NORTH CAROLINA GENERAL ASSEMBLY

LEGISLATIVE FISCAL NOTE

BILL NUMBER: HB 1165

SHORT TITLE: Incentives to Increase Charitable Giving

SPONSOR(S): Representative McMahan

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

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

BILL SUMMARY:

The bill does the following:

Exempts from sales and use tax the tangible personal property manufactured or purchased for resale by a wholesale merchant or retailer and then donated to a charitable nonprofit organization.

Expands the state corporate income tax deduction from charitable contributions.

Provides an income tax credit for a portion of charitable contributions made by individuals who do not itemize deductions on their income tax return.

EFFECTIVE DATE: Parts II and III are effective for taxable years beginning on or after January 1, 1997. The remainder of the bill is effective upon ratification.

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

FISCAL IMPACT

	FY 96-97	FY 97-98	FY 98-99	FY 99-00	FY 00-0
REVENUES:					
GENERAL FUND					
Sales Tax Exemption	($600,000)	($636,000)	($674,160)	($714,610)	($757,486)
Corporate Tax Deduction	tax loss ranges from $3.1 million to $4.4 million per year				
Non Itemizer Tax					

Credit	($12.6 M)	($12.76 M)	($12.9 M)	($13. M)

ASSUMPTIONS AND METHODOLOGY:

Part I. Sales Tax

Since 1992, medicine and food donated by a retailer or a wholesale merchant to a non-profit organization to be used for a charitable purpose have been exempt from sales tax. The Revenue Laws Study Committee proposed a bill to the 1995 General Assembly to broaden the tax exemption for donated goods to include all tangible personal property. Senate Bill 103 introduced by Senator Cochrane in the 1995 Session was approved by the Senate Finance Committee, but was held by Senate Appropriations.

Like Senate Bill 103, Part I of the bill exempts from sales and use tax all tangible personal property a business donates to a non-profit organization to be used for a charitable purpose. The current provision for donated food and medicine is no longer needed and thus repealed. The Department of Revenue estimates an annual $600,000 loss to the General Fund due to this exemption from the sales and use tax. The Department's estimate is inflated 6% each year to account for sales tax growth. This rate is slightly above the 5.6% growth rate projected for FY 1996-97, but below the 8.8% average growth rate experienced from 1992 to 1995.

Part II. Corporate Income Tax

Part II of the bill conforms the state corporate income tax deduction for charitable contributions to the federal code effective for taxable years beginning on or after January 1, 1997. First, it raises the cap on corporate contributions from 5% to 10% of a corporation's taxable income. Second, it allows the corporation to carry forward for five years any contributions that exceed the 10% cap.

The Tax Research Division of the Department of Revenue estimates the General Fund revenue lost due to this provision will range from $3.1 million to $4.4 million. The estimate was based on 1990 corporate income tax returns in which 24% of the returns had contributions exceeding 5% of their North Carolina net income. The data was projected to the 1996 tax year.

Part III. Individual Income Tax

Part III of the bill will allow a taxpayer who chooses the standard deduction on the North Carolina individual income tax return to receive a tax credit equal to 7% of the charitable contributions that exceed 2% of the taxpayer's adjusted gross income. This section is effective for taxable years beginning on or after January 1, 1997.

The Fiscal Research Division estimates that this credit will produce a minimum revenue loss to the General Fund of $12.6 million annually based on current giving patterns. For every 5% increase in charitable giving prompted by this credit, an additional $2 million in state revenues will be

lost. These estimates are based on charitable giving rates for non-itemizers provided by the Independent Sector, a non-profit coalition of over 800 corporate, foundation and voluntary organization members. The number of non-itemizers in North Carolina is based on estimates from the Department of Revenue's personal income tax model.
The FY 97-98 loss of $12.6 million is inflated 1% per year for the following years. The 1% growth rate is based on the actual growth in the number of individual income tax returns filed from 1989 to 1993.

SOURCES OF DATA: Department of Revenue

FISCAL RESEARCH DIVISION
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DATE: May 16, 1996