

NORTH CAROLINA GENERAL ASSEMBLY

LEGISLATIVE FISCAL NOTE

BILL NUMBER: House Bill 919 (First Edition)

SHORT TITLE: Workplace Safety Tax Credits

SPONSOR(S): Representatives Goodwin and McHenry

FISCAL IMPACT					
	Yes (X)	No ()	No Estimate Available ()		
	<u>FY 2004-05</u>	<u>FY 2005-06</u>	<u>FY 2006-07</u>	<u>FY 2007-08</u>	<u>FY 2008-09</u>
REVENUES					
General Fund	Minimum revenue loss of \$1 million in 04-05 and in 05-06*				
EXPENDITURES					
PRINCIPAL DEPARTMENT(S) & PROGRAM(S) AFFECTED: Department of Labor					
EFFECTIVE DATE: This act becomes effective for taxable years beginning on or after January 1, 2004 and sunsets for taxable years beginning on or after January 1, 2006.					
* See Assumptions and Methodology					

BILL SUMMARY:

Creates an income tax credit equal to 100% of expenditures to eliminate workplace hazards either 1) identified through the Department of Labor’s free consultation program or 2) undertaken to qualify for the Department of Labor’s voluntary recognition program. The credit may be taken against the franchise tax, individual income tax or corporate income tax. Eligible taxpayers must not have had a serious Occupational Safety and Health Act (OSHA) violation within three years of credit application. The credit is only for tax year 2004 and 2005.

ASSUMPTIONS AND METHODOLOGY:

Carolina Star Safety Program

The Department of Labor has 63 companies enrolled in its Carolina Star Safety Program. To qualify for this program a company must have written procedures for its disciplinary program, employee hazard reporting system, accident/incident investigation, preventive maintenance, and emergency programs/drills. Management and employees must participate in safety and health training. Personnel are trained in CPR and first aid. The Department estimates it receives 11

Carolina Star applications per year and had 12 applications pending in May 2004. The Department of Labor has not documented the amount a company spends in preparation for Carolina Star status. Anecdotal information from seven Carolina Star companies suggests the median cost of preparing for the program is \$19,000. If 12 companies a year apply for the Carolina Star Safety Program and spend \$19,000 in application and preparation costs for program approval, then the proposed tax credit is worth \$228,000 to these companies. For the General Fund, the revenue loss is a minimum of \$228,000 per year. It is uncertain how many additional companies will be motivated by the credit to begin the Carolina Star application process within the two year time span (2004 & 2005) of the credit. Since the credit may not exceed 50% of the company's tax liability and there is a 5 year carryforward on unused credits, the fiscal impact of the 2 year credits may extend for seven fiscal years.

Consultative Services

The Department of Labor's Division of Occupational Safety and Health, Bureau of Consultative Services provides free on-site safety and health surveys, ergonomics evaluation and assistance, air sampling and analysis, noise measurements, and technical assistance. In 2002, the Department made 940 corporate consultative visits and reported 6,694 hazards. Of these hazards, Labor staff considered 4,859 (72.6%) to be serious. In 2003, 1,222 visits were made and 8,103 hazards were found. Of these hazards, 5,784 (71.4%) were labeled serious and 2,319 were classified as other than serious. From January through April 2004, the staff made 651 visits and found 4,627 hazards of which 3,264 were deemed serious (70.5%). An average of 7 hazards are found on each visit and 5 of the identified hazards are serious.

Department of Labor staff estimate that it takes approximately \$150 to abate each serious hazard found by the Consultative staff. If 1,300 free inspections are performed each year and an average of 5 serious hazards are found, then the Department would expect to find 6,500 serious hazards each year that need abatement. Approximately 73% of the consultative visits are to private firms and 27% to public agencies. Since only private firms can take advantage of the tax credit, then the credit would apply to the cost of eliminating 4,745 serious hazards (73% of the 6,500 serious hazards). At \$150 per hazard abatement, the credit would be worth \$711,750 in 2004 and 2005 tax years. For the state, the minimum General Fund revenue loss would be \$711,750 in both 2004 and 2005. As mentioned above, the credit may not exceed 50% of the company's tax liability and there is a 5 year carryforward on unused credits, thus the fiscal impact of the 2 year credits may extend for seven fiscal years.

SOURCES OF DATA: Department of Labor

TECHNICAL CONSIDERATIONS: This credit is difficult to interpret because it is written over an expired section of the statutes. The bill should be amended to create the tax credit in a new section.

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