NORTH CAROLINA GENERAL ASSEMBLY
LEGISLATIVE FISCAL NOTE

BILL NUMBER: SB 1110 (Finance Committee Substitute Adopted 6/15/99) Technology Commercialization Credit

SHORT TITLE: Technology Commercialization Credit

FISCAL IMPACT ($ Mill.)

Yes (X) **No ( )** **No Estimate Available ( )**

	FY 1999-00	FY 2000-01	FY 2001-02	FY 2002-03	FY 2003-04
REVENUES					
State General Fund		-$2.1	-$2.1	-$2.1	-$2.1

PRINCIPAL DEPARTMENTS AFFECTED: Department of Revenue and Department of Commerce

EFFECTIVE DATE: Tax years beginning on or after January 1, 2000.

BILL SUMMARY: Adds a new investment tax credit that would be an alternative to the targeted 7% credit under the Bill Lee Act. The credit would apply to investments in machinery and equipment that meet the following conditions:

(1) Machinery and equipment is used in production that is based on technology licensed from a research university.
(2) Investment is located in a Tier 1, 2, or 3 county.
(3) Investment mounts to at least $10 million during the taxable year and at least $100 million over a five-year period.

If the investment amount is $100-$150 million during a five-year period, the credit is equal to 15% of the amount invested. If the amount is at least $150 million, the credit is 20%. The credit is available for 10 years of investments at a single location. The credit is taken in the year the investment in placed in service and is not required to be offset by machinery and equipment sold to another taxpayer if the new owner keeps the machinery and equipment in service in North Carolina. In addition, the credit is not required to be offset by machinery and equipment the taxpayer takes out of service at a separate location and was used in a business that is not competitive with the technology commercialization business. The credit may be taken against the income tax, the franchise tax, or both and may be carried forward 20 years.

ASSUMPTIONS AND METHODOLOGY: A review was made of planned investment activity, state tax liability, and existing Bill Lee Act credit usage data voluntarily supplied by a taxpayer planning a major project in a Tier 3 county in Southeastern North Carolina.

The major unknown is the potential additional tax loss from new or expanded investments that are stimulated by the incentives provided in the bill. Some issues affecting this activity are shown on next page.

Factors That Could Limit Fiscal Impact:

(1) The language in the proposed committee substitute limits eligibility in the following ways:

a. Size of investment: at least $100 million.
b. Location: Tiers 1, 2, or 3.
c. Production process at facility: based on technology licensed from a research university.

(2) A review of 1993-98 investment "announcements" compiled by the Department of Commerce indicates that only 20% of the number of announcements were located in Tiers 1-3. Many of the investments were not in manufacturing or processing industries.

(3) A conceptual point is that if a new or expanded investment is dependent upon the adoption of a particular incentive, the state's revenue loss will be from an economic activity that is not included in the baseline revenue forecast. In other words, if the investment does not take place, the bill would have no impact. In addition, the revenue forecasts used in the budget process have not built in a projection of the additional state and local tax revenues that will result from the investment decision.

(4) The cost of the new incentive would be offset to some extent by the cost of investment tax credits available under current law.

(5) The enhanced credit plus other Bill Lee Act credits taken cannot exceed 50% of tax due for a particular year.

(6) The special language in the bill having to do with the modification of the "net investment" test is fairly restrictive (see last paragraph in "Bill Summary").

Factors That Could Expand Fiscal Impact:

(1) There would be a revenue loss in traditional budgeting terms if the taxpayers making the new or expanded investment would do so without the proposed incentives.

(2) The new tax credits are substantially more lucrative to the taxpayer than the current Bill Lee Act investment tax credits.

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