

NORTH CAROLINA GENERAL ASSEMBLY

LEGISLATIVE FISCAL NOTE

BILL NUMBER: SB 1239 (Senate Finance Committee Substitute)

SHORT TITLE: Expand Qualified Business Tax Credit

SPONSOR(S): Senator Hoyle

FISCAL IMPACT					
	Yes (X)	No ()	No Estimate Available ()		
	<u>FY 1998-99</u>	<u>FY 1999-00</u>	<u>FY 2000-01</u>	<u>FY 2001-02</u>	<u>FY 2002-03</u>
REVENUES					
General Fund					
Repeal Sunset			(\$6 mil.)	(\$6 mil.)	(\$6 mil.)
Increase Cap		<u>(\$3 mil.)</u>	<u>(\$3 mil.)</u>	<u>(\$3 mil.)</u>	<u>(\$3 mil.)</u>
Total - GF		(\$3 mil.)	(\$9 mil.)	(\$9 mil.)	(\$9 mil.)
PRINCIPAL DEPARTMENT(S) & PROGRAM(S) AFFECTED: Department of Revenue; Department of the Secretary of State					
EFFECTIVE DATE: Section 3 (increasing the cap) is effective for investments made on or after January 1, 1997. The remaining sections of the act are effective when it becomes law.					

BILL SUMMARY: The proposed committee substitute repeals the sunset on the qualified business tax credit and increases the cap on these credits from \$6 million to \$9 million.

BACKGROUND: The qualified business tax credits given since 1993 are as follows:

1993	\$4,711,913
1994	\$6,011,513
1995	\$3,523,894
1996	\$4,677,221
1997	\$6,000,000 *
1998	\$4,893,891 **

* The Department of Revenue received requests for \$9,264,679 in credits, but the General Assembly limited the credit amount to \$6 million in 1997.

** This amount represents the applications processed as of May 28, 1998. (applications pending)

ASSUMPTIONS AND METHODOLOGY:

REPEAL SUNSET

The current tax credit for qualified business ventures expires for investments made on or after January 1, 1999. This means that investments made in 1998 will be taken in tax year 1999. The last General Fund impact for this credit will be in FY 99-00 when individual income tax returns are filed in the spring of 2000. (carry forwards will extend some of the credits into future years). Budget availability estimates for future years assume the credit will sunset in 1999. **Removal of the sunset in 1999, effective for tax year 2000, will produce an annual General Fund revenue loss of \$6 million for fiscal year 2000-01 and beyond.**

CAP INCREASE

Section 3 of the bill will increase from \$6 million to \$9 million the amount of credits allowed taxpayers each year. Investments made in 1997 will be eligible for the increased credit amount in tax year 1998. The Department of Revenue does not anticipate any fiscal impact from this change in FY 1998-99. As of May 28, 1998, the Department had processed \$4,893,891 in 1997 credits. The Department estimates that the 35 files remaining to be processed will not push the total over \$6 million. The decline from the \$9.2 million in 1996 to \$6 million in 1997 can be partly explained by limitations on corporations and pass-through entities in 1997.

For budgetary planning and projection purposes, the fiscal impact of the increased cap for FY 1999-00 and beyond is \$3 million per year. The state's General Fund will be legally obligated to award a credit for each legitimate investment up to the \$9 million cap. If fully utilized, the increased credit amount will affect future year budget availability. Based on the considerable interest in this credit by Certified Public Accountants, investment firms, the Council for Entrepreneurial Development, and others, it is not unreasonable that the maximum amount of credits will be used in future years.

FISCAL RESEARCH DIVISION 733-4910

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