NORTH CAROLINA GENERAL ASSEMBLY

LEGISLATIVE FISCAL NOTE

BILL NUMBER: House Bill 1093, Finance Committee Substitute

SHORT TITLE: 1996 Tax Reform Act.

SPONSOR(S): Rep. Neely

FISCAL IMPACT: **Expenditures: Increase () Decrease ()**
Revenues: Increase (X) Decrease ( )
No Impact ()
No Estimate Available ()

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

BILL SUMMARY: The act repeals the unconstitutional corporate tax credit for North Carolina wine, repeals the unconstitutional corporate tax deduction for North Carolina dividends, revises the unconstitutional individual income tax credit for North Carolina dividends, repeals the unconstitutional tax credit for Qualified Business Investments, and authorizes the Secretary of Revenue to enter into voluntary use tax collection agreements with retailers not subject to state tax.

EFFECTIVE DATES:
January 1, 1996 - Unconstitutional tax preferences
January 1, 1997 - Repeal Qualified Business Investment Credits
Upon ratification - Voluntary use tax collection

PRINCIPAL DEPARTMENT(S)/PROGRAM(S) AFFECTED: Department of Revenue; Secretary of State

FISCAL IMPACT

($million)

	FY 1996-97	FY 1997-98	FY 1998-99	FY 1999-00	FY 2000-01
REVENUES:					
GENERAL FUND	**2.92**	**2.06**	**8.1**	**8.14**	**2.18**
(see attached chart)					
EXPENDITURES:					

ASSUMPTIONS AND METHODOLOGY:
Section 1: Repeal credit for distributing North Carolina wine.
The Tax Research Division of the Department of Revenue estimates the annual impact of this credit to be $20,000. From a review of income tax returns from 1992, 1993, and 1994, the Department found the total income tax credit deducted ranged from $12,000 to $19,000 each year.

SECTIONS 2 & 3: Revise individual income tax credit for North Carolina dividends.

The Department of Revenue estimates the existing credit provides $11 million in tax relief to individuals investing in companies that do 50% or more of their business in North Carolina. HB 1093 expands the dividend credit to investments in all companies. The credit is capped at $12 per individual to equal the amount spent in the current credit. The credit will sunset in 2001.

SECTIONS 4-6: Repeal corporate income tax deduction for N.C. dividends. The Department of Revenue estimates that the tax benefit to corporations from this deduction equals $2 million. This fiscal note assumes that the tax benefit would grow 2% a year if not repealed. With a January 1, 1996 effective date, corporate taxpayers will pay tax on their dividends for 18 months due to two quarterly payments in 1997. This will generate a small $900,000 windfall in FY 1996-97.

SECTION 7: Repeal Qualified Business Tax Credit in 1997. In 1996, the qualified business investment tax credits equal $3,523,894. The amount of credits taken each year has ranged from $1,028,882 in 1989 to $6,011,513 in 1994. From 1989 to 1996, approximately 86.4% of the credits went to individuals. Since no more than $6 million of the credit's potential liability of $12 million has been taken in any one year, it is projected that the General Fund will gain $6 million in revenue in 1998-99 and in 1999-00 from the repeal of the credit. The revenue gain is limited to two years, because the credit was originally scheduled to sunset in 1999.

SECTIONS 10 & 11: Enact Voluntary Use Tax Collection Agreement. A 1994 Advisory Commission on Intergovernmental Relations report estimated that North Carolina could earn $47.4 million a year and local governments could earn $23.7 million annually from collecting use taxes on mail order sales. No revenue gain is included in this fiscal note due to the uncertainty of when and if mail order companies will collect and remit the tax. The U.S. Supreme Court has ruled that a state cannot collect the use tax on items sold by a mail order firm unless the company has some nexus or physical link to the state. The Direct Marketers Association, the Federation of Tax Administrators and the Multi-state Commission are negotiating an agreement for the mail order firms to voluntarily collect the use tax on behalf of states.

SOURCES OF DATA: Department of Revenue

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