

NORTH CAROLINA GENERAL ASSEMBLY

LEGISLATIVE FISCAL NOTE

BILL NUMBER: HB 326 (First Edition)
SHORT TITLE: Subsidiary Dividend Deductions
SPONSOR(S): Representatives Gamble and Luebke

FISCAL IMPACT					
	Yes (X)	No ()	No Estimate Available ()		
	(\$Million)				
	<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>
REVENUES					
General Fund	\$13.5	\$31.4	\$33.0	\$34.6	\$36.3
EXPENDITURES					
PRINCIPAL DEPARTMENT(S) & PROGRAM(S) AFFECTED:	Department of Revenue				
EFFECTIVE DATE:	Effective for taxable years beginning on or after January 1, 1998.				

BILL SUMMARY: Since 1969, only a corporation domiciled or based in North Carolina that holds more than 50% of the outstanding voting stock of a subsidiary may deduct the dividends it receives from that subsidiary. Recent U.S. Supreme Court cases have found that a state cannot discriminate in favor of local commerce against out-of-state commerce. Legislative and Attorney General attorneys believe the subsidiary dividend law discriminates against out-of-state companies and suggest the law be changed before it is challenged in court. The bill would extend the subsidiary dividend deduction to out-of-state corporations and to subtract up to 15% of income related expenses from the dividends before the dividends are deducted.

ASSUMPTIONS AND METHODOLOGY: The Tax Research Division of the Department of Revenue estimates the proposed change in the subsidiary dividend deduction will generate \$29.9 million a year for the General Fund when fully implemented. The revenue gain for FY 1997-98 will be approximately \$13.5 million, because corporations will pay only two estimated payments in the first six months of the tax year. The Department of Revenue believes a 5%

growth rate is appropriate for estimating future years. The Department of Revenue hopes to revise their estimate by mid April 1997 when more recent corporate income data becomes available.

FISCAL RESEARCH DIVISION

733-4910

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