

**NORTH CAROLINA GENERAL ASSEMBLY**

**LEGISLATIVE FISCAL NOTE**

**BILL NUMBER:** House Bill 490 (First Edition)  
**SHORT TITLE:** Expand Corporate Charitable Deduction  
**SPONSOR(S):** Rep. Ed McMahan, et al.

<b>FISCAL IMPACT</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>					
<b>General Fund</b>	-	<b>\$4.6 million to \$6.2 million annual loss</b>			
<b>PRINCIPAL DEPARTMENT(S) &amp; PROGRAM(S) AFFECTED:</b> Department of Revenue					
<b>EFFECTIVE DATE:</b> This act is effective for taxable years beginning on or after January 1, 2000.					

**BILL SUMMARY:**

HB 490 increases the allowable annual deduction from the corporate income tax for charitable contributions from 5% to 10% and provides for a five year carry-forward for deductions in excess of 10%.

**BACKGROUND:**

North Carolina caps most corporate charitable contributions at 5% of the corporation's North Carolina taxable income. Contributions not subject to the 5% cap are those made to the state of North Carolina, North Carolina agencies and political subdivisions, and North Carolina nonprofit educational institutions. Federal law allows a cap of 10% of the corporation's taxable income and allows those contributions that exceed the 10% cap to be carried forward for the next five years. North Carolina law does not permit a carry forward of excess contributions.

**ASSUMPTIONS AND METHODOLOGY:**

Since corporate tax return data is confidential, the Tax Research Division of the Department of Revenue provided the fiscal estimate for corporate charitable deductions. The Department estimated that raising the limit on deductible contributions from 5% to 10% of net income would produce a General Fund revenue loss of \$3.7 million to \$5 million a year. In addition, providing a 5 year carry forward would cost \$900,000 to \$1.2 million a year. The Department based its estimate on a review of 32,022 corporate income tax returns from the 1994 tax year. Only

11,155 (35%) of these returns had a tax liability. Of the taxable returns, 69% of the corporations contributed less than 5% of their net income in 1994. The remaining 31% of the corporations filing a taxable return in 1994, contributed more than 5% of their net income. The Department adjusted the 1994 data to tax year 2000 by using an 11.5% inflation rate. This rate was derived from both national data on corporate giving as reported in the Statistics of Income Bulletins and on North Carolina corporate tax return data.

**FISCAL RESEARCH DIVISION 733-4910**

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