NORTH CAROLINA GENERAL ASSEMBLY

LEGISLATIVE FISCAL NOTE

BILL NUMBER: HB 17

SHORT TITLE: Bank Interest Expense Deductions

SPONSOR(S): Representative John R. Gamble, Jr.

FISCAL IMPACT: Expenditures: Increase ( ) Decrease ( )
Tax years beginning on or after January 1, 1993.

PRINCIPAL DEPARTMENT(S)/PROGRAM(S) AFFECTED: Corporate Income Tax Collections - Department of Revenue.

Revenues: Increase (x**) Decrease ( )**
No Impact ( )
No Estimate Available ( )

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

BILL SUMMARY: Requires North Carolina financial institutions (primarily banks) earning tax-exempt income, to conform to Section 265(b) of the Internal Revenue Code when determining State taxable income. Current law allows interest income earned from obligations of the U. S. Government, the State of North Carolina, and obligations issued by North Carolina counties and cities to be exempt from State income tax. Under the proposed act, like other North Carolina corporations, financial institutions would be required to follow the federal law; i.e., They would not be allowed a deduction for interest on non-taxable income earned from obligations issued by the federal Government, State of North Carolina and North Carolina Counties and Cities.

--------1 "Obligations" are defined as all classes of indebtedness; bonds, notes, certificates of indebtedness Treasury bills, and other financial instruments that represent a financial obligation between two parties to borrow and pay back money at some future date.

EFFECTIVE DATE: 1-Mar-1993 Tax years beginning on or after January 1, 1993.

PRINCIPAL DEPARTMENT(S)/PROGRAM(S) AFFECTED: Corporate Income Tax Collections - Department of Revenue.

FISCAL IMPACT

	FY 93-94	FY 94-95	FY 95-96	FY 96-97	FY 97-98
REVENUES:					
GENERAL FUND	$54.0	54.0	54.0	54.0	54.0

ASSUMPTIONS AND METHODOLOGY: (1) If legislation were passed eliminating the interest expense deduction on non-taxable income, the relative return of these obligations will decline. (2) The ratio of interest income from tax exempt securities to total interest income remains relatively constant, but can be influenced by changes in the economy. (3) As the difference between the rate on treasury bills and and market rate of interest widens, institutions may shift into long-term instruments such as mortgages. The equation used to estimate the fiscal impact on State General Fund revenues is a ratio: Interest income from non-taxable obligations divided by total interest income from both taxable and non-taxable interest income.

TECHNICAL CONSIDERATIONS: The estimate is based on data for the top 10 financial institutions in North Carolina, holding approximately 92% of the industry assets.

SOURCES OF DATA: FDIC Statement of Condition and Income; 1991
Federal Reserve in Richmond, Virginia
Internal Revenue Code

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