

<FONT=9>

**NORTH CAROLINA GENERAL ASSEMBLY
LEGISLATIVE FISCAL NOTE**

BILL NUMBER: SB 1620 2nd Edition Engrossed

SHORT TITLE: Repeal Intangibles Tax

SPONSOR(S): Senator D. Winner

| | | | |
|-----------------------|----------------------------------|---------------------|---------------------|
| FISCAL IMPACT: | Expenditures: | Increase () | Decrease (x) |
| | Revenues: | Increase (X) | Decrease (x) |
| | No Impact () | | |
| | No Estimate Available () | | |

FUND AFFECTED: **General Fund (X)** **Highway Fund ()** **Local Govt. (x)**
Other Funds ()

BILL SUMMARY: (1) Repeals intangibles tax, effective beginning with the 1994 tax year (returns due 4/15/95 on asset values as of 12/31/94); (2) Levies a supplemental tax of 1% on income from dividends, interest, and capital gains (financial assets only) with a \$6 tax threshold (no tax if income under \$600), effective beginning with the the 1994 tax year; (3) Raises corporate franchise tax rate from \$1.50 per \$1,000 of net worth to \$1.65, effective beginning with the 1994 tax year; (4) Eliminates \$300 income tax credit for dividends associated with N.C. operations of corporations ("N.C. dividends"), effective beginning with the 1994 tax year; (5) Eliminates corporate income tax deduction for "N.C. dividends", effective beginning with the 1994 tax year; (6) Provides reimbursement in 1994-95 to counties and cities for repealed intangibles tax on same basis as current law ("frozen" 1989-90 collection base). In future years the reimbursement would grow by 3% per year.

EFFECTIVE DATE: January 1, 1994

PRINCIPAL DEPARTMENT(S)/PROGRAM(S) AFFECTED: All taxes affected are administered by the N.C. Department of Revenue.

| | FISCAL IMPACT | | | | |
|----------------------------------|----------------------|--------------|--------------|--------------|--------------|
| | (\$ Million) | | | | |
| | <u>94-95</u> | <u>95-96</u> | <u>96-97</u> | <u>97-98</u> | <u>98-99</u> |
| <u>99-00</u> | State: | | | | |
| Repeal Intangibles Tax | -117.3 | -119.8 | -124.0 | -128.3 | -132.8-137.5 |
| 1% Supplemental Income tax | +55.9 | +59.4 | +63.0 | +67.0 | +71.1+75.5 |
| Corporate franchise tax increase | +17.1 | +18.1 | +19.3 | +20.4 | +21.7+23.1 |
| Repeal NC Dividend Credit | +14.0 | +14.9 | +15.8 | +16.9 | +17.9+19.0 |
| Repeal NC Dividend Deduction | +2.0 | +2.1 | +2.3 | +2.4 | +2.5 +2.6 |
| Net Impact | -28.3 | -25.3 | -23.6 | -21.6 | -19.6-17.3 |

Local:

Repeal Intangibles Tax* - -1.1 -4.4 -8.1 -12.1-16.4

* The revenue loss to local government beginning in 1995-96 is due to the use of 3% annual growth in the reimbursement formula in lieu of the 6.2% growth under the local share of the existing tax. The figure is a net loss amount after factoring in the \$2.2 million savings in collection costs from the repeal of the intangibles tax.

DATA AND METHODOLOGY: The 1994-95 impact of the intangibles tax repeal and the corporate franchise tax rate increase is based on the detailed General Fund revenue estimates used in the budget process. The yield from the supplemental income tax is based on a Fiscal Research Division (FRD) adjustment to 1992 IRS data from federal tax returns for North Carolina residents. The estimate for the N.C. dividend credit is based on a consensus estimate of FRD and the Department of Revenue based on an adjustment of data from 1992 Tax Expenditure Report of the Department of Revenue. The corporate dividend exclusion impact is a conservative estimate agreed to by FRD and the Department of Revenue based on limited data from a similar proposal many years ago. The fiscal impact estimate for future years, for each provision, is based on the GPAC Financial Model estimate of 6.2% annual state personal income growth.

EFFECTIVE DATE: Upon ratification

FISCAL RESEARCH DIVISION

733-4910

PREPARED BY: David Crotts

APPROVED BY: Tom Covington **TomC**

DATE: June 8, 1994

DC:ja



Signed Copy Located in the NCGA Principal Clerk's Offices