

NORTH CAROLINA GENERAL ASSEMBLY

LEGISLATIVE FISCAL NOTE

BILL NUMBER: House Bill 1559 (First Edition)

SHORT TITLE: Conform with Federal Law

SPONSOR(S): Representative Luebke, et al.

FISCAL IMPACT					
	Yes (X)	No ()	No Estimate Available ()		
	(\$ Million)				
	<u>FY 2000-01</u>	<u>FY 2001-02</u>	<u>FY 2002-03</u>	<u>FY 2003-04</u>	<u>FY 2004-05</u>
REVENUES					
General Fund					
Conform Tax Deadline			No fiscal impact		
Clarify Sales Factor			No fiscal impact		
IRC Update *	-2.03	-4.35	.65	.85	.60

* Due to the timing of estimated payments of corporations and high-income individuals, the \$1.37 million revenue gain anticipated in FY 1999-00 may carry forward to FY 2000-01.

PRINCIPAL DEPARTMENT(S) & PROGRAM(S) AFFECTED: Department of Revenue

EFFECTIVE DATE: The act is effective when it becomes law.

BILL SUMMARY: Section one of the bill updates the reference to the Internal Revenue Code used in state tax provisions from June 1, 1999, to January 1, 2000. Section two conforms state statutes with federal law regarding deadlines for payments of certain estimated income taxes. Section three clarifies in the corporate apportionment formula that receipts of a multistate corporation should only include the net gain realized from the sale or maturity of securities, not the rolled over capital or return of principal.

ASSUMPTIONS AND METHODOLOGY:

Conform Estimated Tax Deadline

There is no fiscal impact of this section because it codifies the administrative practice of the Department of Revenue. This section recognizes the federal forgiveness of penalties for late payment of estimated taxes by farmers and fishermen if the final return is filed, with taxes paid in full, by March 1 following the end of the taxable year. Even though the state law has been out of conformity with the federal law since 1985, state administrators and tax preparers have been following the federal law.

Clarify Sales Factor

There is no fiscal impact of this section because it codifies the administrative practice of the Department of Revenue. The Department believes that “gross receipts for the purpose of computing the sales factor should only include net gain, and not the rolled over capital or return of principal, realized from the sale or maturity of securities.” A New York securities firm has filed a protest of this departmental interpretation. The North Carolina Attorney General ruled in favor of the Department on a similar issue in 1983, but has not issued an official opinion on this exact topic. While passage of this section has no fiscal impact, failure to approve this measure and clarify the sales factor in the statute, puts the state at risk of losing a minimum of \$3 million a year. This estimate is based on a limited review of audit cases and protests by the Department of Revenue’s Corporate, Excise and Insurance Tax Division.

IRC Update

Since North Carolina individual and corporate income tax tracks the federal income tax law, it is necessary each year to update state statutory references to the Internal Revenue Code (I.R.C.). President Clinton signed the Tax Relief Extension Act of 1999 into law on December 17, 1999. Department of Revenue officials and legislative staff have determined that some of the provisions in this act have an impact on the state's tax laws. The attached chart shows the fiscal impact of the bill based on estimates by the Congressional Joint Committee on Taxation. The North Carolina percentage of the national estimate is based on actual tax collections. The national estimates are further adjusted for the state fiscal year. Section 4 clarifies that any changes that increase North Carolina taxable income for 1999 taxable year become effective for taxable years beginning on or after January 1, 2000.

Tax Relief Extension Act of 1999 - Impact on General Fund

	Fiscal Year (\$ Millions)						
	Effective Date	2000	2001	2002	2003	2004	2005
Individual Income Tax							
Extend exclusion for employer-provided education assistance through 12/31/01	05/31/2000		-1.15	-2.30	-0.95		
Deny charitable contribution deduction for transfers associated with split-dollar insurance arrangements	02/08/1999	Negligible Revenue Effect					
Individual and Corporate Income Tax							
Extend the work opportunity and the welfare to work tax credits through 12/31/01	06/30/1999	-0.30	-0.43	-0.40	-0.21	-0.08	-0.03
Extend expensing of environmental remediation expenditures through 12/31/01	12/17/1999		-0.23	-0.32	-0.11	-0.01	-0.01
Provide that Federal Farm Production Payments are taxable in the year of receipt	12/17/1999	Negligible Revenue Effect					
Prohibit the use of the installment method by accrual method taxpayers	iso/a 12/17/1999	2.59	3.67	2.20	1.39	0.39	0.04
Clarify the tax treatment of income and losses on derivatives	12/17/1999	0.00	0.01	0.01	0.01	0.01	0.01
Limit conversion of character of income from constructive ownership transactions	teio/a 7/12/1999	0.08	0.24	0.25	0.27	0.28	0.29
Allow employers to transfer excess pension assets used for retiree health benefits through 12/31/05	tmi tyba 12/31/2000		0.10	0.21	0.21	0.22	0.23
Corporate Income Tax							
Reduce basis in assets for distributions by a partnership to a corporate partner of stock in another corporation	07/14/1999	0.01	0.02	0.04	0.05	0.05	0.05
Extend exceptions under subpart F for active financing income through 12/31/01	tyba 12/31/1999	-1.01	-4.26	-4.03			
Total General Fund Impact		1.37	-2.03	-4.35	0.65	0.85	0.60

NOTES:

1) North Carolina estimates are based on a percentage of the federal estimate calculated by the Congressional Joint Committee on Taxation.

The percentage used is N.C. actual tax collections divided by national tax collections. (Individual = .723%
Corporate = .542%)

iso/a = installment sales on or after

teio/a = transactions entered into on or after

tmi = transfers made in

tyba = taxable year beginning in

FISCAL RESEARCH DIVISION 733-4910

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