NORTH CAROLINA GENERAL ASSEMBLY

LEGISLATIVE FISCAL NOTE

REVISED

BILL NUMBER: House Bill 1631 (First Edition)

SHORT TITLE: Create New Jobs/Recruit New Business.-AB

SPONSOR(S): Representatives Miner, Owens, and G. Allen

FISCAL IMPACT ($MILLION)

Yes (X) **No ( )** **No Estimate Available ( )**

	FY 2004-05	FY 2005-06	FY 2006-07	FY 2007-08	FY 2008-09
REVENUES:					
General Fund					
Corp. Tax Exempt.	(32.9)	(33.6)	(34.2)	(34.9)	(35.6)
Sales Tax Refunds	(3.6)	(5.8)	(5.9)	(6.0)	(6.0)
R & D Tax Credit	(18.6)	(18.5)	(22.0)	(23.4)	(24.7)
QBV Credit	0	(3.0)	(3.0)	(3.0)	(9.0)
IRC Update	(2.6)	(5.0)	(5.5)	(6.1)	(6.6)
Net General Fund	(57.7)	(65.9)	(70.6)	(73.4)	(81.9)
Local Govts	(1.7)	(3.1)	(3.3)	(3.3)	(3.5)
EXPENDITURES:					
General Fund					
One N.C. Fund	20.0	20.0	20.0	20.0	20.0
Job Dev. Inv Grant	20.3	40.0	60.0	80.0	100.0
Net General Fund	40.3	60.0	80.0	100.0	120.0

PRINCIPAL DEPARTMENTS AFFECTED: Department of Revenue and the Department of Commerce.

EFFECTIVE DATE: (See Bill Summary)

BILL SUMMARY:

Corporate Income Tax Exemption. Allows corporations to exempt from tax the first $10,000 of taxable income for the 2004 tax year and $20,000 for later years. The corporate income tax is levied at the rate of 6.9% of taxable income (income after allowable deductions), with 7.25% of the proceeds allocated to school facilities assistance. In order to hold harmless the dollar amount of school facilities assistance, the earmarking formula is raised to 7.36% for the period October 1, 2004 to September 30, 2005 and to 7.44% for later periods.

One North Carolina Fund. Creates a special non-reverting fund in the Department of Commerce for financial assistance to businesses and appropriates $20 million annually to the fund. The proceeds of the fund may be used for buildings, equipment, and utility infrastructure. This change becomes effective July 1, 2004.

Job Development Incentive Grant. (1) Extends the sunset on the Job Development Incentive Gant program from January 1, 2005 to January 1, 2009; (2) expands the annual cap on grants awarded from $10 million to $20 million; (3) increases the maximum number of grants awarded per year from 15 to 25; (4) deletes the requirement for businesses that receive grants to submit state and federal tax returns annually in lieu of allowing returns to be requested by the Economic Investment Committee; and (5) authorizes the Secretary of Commerce to transfer up to $300,000 per year from the Utility Account to support the Job Development Incentive Grant Program. The utility account change becomes effective July 1, 2004. The remaining changes are effective when the bill becomes law.

Sales Tax Refunds and Exemptions. Addresses sales tax refunds and exemptions. During the 2003 Special Session, the General Assembly authorized sales tax refunds of sales tax paid on building materials, building supplies, fixtures, and equipment that become part of the real property of an eligible facility. Facilities are considered eligible if at least $100 million will be invested in constructing the facility, as certified by the Department of Commerce, and the primary industry for which the facility will be used is bioprocessing or pharmaceutical manufacturing. Section 4.1 expands the list of eligible industries to include aircraft manufacturing, motor vehicle manufacturing (including military vehicle manufacturing), and semiconductor manufacturing. It also clarifies that building materials, building supplies, fixtures, and equipment are only eligible for a sales tax refund if they are installed in the construction of the facility. It further clarifies that the cost of land acquisition and preparation are to be included in the calculation of facility cost. These changes are effective for purchases made on or after January 1, 2004. Sections 4.2 and 4.3, in total, provide a sales tax exemption for sales of aircraft parts and lubricants if they become component parts, or are dispensed, during the repair, maintenance, or overhaul of a commercial aircraft. This becomes effective October 1, 2004.

Research and Development Tax Credit. Moves the State research and development credit out of the Bill Lee Act and allows taxpayers the option of using the existing credit system (incremental credit or alternative credit) or a new restructured credit. Under the current Bill Lee Act (tax incentives for industry recruitment) there is a credit for research and development expenditures. There are two alternative credits available to taxpayers: (1) a credit of 5% of the increase in research and development expenses that are apportioned to North Carolina; and (2) a credit of 25%

of the State's apportioned share of the federal alternative incremental credit (helps start-up companies).

The new credit contains the following features:

- The credit is no longer limited to just certain types of businesses.
- The taxpayer must still satisfy requirements relating to wage standard, health insurance, environmental impact, and safety and health programs.
- The credit may not exceed 50% of tax, with a 15-year carryforward.
- The new credit is a flat rate for qualified North Carolina research expenses, based on federal definitions of this term.

The structure for the new credit is as follows:

- Small business (annual gross receipts below $1 million) – 3%.
- Research conducted in Tier 1, 2, or 3 (distress tiers under Bill Lee Act) - 3%.
- Other research costs - 1% for expenses up to $50 million, 2% for expenses between $50 million and $200 million, and 3% for expenses above $200 million.
- Research payments to N.C. research universities - additional credit of 15%.

The new credit system is effective for tax years beginning on or after January 1, 2004 with the exception of the university research credit (January 1, 2005).

Industrial Revenue Bonds. Removes the wage standard from the industrial revenue bond program. Under the industrial revenue bond program in North Carolina, a local financing authority enters into financing agreements with manufacturers. Under the agreement, the authority issues tax-free revenue bonds with the proceeds being used by the company to finance land, buildings, and equipment. The amounts paid by the company to the authority under the financing agreement must be sufficient to pay the debt service on the bonds. To qualify for the financing, the manufacturer must pay an average weekly manufacturing wage that is either above the average weekly manufacturing wage in the county or is at least 10% above the average weekly manufacturing wage in the State.

Qualified Business Investment Credit. Raises the annual credit limit from $6 million to $9 million, effective beginning with the 2004 tax year and extends the sunset from January 1, 2007 to January 1, 2009.

Internal Revenue Code Reference. Updates the statutory reference to the Internal Revenue Code used in defining and determining certain state income tax provisions from June 1, 2003 to January 1, 2004.

Site Development and Recruitment. (1) Expands permissible uses of the Site Infrastructure Development Fund to include acquisition and holding of options for the purchase of land; and (2) allows Department of Commerce to contract for preparation of proposals and reports connected with industrial location and expansion.

ASSUMPTIONS AND METHODOLOGY:

Corporate Income Tax Exemption. The starting point for the analysis is a tabulation of 2001 tax year corporate income tax returns by the Department of Revenue. The tabulation was based on a grouping of tax returns by taxable income amount. For each statistical reporting bracket, data on the number of returns, taxable income, and tax liability was shown. This data allowed for the determination of "average taxable income" and "average tax liability" for each bracket.

The next step was to grow the 2001 data to 2005. This process is complicated due to the fact that during a period of economic recovery the growth rates for the number of returns and the average taxable income per return differ by statistical reporting bracket. For example, the typical experience is for the number of smaller returns to decline slightly while the largest reporting bracket ($1 million and over) rises exponentially. The average taxable income per bracket is relatively stable over time for smaller and medium-sized taxpayers but the amount for the highest brackets will increase at a very high rate.

The forecast of number of returns and average return size was accomplished by a review of the experience of three other states (Wisconsin, Utah, Virginia) for the mid-1990's period in addition to the 1990-94 North Carolina data. The other states were selected because of the availability of distribution data and the absence of major tax changes. The mid-1990's data was used because of the feeling that overall economic conditions during 2001-05 would be similar to the earlier time frame.

In addition, a projection of overall corporate income tax liability for 2005 was developed using the national forecasts of pre-tax corporate profits by Global Insight (used by Office of State Budget and Management) and Economy.com (used by Fiscal Research Division). The national outlook firms indicated that corporate profits should expand by 78-96% from 2001 to 2005. However, historical data indicates that federal and state tax bases have not kept up with the improvement in profitability over time due to a multitude of factors including the shift of business organizations to S corporation tax status and other types of corporate organizations, as well as efforts to minimize tax liability.

For this reason this analysis assumes that the state tax base will increase by 45% during this period. The original projection of the number of returns and average liabilities was then fine-tuned to reconcile the total tax base using the distribution analysis to the amount using the tax base growth estimate. This adjustment took place largely in the upper statistical reporting brackets because of the sensitivity of these taxpayers to economic conditions. The adjustment had little practical impact on the estimate of the impact of the bill because under the bill the relief applies exclusively to corporations with the smallest taxable incomes.

The result of the analysis is that the projected 2005 statistical reporting bracket data can be used as a tax calculator to determine the impact of a policy change. The first step of this methodology is to determine the impact of the change on the average tax return in each bracket is calculated. This calculation is repeated for each statistical reporting bracket. The results for each bracket are then weighted by the number of returns in each bracket to come up with the total impact.

The calculation of the impact on the State General Fund includes the additional cost of 2.9% of the gross amount of the relief in order to hold harmless the dollar amount of the school facilities finance fund

One North Carolina Fund. This is a straight appropriation of $20 million each year. Since the current continuation budget has no funding for One North Carolina, the annual impact would be $20 million.

Job Development Investment Grant. Expanding the annual cap on grants awarded from $10 million to $20 million will increase the potential liability by $20 million each year the sunset on JDIG is extended. Therefore, in the first year, the fiscal impact will be $20 million, the second year, $40 million, the third year, $60 million and so on. Extending the sunset to 2009 will have a potential cumulative fiscal impact of $150 million. The actual impact will depend upon how quickly the companies awarded the grants begin operations. Since the amount of the grant is determined by the company's withholdings, the company would have to have employees working before they would be eligible for their first grant payment. For instance, if a company is awarded a grant in the 2004 calendar year and hires employees that same year, the first grant disbursement will be made in the 2005 fiscal year. However, it is likely that some of the grants awarded in one calendar year will not actually impact the state budget until one or two years later. This would be the case if a grant were awarded to a company that doesn't plan on beginning operation in the same year.

Companies that locate in Tiers 4 or 5 get only 75% of their grant award. The other 25% of the grant is deposited into the Utility Account. To date, no payments have been made into the Utility Account from JDIG and there is no balance in the account. Since this bill authorizes the Department of Commerce to transfer up of $300,000 from the Utility Account to support the JDIG program beginning July 1, 2004, an appropriation would be required for the first fiscal year.

Sales Tax Refunds and Exemptions. The bill modifies and expands the sales tax refund provisions for major projects approved by the General Assembly during the 2003 Special Session. During that session, the General Assembly passed HB 2, which authorized sales tax refunds for projects representing at least $100 million in facility investment. This special tax treatment was extended only to the bioprocessing and pharmaceutical manufacturing industries. This bill expands that provision in three ways. First, it extends this sales tax incentive to aircraft manufacturing, motor vehicle manufacturing, and semiconductor manufacturing. Estimates for this provision were produced by the North Carolina Department of Commerce, based on its past experience with this type of project. Its estimate assumes that 1) North Carolina would have no more than one $100 million investment per year, 2) construction materials would make up 40% of the typical construction cost, and 3) refund accounts for the state portion of the sales tax would be at 4.5%. Adjustments were made to the final number in the fiscal estimate box to account for the sunset of the most recent State one-half percent and the effective date. A local loss estimate is also included, based on the previous methodology. The second change clarifies what is included in the facility cost, for purposes of meeting the $100 million investment requirement. Specifically it states that the costs of construction include the cost of acquiring and improving the land for the facility, as well as equipping that same facility. Because this merely clarifies current practice, no fiscal impact is expected. The third change clarifies that this sales tax refund applies only to sales

of building materials, building supplies, fixtures, and equipment when they are installed during construction. Purchases for later repairs and renovations are not afforded this special tax treatment. This provision follows current practice at the Department of Revenue and, therefore, will have no fiscal impact.

The bill also provides a new sales tax exemption for aircraft maintenance. Under current law, sales of aircraft lubricants, aircraft repair parts, and aircraft accessories to an interstate air courier or a passenger air carrier at the courier's or carrier's hub are exempt. The legislation expands the current exemption by eliminating the requirement that the sale take place at a hub, by allowing the exemption for sales to an interstate freight carrier, and by allowing the exemption for sales to a person who leases commercial aircraft to an interstate air business. This expanded exemption is limited exclusively to commercial aircraft that have a maximum certified take-off weight of more than 12,500 pounds. In December 2003, Tax Research estimated that exempting all aircraft parts and accessories would cost the state two to six million dollars annually. Because this estimate did not include lubricants, a number slightly above the mid-point (five million) was used as a proxy for the total cost of exempting all parts, accessories and lubricants. Conversations with state pilots and military personnel, and their review of aircraft documents, suggest the 12,500-pound weight limit effectively excludes most general aviation aircraft from the exemption. According to the Federal Aviation Administration's (FAA) Administrator's most recent Fact Book (March 2004), approximately 79.8% of all licensed aircraft in the state are non-general aviation. Using this number as a proxy for the proportion of total sales that would be covered by the new exemption suggests an annual State cost of $3.99 million. The State estimate is reduced in the out years to reflect the expected reduction of the State sales tax rate in 2005, and both State and local costs are increased in the out years to reflect the Air Force's procurement annual inflation index of 2%.

The total revenue impact of the sales and use tax changes in HB 1631 is as follows:

	2004-05	**2005-06**	**2006-07**	**2007-08**	**2008-09**
TOTAL					
State	-3.6	-5.8	-5.9	-6.0	-6.1
Local	-1.7	-3.1	-3.3	-3.3	-3.5

Research and Development Tax Credit. Data compiled by the Department of Revenue from a review of the tax returns of taxpayers taking the existing credit indicates usage of $7.0 million per year. There were 216 applications for the credit in 2000 and 141 in 2001. These numbers may differ from the number of taxpayers taking the credit due to the fact that the credit can be taken against either the franchise or the income tax.

The Department of Commerce staff, in conjunction with the Department of Revenue, has reviewed the tax returns for the largest 25 taxpayers taking the current R & D credit. These companies generated 77% of the R & D credit for 1999-2001. From the tax return detail supplied by these companies Commerce was able to simulate the impact of the new credit.

For other potential users the starting point in developing a simulation was a National Science Foundation survey of R & D spending for 1988. The data is compiled by state but is not broken down in enough detail to allow an industry-specific calculation of the impact of the credit. To

achieve this end, Commerce "sensitized" the NSF data by using information from the 1997 Economic Census of the Census Bureau (U.S. Department of Commerce) and wage data from the N. C. Employment Security Commission. This enabled the creation of industry average of research and development spending. In addition, Commerce discussed research activity with universities across the state.

The Department of Commerce, in cooperation with the Department of Revenue, determined from a review of tax returns that companies applying for the R & D credit, on average, are able to use 32% of the credit. This usage rate was applied to the categories of the new credit.

After the potential credits were calculated under the new system, it was determined that the additional annual revenue loss would be $13.2 million for the 2005 tax year if all taxpayers were able to use the new credit. However, the ability of a taxpayer to choose between the existing credit system and the new credit adds $3.0 million to the cost of the bill.

The new credit is effective for eligible research expenditures made on or after January 1, 2004 except for the January 1, 2005 effective date for the university research credit. The fiscal impact for the 2004-05 fiscal year will be equal to the sum of the fully annualized impact of the 2004 tax year plus the effect of reduced April and June 2005 estimated tax payments for the 2005 tax returns (including the university research credit). For the purpose of this analysis we have assumed that 45% of the annualized amount of the 2005 credit would be taken during the April-June 2005 period based on the "safe harbor" provision requiring estimated payments of at least 90% of annual liability during the tax year (for four payments).

For future years the annual impact of the credit overhaul is expected to grow at a rate of 6%. This assumption ties closely to the forecast of North Carolina personal income growth as projected by Global Insight (forecasting firm used by Office of State Budget and Management) and Economy.com (forecast used by Fiscal Research Division). The future fiscal year estimates are based on the assumption that 45% of the annual tax year impact will occur during the April-June period of the tax year and the remainder during the July-March period (subsequent fiscal year).

Finally, the estimates have been adjusted for the fact that, under current law, the Bill Lee Act credits for research and development sunset on January 1, 2006.

Qualified Business Investments Tax Credit. The bill raises the cap from $6 million to $9 million for the General Fund revenue loss from the tax credit. This fiscal analysis assumes the credit maximum will be reached based on program history. The amount of credits applied for exceeded the current $6 million cap five out of seven years between 1997 and 2003 (see the following chart). The amount of tax credit applications has exceeded the proposed $9 million cap twice in the last seven years.

Year Credit Claimed	Individuals	Corporations/ Pass-Throughs	Total
1997	2,322,317	3,677,683	6,000,000*
1998	4,235,771	1,108,870	5,344,641
1999	4,714,892	1,285,108	6,000,000*
2000	4,221,732	1,778,268	6,000,000*
2001	3,612,777	2,387,223	6,000,000*
2002	$4,179,918	$1,820,082	$6,000,000*
2003	$4,064,764	$1,530,349	$5,595,113
	$45,696,368	**$17,779,425**	**$63,475,793**
*In these years, total credits requested exceeded $6 million. Actual requests were as follows:			
	1997	$9,250,000	
	1999	6,450,000	
	2000	7,000,000	
	2001	19,000,000	
	2002	$7,825,000	

The $3 million increase in the QBV credit in 2004 will have a revenue impact in FY 2005-06. The revenue loss from tax year 2004 is delayed because investments are made in 2004, applications for the tax credit on the 2004 investments are made in 2005, the Department of Revenue notifies taxpayers in November/December of 2005 of the amount of credit they will receive, then the taxpayers file their tax returns in spring 2006.

This section of the bill also extends the sunset of the Qualified Business tax credit from 2007 to 2009. Since the General Fund revenue forecast for future fiscal years assumes an end to the Qualified Business tax credit program, extension of the sunset to 2009 means there will be a General Fund revenue loss in FY 2008-09 and FY 2009-10. As explained above, the 2007 tax year credits are a revenue loss to the state in FY 2008-09 and the 2008 tax year credits are a revenue loss in FY 2009-10. It is assumed that the full $9 million cap will be reached each fiscal year.

Internal Revenue Code Reference: The effect of this portion of this bill is to conform the North Carolina tax code to changes in the Internal Revenue Code made by The Military Family Relief Act of 2003, and by The Medicare Prescription Drug, Improvement, and Modernization Act of 2003.

(1) The Military Family Relief Act

Of the ten major provisions in the Military Family Relief Act of 2003 (H.R. 3365), only two have a fiscal impact on North Carolina. The first major change is in the exclusion of gain from the sale of a principal residence. Current tax law allows an individual to exclude up to $250,000 ($500,000 if married filing a joint return) of gain realized on the sale of a principal residence. The taxpayer must have owned and used the residence as a principal residence for at least two of the five years ending on the date of sale. The Military Family Relief Act of 2003 allows a member of the Armed

Forces, Public Health Service, National Oceanic and Atmospheric Administration, or the Foreign Service to suspend for a maximum of ten years the five-year principal residence test. To qualify, these federal employees must be stationed more than 50 miles from their principal residence for duty in excess of 90 days. The provision is effective for sales made after May 6, 1997 and these employees have one year (November 11, 2003 to November 11, 2004) to apply for a refund.

The staff of the Congressional Joint Committee on Taxation (JCT) estimates that this exclusion will cost the federal treasury $68 million in the first year due to the refund provision. The federal loss in the following years is $14 million to $17 million a year. Both the Tax Research Division of the Department of Revenue and the Fiscal Research Division of the General Assembly base the North Carolina tax impact on the JCT estimate. The chart below shows the JCT estimate of federal tax loss divided by the capital gains tax rate of 25% to determine the loss in federal taxable income. Since the Department of Defense reports that 2.44% of active military personnel in the United States claim North Carolina as their residence, then this percentage multiplied by the federal taxable income yields the loss of state taxable income. Multiplying the average personal income tax paid in 2001 (6.8%) times the North Carolina taxable income results in the estimated tax loss for this provision.

			($Million)		
Exclusion on Gain of Principal Residence	**FY 04-05**	**FY 05-06**	**FY 06-07**	**FY 07-08**	**FY 08-09**
JTC Estimate of Federal Tax Loss ($Millions)	($68.0)	($14.0)	($14.0)	($15.0)	($15.0)
Divide By Capital Gains Tax Rate on Sec 1250 gains	25%	25%	25%	25%	25%
Estimated Loss of Federal Taxable Income	($272.0)	($56.0)	($56.0)	($60.0)	($60.0)
Multiply By NC Residents as Percent of Total Military	2.44%	2.44%	2.44%	2.44%	2.44%
Estimated Loss of NC Taxable Income	($6.6)	($1.4)	($1.4)	($1.5)	($1.5)
Multiply By NC Average Tax Rate	6.8%	6.8%	6.8%	6.8%	6.8%
Estimated NC Tax Loss	($0.5)	($0.1)	($0.1)	($0.1)	($0.1)

The second provision of the Military Family Relief Act of 2003 that has a fiscal impact on North Carolina is an above the line deduction for the travel expenses of the National Guard and Reserves. Currently, National Guard and Reserve personnel may claim as itemized deductions their non-reimbursable expenses for transportation, meals, and lodging when they stay overnight for National Guard and Reserve meetings. However, these expenses must exceed 2% of a taxpayer's adjusted gross income (AGI) to be claimed. The provision in the Military Family Relief Act allows an above the line deduction on the transportation, meals, and lodging expenses of National Guard and Reserves who travel more than 100 miles and stay overnight at National Guard and Reserve meetings.

Again, the Joint Committee on Taxation estimate of the national revenue loss for this deduction is used. To obtain federal taxable income, the federal tax loss is divided by the average federal tax rate of 21.9%. To get state taxable income, the federal taxable income is multiplied by North Carolina's percentage of the U.S. Selected Reserve personnel (2.57%). Selected Reserve includes Air and Army National Guard; Army, Navy, Air Force, and Marine Corps Reserves, and when detached from the Department of Homeland Security to the Department of the Navy, the Coast Guard Reserve. The North Carolina taxable income is multiplied by the average income tax rate of 6.8% to obtain the North Carolina tax loss from conforming to this provision.

Above the Line Deduction for Reserve and Guard	FY 04-05	FY 05-06	($Million) FY 06-07	FY 07-08	FY 08-09
JTC Estimate of Federal Tax Loss ($Millions)	($90.0)	($77.0)	($78.0)	($80.0)	($82.0)
Divide By Average Federal Tax Rate	21.9%	21.9%	21.9%	21.9%	21.9%
Estimated Loss of Federal Taxable Income	($411.5)	($352.1)	($356.7)	($365.8)	($374.9)
Multiply NC Selected Reserve as Percent of Total	2.6%	2.6%	2.6%	2.6%	2.6%
Estimated Loss of NC Taxable Income	($10.6)	($9.0)	($9.1)	($9.4)	($9.6)
Multiply By NC Average Tax Rate	6.8%	6.8%	6.8%	6.8%	6.8%
Estimated NC Tax Loss	**($0.7)**	**($0.6)**	**($0.6)**	**($0.6)**	**($0.7)**

II. Medicare Prescription Drug, Improvement, and Modernization Act

There is one provision in the Medicare Prescription Drug, Improvement, and Modernization Act of 2003 (HR1) that will impact North Carolina revenues. This bill creates Health Savings Accounts (HSAs) that provide tax-favored treatment of savings for medical expenses under a high deductible health plan. A person is eligible for a HSA if he or she has a health plan with a deductible that is at least $1,000 for self only coverage or $2,000 for family coverage and the plan has an out-of-pocket expense limit that is no more than $5,000 for an individual or $10,000 for a family. Out-of-pocket expenses include deductibles, co-payments, and other amounts (other than premiums) spent for covered benefits under the plan.

Individual contributions to a HSA are deductible from adjusted gross income and employer contributions to a HSA are excludable from gross income and wages for employment tax purposes. Distributions from a HSA for qualified medical expenses are excluded from gross income. HSA distributions not spent on qualified medical expenses are included in gross income and subject to an additional 10% tax.

The Department of Insurance reported to the Fiscal Research Division in May 2004 that the following companies have high deductible health plans that are HSA eligible:

John Alden — Fortis
United Wisconsin Life — Medical Security
American Republic has a product pending approval.

As in the examples above, the Joint Committee on Taxation is used to determine the North Carolina revenue loss. The federal tax loss is divided by the average federal tax rate of 21.9% to determine the federal taxable income. State taxable income is 2.9% of the federal taxable income based on 2003 U.S. Census data on population. Multiplying the state taxable income times the 6.8% average state income tax rate yields the state tax loss from this provision.

Health Savings Account	FY 04-05	FY 05-06	FY 06-07 ($Million)	FY 07-08	FY 08-09
JTC Estimate of Federal Tax Loss ($Millions)	-$160.0	-$474.0	-$533.0	-$597.0	-$650.0
Divide By Average Federal Tax Rate	21.9%	21.9%	21.9%	21.9%	21.9%
Estimated Loss of Federal Taxable Income	-$731.6	-$2,167.4	-$2,437.1	-$2,729.8	-$2,972.1
Multiply By NC Populations as a Percent of US	2.9%	2.9%	2.9%	2.9%	2.9%
Estimated Loss of NC Taxable Income	-$21.2	-$62.7	-$70.5	-$78.9	-$85.9
Multiply By NC Average Tax Rate	6.8%	6.8%	6.8%	6.8%	6.8%
Estimated NC Tax Loss	**-$1.4**	**-$4.3**	**-$4.8**	**-$5.4**	**-$5.8**

SOURCES OF DATA: Congressional Joint Committee on Taxation; Department of Revenue-Tax Research Division; Department of Defense “2002 Selected Manpower Statistics”; IRS “Statistics of Income Bulletin Fall 2003”; US Census Bureau “2003 US Statistics in Brief”; Department of Insurance

FISCAL RESEARCH DIVISION: (919) 733-4910

PREPARED BY: David Crotts, Linda Millsaps
Kelly Huffstetler, Richard Bostic

APPROVED BY: James D. Johnson, Director
Fiscal Research Division

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Signed Copy Located in the NCGA Principal Clerk's Offices