

**NORTH CAROLINA GENERAL ASSEMBLY  
LEGISLATIVE FISCAL NOTE**

**BILL NUMBER** House Bill 295 ( **Third Edition**)  
**SHORT TITLE:** No Tax on Intangible Property  
**SPONSOR(S):** Representative Cansler, et al.

<b>\$ ESTIMATE FISCAL IMPACT</b>					
	Yes ( )	No ( )	No Estimate Available (X)		
	<u>FY 1997-98</u>	<u>FY 1998-99</u>	<u>FY 1999-00</u>	<u>FY 2000-01</u>	<u>FY 2001-02</u>
<b>REVENUES</b>					
Local					
					See section on assumptions and methodology
<b>PRINCIPAL DEPARTMENT(S) &amp; PROGRAM(S) AFFECTED:</b>					Local units of government that levy a property tax
<b>EFFECTIVE DATE:</b>	July 1, 1997				

**BILL SUMMARY:**

The proposed act exempts intangible property such as patents, copyrights, secret processes, formulae, goodwill, trademarks, trade brands, and franchises from the property tax when such property is separately listed. The act does not prevent intrinsic intangible variables from being considered when determining the value of taxable property under one of the accepted valuation techniques recognized by the International Association of Assessing Officers.

**BACKGROUND**

In 1985, the General Assembly repealed the intangibles tax on the following types of personal property: cash on deposit in banks, cash on deposit with insurance companies, cash on hand, and certain accounts receivable. Ten years later, effective for tax year 1995, the General Assembly repealed the tax on intangible personal property such as stocks, bonds, mutual funds, and accounts receivable. Under current law a property tax could still be levied upon the value of such assets as patents, copyrights, secret processes, formulae, good will, trademarks, trade brands and franchises. At the beginning of tax year 1997, twenty three counties asked taxpayers to list these intangible assets on their 1997 business personal property tax form. Prior to this date, only several counties were listing this type of property.

**ASSUMPTIONS AND METHODOLOGY:**

The act is not expected to significantly reduce the current value of real, personal, and public service property statewide, for two reasons. First, before January 1, 1997 most county tax assessors were not asking for this type of property to be listed. The property tax is not due before September of 1997 and the effective date for this act is July 1, 1997. If this act becomes law, the tax on this type of intangible property will be exempt before the September 1997 due date.

Secondly, the act does not prevent the inherent element of intangible property from consideration in determining true market value of both real and personal property. General Statute 105-283, requires that all real and personal property be valued at its true market value. In order to carry out this statutory requirement, assessors use three recognized methods to appraise property: The income approach, the cost approach, and the market approach. Each method may reflect the intrinsic intangible values, if evident, in the valuation of property.

Some examples of values that are considered intangibles under the income approach are gross rental income, leasehold interest, return on investment, the net income a property is capable of generating, and the economic life of an asset. Intangible cost used in calculating value by the cost approach can be architectural, labor, shipping, and installation costs. Under the market approach, it is unlikely that two exact properties can be compared. Property appraisers must consider comparable intangible values such as the value of a location, and the value of similar equipment that has recently sold.

The N. C. Association of County Commissioners sent a questionnaire to all 100 counties asking for the types of intangible business personal property listed on their tax rolls. Fifty eight counties responded. Only four counties, Cumberland, Duplin, Graham, and Wake, reported that they tax franchises. In addition to franchises Cumberland reported that they have patents listed on their tax roll. Fourteen counties reported leasehold interest as a listing. Wake County was the only county that reported listing each of the following types of property: patents, copyrights, secret processes, formulae, trademarks, franchises, and leasehold interest. Leasehold property is not exempt under this act.

In a separate questionnaire, Wake County reported a total value of \$32.1 million for all intangible property. The County's tax rate for 1996 was \$.63 cents per \$100 in value. The revenue loss associated with this rate is \$202,230. Durham County indicated values had been listed in 1996 for franchises but did not give a value.

**SOURCES:**

Business Personal Property Manual; North Carolina Department of Revenue.

Valuation of Intellectual Property and Intangible Property, Second Edition; Smith and Parr.

The N. C. Association of County Commissioners

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**Official**



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