they will have to reapply for new ABC permits and pay the higher fees.

By eliminating the processing of 40,000 ABC licenses each year, the Department of Revenue estimates that it could reduce its clerical staff by up to three Grade 57 clerical employees in the Business License & Returns Section of the Office Examination Division. The savings from these positions is \$68,877 in FY 1999-00. This amount is adjusted for future growth in wages and fringe benefits.

Section 22

The excise tax rates on beer are combined into a single rate in section 22. Beer sold in barrels is currently taxed at 48.387 cents per gallon and beer sold in bottles and cans is currently taxed at 53.376 cents per gallon. The combined rate of 53.177 cents per gallon preserves the General Fund revenue expected to be collected from both rates. Although the proposal is revenue neutral, those selling beer in bottles and cans will pay a little less tax and those selling beer in barrels will pay a little more. For example, in 1996-97 producers of beer in bottles and cans would have paid \$302,252 less in excise tax while producers of beer by the barrel would have paid \$302,252 more in excise tax.

**FISCAL RESEARCH DIVISION**

**733-4910**

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**DATE:** June 16, 1998



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