

**NORTH CAROLINA GENERAL ASSEMBLY**

**LEGISLATIVE FISCAL NOTE**

**BILL NUMBER:** Senate Bill 97

**SHORT TITLE:** Interstate Auditors/Regulatory Fund

**SPONSOR(S):** Senators Kerr, Cochrane, Cooper, Shaw of Cumberland, and Soles

<b>FISCAL IMPACT</b>					
	<b>Yes (X)</b>	<b>No ( )</b>	<b>No Estimate Available ( )</b>		
	<b><u>FY 1997-98</u></b>	<b><u>FY 1998-99</u></b>	<b><u>FY 1999-00</u></b>	<b><u>FY 2000-01</u></b>	<b><u>FY 2001-02</u></b>
<b>REVENUES</b>					
<b>GENERAL FUND:</b>					
Interstate Audit	2,625,000	7,900,000	10,500,000	10,500,000	10,500,000
Premiums Tax	99,270	99,270	99,270	99,270	99,270
<b>EXPENDITURES</b>					
Interstate Audit					
Recurring	318,997	710,451	762,555	781,699	801,516
Non-recurring	102,500				
Premiums Tax	99,270	99,270	99,270	99,270	99,270
<b>POSITIONS:</b>	10	10	10	10	10
<b>PRINCIPAL DEPARTMENT(S) &amp; PROGRAM(S) AFFECTED:</b> Department of Revenue and Department of insurance					
<b>EFFECTIVE DATE:</b> January 1, 1998 for additional Interstate Audit Division personnel; and July 1, 1997 for transfer of funds from the Insurance regulatory charge.					

**BILL SUMMARY:** The intent of the legislation is to enhance compliance and enforcement of existing tax laws by appropriating funds to expand the number of auditors and support personnel in the Interstate Audit Division in the Department of Revenue, and to provide that personnel who administer the insurance gross premiums tax shall continue to be funded from

the insurance regulatory charge. Amends GS 58-6-25(d) as title indicates. Also appropriates from the General Fund to Department of Revenue \$421,497 for 1997-98 and \$710,451 for 1998-99 for seven additional auditors in the Interstate Audit Division, two tax technicians as support personnel, and a Tax Administrator in the Tax Administration Division.<sup>1</sup>

### **ASSUMPTIONS AND METHODOLOGY:**

For the additional audit personnel the first year estimate supports recurring costs of salaries, benefits, and supplies; and non-recurring costs for computer equipment and office furnishings. The annual estimates of continued costs include a 3.5% increase in salaries, only. The receipt from the insurance regulatory charge reflects annual expense of the two (2) positions.

#### Interstate Audit Division

The recommendations from the Revenue Law Study Committee and the Governor's recommended budget changes for FY 1996-97 to the 1996 Session of the General Assembly included \$1 million to add 15 auditors 2 Tax Technicians, 2 Processing Assistant positions, and an Administrative Officer with employment phased-in over a three month period - October 1, November 1, and December 1. The General Assembly appropriated \$323,289 for 10 positions - 8 auditors, 1 Tax Technician, and 1 Processing Assistant effective January 1, 1997.

The proposed legislation adds the balance of the positions initially requested in 1996 Session. There are currently 22 auditors assigned to the division with the anticipation of 30 positions available January 1, 1997. Of the 30 auditors, sixteen (16) will be located in Raleigh and fourteen (14) in satellite offices operating in eight (8) states. According to the division, assessments continue to average \$2 million annually per auditor with current average expenses per auditor of \$64,000. Following a year or two of assessments by the new auditors, the average annual assessment and average expenses per auditor may change.

For the proposed increase in staff, all positions in the first year of service (FY 97-98), would begin employment January 1, 1998. The division anticipates that each new auditor will gross \$1 million in assessments (or one-half of the average annual assessment) in the first year. An estimated 75% of all audit assessments are collected, which provides a yield in collections of \$5.25 million. Therefore, in FY 97-98 the anticipated collection is \$2.62 million; and FY 98-99, \$7.9 million. The expectation is that 7 new Interstate Auditors will produce approximately \$14 million annually in additional assessments, thus the 7 new audit positions should contribute approximately \$10.5 million in new tax revenue annually in subsequent years.

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<sup>1</sup> "Daily Bulletin", Vol. 1997, No.9, February 12, 1997, p. 3.

The three (3) remaining positions will be assigned throughout the department. The two (2) Tax Technician positions will assist in supporting new and existing auditing staff to allow concentration more on conducting audits, and less time on research, refund claims and other administrative responsibilities. As a result of the added assessments, workloads in collateral divisions will also increase. The Administrative Officer will be assigned to the Corporate Tax Division to allow improved responses to Corporate tax inquiries, and offset the increased workload resulting from the new audit positions.

\*\*\*\*\*An additional consideration related to increasing personnel in the Department of Revenue is the result of the assessment of staff requirements authorized by the General Assembly in the 1996 Session (Chapter 18, Section 15.6). The State Budget Office, Management and Productivity Unit is conducting the assessment with a joint report from the State Budget Officer and the Secretary of Revenue due March 1, 1997 to the House and Senate Appropriations Subcommittees on General Government.\*\*\*\*\*

### Premiums Tax Positions

In the 1995 Session the General Assembly transferred responsibility for collecting the gross premiums tax from the Department of Insurance to the Department of Revenue, effective January 1, 1996. Two (2) positions were transferred from Insurance to Revenue with funding provided by the insurance regulatory charge. However, there was no provision for the insurance regulatory charge to continue funding the costs associated with the positions' responsibilities beyond the second half of FY 1995-96. With the transfer of a third position on January 1, 1997 the General Assembly included language in the authorizing legislation to provide continued support from the regulatory charge. Because the intention of the General Assembly is to fund the three (3) positions from the regulatory charge, the proposed legislation, again, assigns funding from this source. If authorized, \$99, 270 would transfer from the Department of Insurance to the Department of Revenue, and thereby reduce General Fund requirements by the same amount in the Department of Revenue's budget.

## **TECHNICAL CONSIDERATIONS:**

### **FISCAL RESEARCH DIVISION**

**733-4910**

**PREPARED BY:** Michele T. Nelson

**APPROVED BY:** Tom C. Covington **TomC**

**DATE:** March 4, 1997



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