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**NORTH CAROLINA GENERAL ASSEMBLY**

**LEGISLATIVE FISCAL NOTE**

**BILL NUMBER:** SB 658

**SHORT TITLE:** Computer Software not Taxable

**SPONSOR(S):** Senator Kaplan

**FISCAL IMPACT:** Expenditures: Increase ( ) Decrease ( )  
Revenues: Increase ( ) Decrease (X)  
No Impact ( )  
No Estimate Available ( )

**FUNDS AFFECTED:** General Fund ( ) Highway Fund ( ) Local Fund (X)  
Other Fund ( )

**BILL SUMMARY** The proposed act repeals the existing provision in G.S. 105-273(8a) which exempts certain categories of computer software from property taxes, and adds a new citation, G.S. 105-275(40) to classify and exclude from the tax base all computer software and related documentation.

**EFFECTIVE DATE:** For taxes imposed for taxable years beginning on or after July 1, 1993. Notwithstanding the provision for filing an application for property to be exempted or excluded as set forth in G.S. 105-282.1(a), an application for the benefit provided in this act for the 1993-94 tax year shall be considered timely if filed on or before September 1, 1993. Note: Tax bills are mailed to taxpayers in July.

**PRINCIPAL DEPARTMENT(S)/PROGRAM(S) AFFECTED:** County General Fund.

**FISCAL IMPACT**

FY                      FY                      FY                      FY                      FY  
93-94                      94-95                      95-96                      96-97                      07-98

**GENERAL FUND**

**REVENUES**

County                      The estimated loss in county general fund revenues                      from fifteen counties surveyed would be between \$10,160,803 million and \$10,745,292 million annually. The estimate does not include the loss incurred by municipalities within the counties surveyed.

NOTE: For the loss associated with the  
individual counties surveyed and from public  
utility property see  
attached document. (n/a in electronic copy)

**ASSUMPTIONS:** (1) 25% to 50% of the value of business personal property listed is computer software. (2) The loss associated with public utility software is expected to be at least 80% of the total value of software owned by public utility companies.

**METHODOLOGY:** The first five counties surveyed, were able to separate the value of "computer software" from the total value of "computer equipment" that is listed for property tax. Their ability to break-out software from total equipment depends on (1) how advanced they are in recording property tax data; and (2) information from auditing taxpayers. The first five counties have the most advanced computerized property tax recording systems in the state. Over the years, property tax assessors have audited taxpayers and discovered various types of property that the tax was not being paid on. Computer software is one such type of property. On the property tax listing form, software is not listed separately from equipment. In situations where the actual value of software was known, separate from the value of computer equipment, assessors have determined from the reporting and auditing requirements noted above, that software can be assigned at least 25% of the value of computer equipment listed for property tax. These five counties could provide an estimate of the loss associated with exempting all software from the county's local property tax.

This knowledge served as the basis for selecting the lower bound of the range of 25% to 50% used in estimating the remaining ten counties. The upper bound of 50% was selected in order to provide a range. The 10 remaining counties were asked to provide the total value of computer equipment listed in 1992. To produce the lower bound, 25% was assigned to a county's total value of computer equipment and 50% was assigned to the same value to produce the upper bound.

In Summary, while these estimates of revenue loss are derived from a 15 county survey and do not account for additional property tax revenue losses that would occur within municipalities in those counties, the estimates are derived using those counties that have the most sophisticated assessment capabilities and the most reliable data.

**SOURCES OF DATA:** Department of Revenue  
County Commissioner Association  
Fiscal Research Division  
County Tax Assessors

**TECHNICAL CONSIDERATIONS:**

In order to adequately estimate the total revenue loss from exempting all computer software from the local property tax, the value of computer equipment needs to be determined for all counties and municipalities of the State. North Carolina counties are diverse with respect to the types of business property tax base. The rural counties are more agrarian and would not be expected to have a significant

amount of the businesses personal property held as software. On the other hand, the more urban counties would. It is for this reason an extrapolation of the data cannot be made.

**FISCAL RESEARCH DIVISION**

**733-4910**

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