

**NORTH CAROLINA GENERAL ASSEMBLY  
LEGISLATIVE FISCAL ESTIMATE**

**BILL NUMBER:** House Bill 275 (Third Edition)

**SHORT TITLE:** Zero ESC Tax/Training Contribution

**SPONSOR(S):** Representative Redwine

<b>FISCAL IMPACT (\$Mill.)</b>					
	<b>Yes (X)</b>	<b>No ( )</b>	<b>No Estimate Available ( )</b>		
	<b><u>FY 1999-00</u></b>	<b><u>FY 2000-01</u></b>	<b><u>FY 2001-02</u></b>	<b><u>FY 2002-03</u></b>	<b><u>FY 2003-04</u></b>
<b>REVENUES</b>					
Unemployment Insurance Trust Fund:					
Zero ESC Tax	(-.9)	(\$1.2)	(\$1.3)	(\$1.4)	(\$1.5)
20% UI Tax Cut	(-28.1)	(-72.0)	(-44.9)		
Training & Emp. Account:					
20% Contribution	27.5	70.6	44.0		
80% Earmarking	22.0	56.5	35.2		
20% Earmarking	5.5	14.1	8.8		
<b>PRINCIPAL DEPARTMENT AFFECTED:</b> Employment Security Commission (ESC)					
<b>EFFECTIVE DATE:</b> The zero tax rate for certain employers is effective with respect to calendar quarters beginning on or after April 1, 1999. The UI tax cut is effective for calendar quarters beginning January 1, 2000 and ending January 1, 2002.					

**BILL SUMMARY:** (1) Grants a **zero unemployment insurance tax rate** to employers with a credit ratio of 4% or greater. Currently, those employers with a 5% or greater credit ratio pay the zero tax rate. (2) Temporarily **reduces Unemployment Insurance Taxes** for most employers **by 20% and levies a 20% "contribution"** to be used by the Department of Community Colleges for worker training programs (80% of proceeds) and enhanced reemployment services administered by Employment Security Commission (20% of proceeds).

## **ASSUMPTIONS AND METHODOLOGY:**

(1) **Zero ESC Tax.** As of April 30 1999, the balance in the Unemployment Insurance Trust Fund stood at \$1.22 billion. In addition, a reserve fund contains an additional \$200 million, due to the Fund's solvency and North Carolina's low unemployment rate, the Employment Security Commission (ESC) recommends a zero tax rate for an additional group of employers with a credit ratio. A credit ratio means that an employer has paid in more money to the Unemployment Insurance Trust Fund than has been deducted from its account for UI benefits paid to employees. ESC estimates that this bill will reduce unemployment insurance taxes for 10,000 employers with a 4% credit ratio in 1999. With an additional 6,400 employers reaching the 4% credit ratio each year, ESC estimates that 38,000 employers will benefit from this zero tax rate by 2004.

(2) **UI tax cut.** ESC provided estimates of the impact for the 2000 and 2001 calendar years. Based on technical discussions between ESC and FRD, an estimate of \$68.7 million for 2000 and \$73.4 million for 2001 was used. This estimate is about 10% lower than the original ESC projections and does not include interest earnings. A 6.9% growth rate was used to convert 2000 to 2001 liability.

The calendar year estimates were converted to a fiscal year basis by taking into account the one-quarter tax collection lag (taxes accrued on January-March earnings are collected in April) and the fact that historically about 40% of annual taxes are collected for the first quarter liability.

### **FISCAL RESEARCH DIVISION 733-4910**

**PREPARED BY:** Richard Bostic, Dave Crotts

**APPROVED BY:** Tom Covington

**DATE:** Thursday, May 27, 1999



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