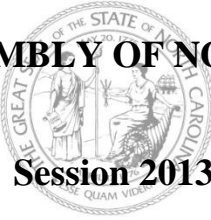


GENERAL ASSEMBLY OF NORTH CAROLINA



Session 2013

FISCAL ANALYSIS MEMORANDUM

[This confidential fiscal memorandum is a fiscal analysis of a draft bill, amendment, committee substitute, or conference committee report that has not been formally introduced or adopted on the chamber floor or in committee. This is not an official fiscal note. If upon introduction of the bill you determine that a formal fiscal note is needed, please make a fiscal note request to the Fiscal Research Division, and one will be provided under the rules of the House and the Senate.]

DATE: May 13, 2014

TO: Representatives Howard, Senators Rucho, and Rabon

FROM: Jonathan Tart
Fiscal Research Division

RE: Increase sales factor weight in corporate apportionment formula

FISCAL IMPACT

(\$ in millions)

☒ Yes ☐ No ☐ No Estimate Available

	FY 2013-14	FY 2014-15	FY 2015-16	FY 2016-17	FY 2017-18
State Impact					
General Fund Revenues:	0.0	(10.2)	(23.4)	(28.4)	(29.2)
Special Fund Revenues:					
Special Fund Expenditures:					
State Positions:					
NET STATE IMPACT	\$0.0	(\$10.2)	(\$23.4)	(\$28.4)	(\$29.2)

Local Impact					
Revenues:					
Expenditures:					
NET LOCAL IMPACT	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0

PRINCIPAL DEPARTMENT(S) & PROGRAM(S) AFFECTED: NC Department of Revenue

EFFECTIVE DATE Taxable years beginning on or after January 1, 2015

TECHNICAL CONSIDERATIONS:

None

BILL SUMMARY:

Under current corporate tax law, most multistate corporations calculate an apportionment percentage that is based on the percentage of property, payroll, and sales in the State. Specifically, the calculation is done by adding the property factor + payroll factor + two times the sales factor and dividing the sum by four. The corporation multiplies its income by that percentage to determine the amount of income subject to tax. The corporate franchise tax base is also apportioned based on this percentage.

The proposal increases the weight of the sales factor in the general apportionment calculation from two times to four times effective with the 2015 tax year. The proposed calculation would be done by adding the property factor + payroll factor + four times the sales factor and dividing the sum by six.

ASSUMPTIONS AND METHODOLOGY:

The estimate is based on an analysis of corporate tax return data. The fiscal impact was calculated based on the change in franchise and income tax liability that would have occurred had corporations used four times the sales factor in the formula instead of twice the sales factor. The result was adjusted to account for the 5% corporate tax rate in effect starting in 2015. Timing adjustments were made to adjust for the difference in the calendar year and the State's fiscal year.

SOURCES OF DATA: North Carolina Department of Revenue

TECHNICAL CONSIDERATIONS: None