NORTH CAROLINA GENERAL ASSEMBLY

LEGISLATIVE FISCAL NOTE

BILL NUMBER: Senate Bill 859 (First Edition)

SHORT TITLE: Interstate Reciprocal Tax Agreement

SPONSOR(S): Senator Webster, et al.

FISCAL IMPACT

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

	FY 2001-02	FY 2002-03	FY 2003-04	FY 2004-05	FY 2005-06
REVENUES					
General Fund					

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

EFFECTIVE DATE: This act is effective for taxable years beginning on or after January 1, 2002.

BILL SUMMARY: The bill allows the Department of Revenue to negotiate reciprocal agreements with Revenue agencies in bordering states to exempt from income tax the wages earned in this state by nonresidents. The Department may enter an agreement with a border state if 1) the state imposes an income tax similar to North Carolina, 2) the state agrees to exempt from its income tax wages earned in that state by North Carolina residents, and 3) the state has at least five years of experience with this type of agreement. Under a reciprocal income tax agreement, a nonresident will not file a North Carolina income tax return if the taxpayer's only source of North Carolina income is wages taxable in the taxpayer's home state. A reciprocal agreement would also relieve an employer from withholding North Carolina income tax on wages that are subject to withholding by the taxpayer's home state. The Department is required to begin negotiations with the Commonwealth of Virginia on a reciprocal income tax agreement and give a status report on these talks by March 1, 2002.

ASSUMPTIONS AND METHODOLOGY: Of the 14 states that have reciprocal personal income tax agreements, Virginia is the only state with such agreements that borders North Carolina. Virginia also meets all the requirements set out in SB 859. The Tax Research Division of the North Carolina Department of Revenue (Tax Research) was asked to report the amount of income tax paid by workers who cross the Virginia-North Carolina state line for employment. For 1999, Tax Research found that 37,000 returns with a Virginia address were filed in North Carolina with a net tax due of $65.8 million. Also in 1999, the Virginia Department of Taxation identified 24,000 returns with a North Carolina address with a net tax due of $26 million. Unfortunately, the tax returns are for all types of income. Tax Research stated that they "do not have the ability to separate earned income from unearned income, so the tax amounts that would be affected by the proposal are less than the totals shown."

Without complete income tax return data from the two states, the only way to approximate the revenue gain or loss from a reciprocity agreement with Virginia is to use Census data. Every ten years, the U.S. Census Bureau counts the number of commuters between states and reports its findings in "County to County Worker Flow Files". The 1990 data showed 20,626 North Carolinians working in Virginia and 13,290 Virginians working in North Carolina. The year 2000 commuting data will not be available until June 2002. Without this updated data, no estimate can be made of the fiscal impact of SB 859.

TECHNICAL CONSIDERATIONS:

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