

**NORTH CAROLINA GENERAL ASSEMBLY  
LEGISLATIVE FISCAL ESTIMATE**

**BILL NUMBER:** HB 12 (SCS DATED 6/12/95)  
**SHORT TITLE:** TERM LIMITS/ELECTION REFORM

NOTE: THESE FISCAL ESTIMATES SHOWN BELOW APPLY ONLY TO THE PORTIONS OF THE BILL DEALING WITH TAX LAW CHANGES AND SECTIONS THAT DIRECTLY AFFECT THE COSTS OF THE STATE BOARD OF ELECTIONS AND THE DEPARTMENT OF REVENUE. **FISCAL IMPACT: Expenditures: Increase (X) Decrease**

( )

**Revenues:                    Increase ( )                    Decrease (X)**

**FUND AFFECTED: General Fund (X) Highway Fund ( ) Local  
Govt. ( )**

**Other Funds ( )**

**BILL SUMMARY:** Establishes a system of incentives for races for legislative offices, for Governor, and for Lt. Governor that would bring candidates into voluntary compliance with spending limits. In the case of the race for Governor and Lt. Governor, the bill also offers candidates incentives to keep their campaigns positive.

SPECIFIC PROVISIONS WITH WITH FISCAL IMPLICATIONS:

(1) Allows a state personal income tax credit for taxpayers making a contribution to an eligible candidate for the General Assembly during the election year (even-numbered years). The credit is equal to 75% of contributions made during a two-year election cycle, with the credit per taxpayer for any one candidate limited to \$75 and the total credits for the taxpayer limited to \$375 (5 candidates at the maximum of \$75 credit per candidate . The amount of the credit cannot exceed tax liability.

(2) Continues the tax law that allows persons to contribute a part--- or all---of their income tax refund to political activities, by changing the current North Carolina Candidates Financing Fund designation to the Fund for North Carolinians for Positive Campaigns, and transferring any remaining monies to the new Fund.

(3) Allows a taxpayer to designate \$5 of state income tax liability to the Positive Campaigns Fund. (Currently, \$1 of liability may be earmarked for the Political Parties Financing Fund). The amounts designated shall be credited to the Positive Fund on a quarterly basis and interest on the Fund balances shall remain with the Fund.

(4) The State Board of Elections would be charged with administering portions of the spending limits and incentive program and the Department of Revenue would administer the tax provisions.

**EFFECTIVE DATE:** The bill is intended to begin with the 1996 election cycle.

**FISCAL IMPACT:** REVENUES The primary tax consequences of the committee

substitute relate to the \$75 tax credit for contributions to state legislative races.

The only background information that might provide a clue to the potential utilization of the credit is the experience in Minnesota with a \$50 tax "refund". In Minnesota, a person can receive a direct payment from the state department of revenue for contributions to political parties, candidates for legislative offices, and statewide elective offices. The credit per taxpayer cannot exceed \$50 regardless of the size of the contribution or the number of contributions.

The North Carolina credit would apply only in cases in which the candidate agreed to comply with the campaign spending limits. If the candidate withdrew or were "decertified" for violating the spending limits, the contributors would not be able to take the tax credit. In such cases, the candidate must reimburse contributors for the amount the taxpayer would have received from the credit. This reimbursement must be made within 5 days of the candidate's exit from the race. If the campaign spending violation is discovered after the taxpayer has claimed the credit, the candidate would face a civil penalty equal to 50% of the total contributions during the election cycle.

There are other types of penalties if the candidate exceeds the spending limit.

The annual cost of the Minnesota tax refund is \$2-4 million with the larger amounts taking place during general election years.

There are some differences between the Minnesota refund and the proposed N.C. incentive: (1) the maximum tax benefit per contribution in N.C. will be 50% higher (2) the N.C. credit applies to up to 5 candidates per taxpayer (\$375 in tax credits) versus one per taxpayer in Minnesota. (3) the Minnesota refund amounts to 100% relief below the maximum amount while the N.C. portion is 75% (4) the N.C. credit is not refundable in cases where the credit exceeds tax liability.

Other factors affecting the impact estimate include the willingness of taxpayers to give money to political candidates, the extent to which the tax incentives are publicized. and the impact of the penalties on candidates who do not comply with the spending limit.

To the extent that the Minnesota experience is relevant to North Carolina, the estimated cost of the credit for the 1996-97 fiscal year would be \$5-10 million.

EXPENDITURES: Information provided by the The State Board of Elections suggests that agency's operating budget requirements, beginning with the 1995-96 fiscal year, would be roughly \$46,000. Of this amount, \$29,000 would be used for the salary and benefit costs associated with an additional position to administer the Fair Campaign Act.

In addition, the Department of Revenue has identified \$31,000 of one-time computer programming costs for the \$5 tax earmarking for

Positive Campaigns. The Board of Elections would need office furniture and computer equipment costing around \$6,000. Thus, total nonrecurring requirements under the bill would be \$37,000. **RESEARCH DIVISION**

**733-4910**

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**APPROVED BY:** TomC

**DATE:** June 27, 1995

**[FRD#001]**



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