

**NORTH CAROLINA GENERAL ASSEMBLY**

**LEGISLATIVE FISCAL NOTE**

**BILL NUMBER:** HB 1466 (First Edition) Pension Tax Withholding

**SHORT TITLE:** Pension Tax Withholding

**SPONSOR(S):** Representative Lanier Cansler

**FISCAL IMPACT**

	Yes ( )	No ( )	No Estimate Available (X)		
	<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>

**REVENUES**

General Fund see ASSUMPTIONS AND METHODOLOGY

**EXPENDITURES**

General Fund No Fiscal Impact

**PRINCIPAL DEPARTMENT(S) & PROGRAM(S) AFFECTED:** Department of Revenue

**EFFECTIVE DATE:** This act becomes effective January 1, 2001.

**BILL SUMMARY:**

The bill provides that a pension payer required to withhold federal taxes on a pension payment to a North Carolina resident must withhold state taxes on a pension payment, annuity, or deferred compensation unless the recipient elects not to withhold.

**BACKGROUND:**

Under current law, an employer or pension payer may enter into a voluntary agreement to withhold North Carolina tax on pensions or other income not requiring withholding. However, because the agreement is voluntary, the Department of Revenue may not pursue the pension payer for tax it withholds but does not remit. If the pension payer does not remit the tax to the Department of Revenue, then the retiree or pension recipient is not allowed credit against his tax liability for the tax withheld.

**ASSUMPTIONS AND METHODOLOGY:**

This bill does not apply to federal, state and local retirees with 5 years creditable service as of August 12, 1989. These groups are exempt from state income tax due to a court decision in the Bailey, Emory, and Patton lawsuits. Instead the bill will help the estimated 280,000 private

sector retirees in the state with pension income (estimate by Fiscal Research Division using Current Population Survey).

The Internal Revenue Service (IRS) does not know how many taxpayers have federal income tax withheld from their pension payment, annuity, or deferred compensation. When a company submits withheld income taxes, it does not separately account for current and former employees. Similarly, the North Carolina Department of Revenue has no data on the number of taxpayers that have chosen voluntary withholding of their pension payment, annuity, or deferred compensation. Without state and federal tax data, no estimate can be made on the General Fund impact of HB 1466. It can be assumed that the state General Fund could gain interest on funds that are withheld monthly instead of submitted quarterly in estimated payments. Unfortunately, the extent of this gain cannot be quantified.

**FISCAL RESEARCH DIVISION 733-4910**

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**DATE:** Monday, June 21, 1999



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