

# NORTH CAROLINA GENERAL ASSEMBLY

## LEGISLATIVE FISCAL NOTE

**BILL NUMBER:** HB 1476 (Senate Finance Committee Substitute) Code Update/ Criminal Deadline/ Research

**SHORT TITLE:** Code Update/ Criminal Deadline/ Research

**SPONSOR(S):**

	FISCAL IMPACT				
	Yes ( x )	No ( )	No Estimate Available ( )		
	<u>FY 1999-00</u>	<u>FY 2000-01</u>	<u>FY 2001-02</u>	<u>FY 2002-03</u>	<u>FY 2003-04</u>
<b>GENERAL FUND</b>					
REVENUES	\$11,800,000	\$3,200,000	\$1,400,000	\$900,000	\$100,000
EXPENDITURES	\$178,038	\$283,275			
<b>Net General Fund</b>	<b>\$11,621,962</b>	<b>\$2,916,725</b>	<b>\$1,400,000</b>	<b>\$900,000</b>	<b>\$100,000</b>
<b>PRINCIPAL DEPARTMENT(S) &amp; PROGRAM(S) AFFECTED:</b> Department of Revenue					
<b>EFFECTIVE DATE:</b> Sections 2 and 3 of this bill are effective December 1, 1999, and apply to prosecutions brought on or after that date. The positions in section 4 are effective January 1, 2000. The remainder of the bill is effective when it becomes law.					

### **BILL SUMMARY:**

Section 1 of the bill changes the reference to the Internal Revenue Code used in defining and determining certain state income tax provisions from September 1, 1998 to June 1, 1999.

Sections 2 and 3 conform the state statute of limitations for willful failure to comply with the state's tax laws, to the federal statute of limitations. Section 4 allows the Department of Revenue to fund four tax analyst positions in its Tax Research Division from revenue gained in this bill.

### **ASSUMPTIONS AND METHODOLOGY:**

#### Section 1

Since the General Assembly last updated its reference to the Internal Revenue Code, Congress passed the Tax and Trade Relief Extension Act of 1998 (P.L. 105-277) and a proposal relating to tax relief for personnel in the Kosovo conflict (P.L. 106-21). The chart on the next page lists the major items that impact the North Carolina income tax code. The Congressional Joint Committee on Taxation estimated the fiscal impact of these bills on the US Treasury. North Carolina's share of the revenue loss was determined by dividing N. C. actual tax collections by national tax collections.

#### Sections 2 & 3

These sections extend the statute of limitations for criminal violations from three years to six years for 1) willful failure to collect, withhold, or pay over tax and 2) willful failure to file return, supply information, or pay tax. These sections conform North Carolina statutes to the Internal Revenue Code. These sections also bring North Carolina law into line with other southeastern states such as South Carolina, Virginia, and Tennessee. The Department of

Revenue does not anticipate an increase in the number of criminal prosecutions due to this change, but will increase the number of criminal charges per case. No additional revenue is anticipated from this change.

Section 4

This section allows funding for four Tax Analyst positions in the Tax Research Division of the Department of Revenue. These positions were recommended by the Revenue Laws Study Committee and are included in SB 74 and HB 55. The Tax Research Division compiles and publishes statistical and descriptive information on state and local taxes, analyzes the impact of proposed changes in the tax laws, and answers inquiries from the General Assembly, other state agencies, and the public about the tax laws. The four additional personnel will enable the Department to do the research and analysis needed to meet reporting requirements imposed by the General Assembly.

Each position is a Tax Analyst, grade 79, budgeted at an annual salary of \$57,590. The estimated budget for these positions is shown below. The salaries are not adjusted for any potential pay increases in future years. Salaries and benefits, telephone service, and general office supplies are half of the annual amount needed due to a January 1, 2000 effective date. The furniture, computers, and office equipment are one-time costs.

<b>Account Title</b>	<b><u>1999-00</u></b>	<b><u>2000-01</u></b>
SPA Regular Salaries	\$115,180	\$230,360
Social Security Contributions	8,812	17,623
Retirement Contributions	12,474	24,948
Medical Insurance Contributions	3,472	6,944
Telephone Service	700	1,400
General Office Supplies	1,000	2,000
Furniture-Office ( Workstation and Chair)	18,000	
Office Equipment (Calculator)	400	
Equipment - Computer (Desktop/Laptop)	18,000	
<b>Total</b>	<b>\$178,038</b>	<b>\$283,275</b>

**Technical consideration:** Other positions in the Tax Analyst classification are set at a grade 72, rather than 79, except for the Division Director; however, the Office of State Personnel has not conducted a classification review of the Tax Analyst classification in some time.

Consideration might be given to an amendment directing the Office of State Personnel to reiview the Tax Analyst classification in the Department to determine if the current classification is appropriate or needs revision.

**FISCAL RESEARCH DIVISION 733-4910**

**PREPARED BY:** Richard Bostic

**APPROVED BY:** Tom Covington

**DATE:**



**Signed Copy Located in the NCGA Principal Clerk's Offices**



**HB 1476 Update IRC Reference**  
**STATE BUDGET/REVENUE ESTIMATES**  
**FY 1999-2007**  
(\$ Millions)

Provision	Effective	1999	2000	2001	2002	2003	2004	2005	2006	2007
A. Extend the Research Tax Credit [through 6-30-99] [1]	7/1/98	Revenue loss already included in tax forecast								
B. Extend Contributions of Appreciated Stock to Private Foundations [permanent]; Public Inspection of Private Foundation Annual Returns	7-1-98 [2]	-0.17	-0.40	-0.51	-0.60	-0.66	-0.69	-0.72	-0.75	-0.79
C. Extend Tax Information Reporting for Income Contingent Student Loan Program [through 9-30-03]	10/1/98	Negligible Budget Effect								
D. Provide Special Rule for Cash Options for Receipt of Qualified Prizes by Individuals	[3]	NA	NA	NA	NA	NA	NA	NA	NA	NA
E. Restrict Special Net Operating Loss Carry-back Rules for Specified Liability Losses	NOLgi tyea DOE	0.08	0.11	0.16	0.21	0.23	0.22	0.22	0.22	0.23
F. Extend the Net Operating Loss Carryback Period for Farmer Losses	NOLgi tyba 12/31/97	-0.53	-0.48	-0.43	-0.40	-0.36	-0.33	-0.30	-0.28	-0.26
G. Accelerate the Self-Employed Health Insurance Deduction – 60% in 1999 through 2001, 70% in 2002, and 100% in 2003 and thereafter [4]	tyba 12-31-98	-0.76	-2.09	-1.70	-1.81	-2.78	-4.61	-4.92	-4.35	-1.86
H. Change the Treatment of Certain Deductible Liquidating Distributions of RICs and REITs	dma 5-21-98	13.14	6.01	3.92	3.47	3.64	3.82	4.02	4.22	4.43
<b>TOTAL</b>		<b>11.76</b>	<b>3.15</b>	<b>1.43</b>	<b>.87</b>	<b>.07</b>	<b>-1.59</b>	<b>-1.71</b>	<b>-.94</b>	<b>1.75</b>

Legend for "Effective" Column:

DOE = date of enactment

NOLgi = net operating losses generated in

dma = distributions made after

tyba - taxable years beginning after

tyea = taxable years ending after

**NOTES:**

North Carolina estimates are based on a percentage of the federal estimate calculated by the Congressional Joint Committee on Taxation.

The percentage used is N.C. actual tax collections divided by national tax collections. (Individual = .723% Corporate =

.542%)

[1] Based on previous federal extensions of this tax credit, the General Fund revenue forecast assumes the renewal of this credit.

2] Effective for requests made after the later of the date which is 60 days after the date on which the Treasury Department published regulations or 12/31/98.

3] The provision applies with respect to any qualified prize to which a person first becomes entitled after the date of enactment. In addition, the provision also applies to any qualified prize to which a person became entitled on or before the date of enactment if the person has an option to receive a lump-sum payment only during some portion of the 18 month period beginning on 7/1/99. The national data is not useful in estimating North Carolina impact due to the lack of a state lottery or other games that provide large prizes.

[4] Under present law, the self-employed health insurance deduction rates are 45% in 1998 and 1999, 50% in 2000 and 2001, 60% in, 80% in 2003 through 2005, 90% in 2006, and 100% in 2007 and thereafter,

**Wednesday, June 16, 1999 Thursday, July 08, 1999**