

**NORTH CAROLINA GENERAL ASSEMBLY
LEGISLATIVE FISCAL NOTE**

BILL NUMBER: House Bill 62 (Senate Finance Committee Substitute)

SHORT TITLE: EFT of Corporate Estimated Income Tax

SPONSOR(S): Representatives Gray, et al.

| FISCAL IMPACT | | | | | |
|---|--------------------------|--------------------------|----------------------------------|--------------------------|--------------------------|
| | Yes (X) | No () | No Estimate Available () | | |
| | <u>FY 1999-00</u> | <u>FY 2000-01</u> | <u>FY 2001-02</u> | <u>FY 2002-03</u> | <u>FY 2003-04</u> |
| GENERAL FUND | | | | | |
| Revenue | \$169,725 | \$339,450 | \$339,450 | \$339,450 | \$339,450 |
| Expenditures | (<u>\$6,093</u>) | (<u>\$4,788</u>) | (<u>\$4,788</u>) | (<u>\$4,788</u>) | (<u>\$4,788</u>) |
| NET G.F. Gain | \$163,632 | \$334,662 | \$334,662 | \$334,662 | \$334,662 |
| PRINCIPAL DEPARTMENT(S) & PROGRAM(S) AFFECTED: Department of Revenue | | | | | |
| EFFECTIVE DATE: Section 3 of the act (Tax Research positions) is effective when it becomes law. The remainder of the act becomes effective for taxable years beginning on after January 1, 2000. | | | | | |

BILL SUMMARY:

The bill requires corporations that pay federal income tax estimated payments by electronic funds transfers (EFT) to also pay state income tax estimated payments by EFT. The bill also states that it is the intent of the General Assembly to use a portion of the revenue gained in this bill to fund four tax analyst positions in the Tax Research Division of the Department of Revenue.

ASSUMPTIONS AND METHODOLOGY:

ELECTRONIC FUNDS TRANSFER (EFT)

The Department of Revenue estimates an annual gain of **\$334,662** from the required electronic funds transfer (EFT) provision in this bill. By processing an additional 3,925 transactions by EFT instead of paper based transactions, the state will earn an additional five days of interest on tax collections of \$271.1 million each fiscal year. Using the State Treasurer's FY 1997-98 short-term interest rate of 5.51%, the additional interest is anticipated to be \$339,450. To administer the program, the Department of Revenue will spend \$4,788 each year to process the additional 3,925 EFT transactions and will have a one-time cost of \$1,305 to set up 981 new accounts. The first fiscal year savings will be half of the annual estimate due to a January 1, 2000 effective date.

This assumes that the quarterly estimated tax payments are equal and that April and June 2000 income tax payments are made by EFT.

TAX RESEARCH POSITIONS

House Bill 62 states the General Assembly’s intent to fund four Tax Analyst positions in the Tax Research Division of the Department of Revenue. These positions were recommended by the Revenue Laws Study Committee and are included in SB 74 and HB 55. The first year cost of the positions is \$319,675 and the second year cost is \$283,275.

The Tax Research Division compiles and publishes statistical and descriptive information on state and local taxes, analyzes the impact of proposed changes in the tax laws, and answers inquiries from the General Assembly, other state agencies, and the public about the tax laws.

The four additional personnel will enable the Department to do the research and analysis needed to meet reporting requirements imposed by the General Assembly. These positions are also needed to evaluate various tax issues that the General Assembly will have to address in the near future such as 1) the adoption of the Multistate Tax Commission's 3-factor apportionment formula for financial institutions, 2) changing from a single entity state to a combined reporting state, 3) changing the distinction between business and non-business income, 4) the impact of deregulation of utilities on the economy, and 5) changes in the distribution formulas for State-shared revenues. Additionally, these staff members will strengthen the Tax Research Division's ability to conduct more complex studies and to provide information on a more timely basis to the Office of State Budget & Management, the State Controller's and Treasurer's Offices, and the Commerce Department. Each position is a Tax Analyst, grade 79, budgeted at an annual salary of \$57,590. The estimated budget for these positions is shown below. The salaries are not adjusted for any potential pay increases in future years. The furniture, computers, and office equipment are one-time costs.

| Account Title | <u>1999-00</u> | <u>2000-01</u> |
|---|-----------------------|-----------------------|
| SPA Regular Salaries | \$230,360 | \$230,360 |
| Social Security Contributions | 17,623 | 17,623 |
| Retirement Contributions | 24,948 | 24,948 |
| Medical Insurance Contributions | 6,944 | 6,944 |
| Telephone Service | 1,400 | 1,400 |
| General Office Supplies | 2,000 | 2,000 |
| Furniture-Office (Workstation and Chair) | 18,000 | |
| Office Equipment (Calculator) | 400 | |
| Equipment - Computer (Desktop/Laptop) | 18,000 | |
| Total | \$319,675 | \$283,275 |

FISCAL RESEARCH DIVISION (733-4910)

PREPARED BY: Richard Bostic

APPROVED BY: Tom Covington

DATE: Tuesday, May 11, 1999



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