

**NORTH CAROLINA GENERAL ASSEMBLY
LEGISLATIVE FISCAL NOTE**

BILL NUMBER: SB 850
SHORT TITLE: Modify Franchise Tax Base
SPONSOR(S): Proposed Committee Substitute

FISCAL IMPACT: **Expenditures:** **Increase ()** **Decrease (X)**
 Revenues: **Increase ()** **Decrease (X)**

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

BILL SUMMARY:

The proposed act removes inventories from the **tangible property base** of the State's corporate franchise tax returns over a three year period. There are three schedules a corporation completes when determining how much franchise tax is owed to the State in a single tax year.

1. **Capital stock base**, (Schedule C)- The amount of capital stock, surplus, and undivided profits,
 2. **Tangible property base**, (Schedule D)- The actual investment in tangible property in the State,
- Appraised valuation base**, (Schedule E)- Fifty five percent of the appraised value of real and tangible property taxable in the State plus the value of intangible property in North Carolina.

In determining the tax due a corporation calculates its capital stock base, its tangible property base, and its appraised valuation base and pays the tax, at a rate of \$1.50 per \$1,000 in value, on the greater of the three bases. Each base is comprised of different factors that relate to the accumulation of capital and property at a particular time in the tax year. **The deduction is limited to 33% for tax year 1997, 66% for tax year 1998, and 100% in tax year 1999.** (Both domestic and foreign corporations are subject to the tax. The minimum tax liability is \$35.00.)

EFFECTIVE DATE: January 1, 1997

PRINCIPAL DEPARTMENT(S)/PROGRAM(S) AFFECTED:

(\$ Million)
 Estimate
FISCAL IMPACT

<u>FY</u>	<u>FY</u> <u>FY</u>	<u>FY</u> <u>FY</u>	1999-00	2000-01	2001-
02	1997-98	1998-99			
REVENUES:					
GENERAL FUND	\$(8)-(10)	\$(17)-(21)	\$(27)-(34)	\$(29)-(37)	
\$(31)-(34)					

ASSUMPTIONS AND METHODOLOGY:

In order to determine the impact of this proposal the Department of Revenue prepared a sample of franchise tax returns for fiscal year 1992-93. The sample included 4,000 returns and was arranged to provide information on the franchise tax liability of businesses having a tax liability of less than \$100,000 and businesses having a tax liability of \$100,000 or greater; striated sample. The growth in franchise tax collections is 8% a year.

SOURCES OF DATA:

The Tax Research Division of the Department of Revenue

FISCAL RESEARCH DIVISION

733-4910

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APPROVED BY:

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