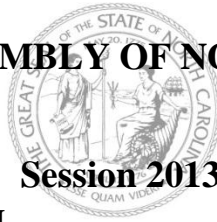


GENERAL ASSEMBLY OF NORTH CAROLINA



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, 2013
TO: Representative Howard
FROM: Sandra Johnson, Jonathan Tart
 Fiscal Research Division
RE: Revenue Laws Proposal

FISCAL IMPACT					
(\$ in millions)					
<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> No Estimate Available					
State Impact	FY 2013-14	FY 2014-15	FY 2015-16	FY 2016-17	FY 2017-18
<i>Corporate Income Tax</i>					
State Net Loss	0.0	0.0	(5.0)	(5.0)	(5.0)
<i>Sales Tax</i>					
Modular and Manufactured Homes		(6.1)	(6.3)	(6.4)	(6.6)
Prepaid meal plans					
Newspapers	Minimal Fiscal Impact; Less than \$50K				
Admission charges	0.0				
Service contracts	0.0				
Farm exemption certificate	0.0				
NET STATE IMPACT	\$0.0	(\$6.1)	(\$11.3)	(\$11.4)	(\$11.6)
Local Impact					
Annual reduction of less than \$500K in revenue for counties and \$11.4-\$24.6M in annual loss of funds for cities					
Fair & Flat Tax					
Sales Tax Changes					
NET LOCAL IMPACT		\$0.0	\$0.0	\$0.0	\$0.0
PRINCIPAL DEPARTMENT(S) & PROGRAM(S) AFFECTED: North Carolina Department of Revenue					
EFFECTIVE DATE Varies					
TECHNICAL CONSIDERATIONS:					
None					

BILL SUMMARY:

Corporate Income Tax

The proposal would replace the net economic loss calculation with a State net loss calculation. The primary difference is that there would not be a reduction to losses for non-taxed income.

The current carryforward period of 15 years to utilize a loss for corporate income tax purposes is not changed by this proposal. The proposal is effective January 1, 2015.

Sales Tax

The Tax Simplification and Rate Reduction Act, S.L. 2013-316, increased the rate on modular homes and manufactured homes from 2.5 percent and 2 percent or a \$300 cap to the State sales and use tax rate of 4.75 percent. This change generated \$10.2 million per fiscal year. The Revenue Laws proposal reduces the amount of sales tax that a retailer pays on modular and manufactured homes. Under current law, the retailer remits a sales tax equal to 4.75 percent of the retail price. The proposal modifies the modular and manufacture home sales tax base allowing the retailer to remit a State sales tax, 4.75 percent, on the wholesale price. This sales tax change becomes effective July 1, 2014.

Privilege License Tax

This bill proposes to repeal city and county privilege license taxes (PLTs) replacing PLTs with a flat \$100 per business tax applicable at the municipal level. Effective July 1, 2015.

ASSUMPTIONS AND METHODOLOGY:

Corporate Income Tax

The estimate for the State net loss provision is based on information from the Department of Revenue regarding audit experience and contested cases resulting from the separate calculation required for North Carolina purposes.

Fiscal impact resulting from the adoption of the federal calculation is not expected to be significant. This is because differences between the state and federal calculation have been reduced due to policy changes that have occurred. Additionally, when a loss is reduced for North Carolina purposes in a carryforward year, a taxpayer has the opportunity to use the loss in a subsequent tax year until the 15-year carryforward period expires. This results in deferral of a loss, not elimination of a loss. Although the fiscal impact is not expected to be significant, Fiscal Research has taken a conservative approach to account for potential impact due to conformity to the federal calculation and to account for timing differences.

Sales Tax

The fiscal impact of modifying the modular and mobile home sales tax reduces General Fund availability by \$6.0 million per fiscal year. This portion of the bill becomes effective July 1, 2014. Table 1, provides more information on the methodology used to calculate the fiscal impact of the proposed changes.

	Manufactured Home Sales Tax Base	Modular Home Sales Tax Base	Sales Tax Collections (4.75%)
Current Law	\$ 261.8	\$ 133.3	\$ 18.8
Revenue Laws	\$ 196.4	\$ 80.0	\$ 13.1
Fiscal Impact			\$ (5.64)
Assumed Retail Markup	25%	40%	
Sources: Reference for Business, Operators of Mobile Home Sites ¹			

Privilege License Tax

Effective July 1, 2015, enacting this bill would result in an \$11.4 million to \$24.6 million loss for municipalities. The estimated loss to counties is less than \$500,000 per fiscal year. To estimate the fiscal impact of replacing the current privilege license tax (PLT) system with a \$100 per business, per location tax, Fiscal Research utilized business information from the North Carolina League of Municipalities and the U.S. Census County Business Patterns database, alongside population information from the North Carolina Department of Revenue.

The estimated lower bound losses of \$11.4 million assume that all cities levy the maximum \$100 per business on all businesses available. The estimated upper bound loss of \$24.6 million assumes that cities either reduce their privilege license tax collections (based on the \$100 per business tax) or hold their current privilege license tax collections constant, choosing the lesser of the two options.

SOURCES OF DATA:

NC Department of Revenue

North Carolina League of Municipalities: The League of Municipalities surveyed its members in 2013 on the number businesses currently paying a privilege license tax. Members responded to the survey, reporting the number of companies reflected in the 2009-10 fiscal year PLT collections. Of the 310 cities that levied a PLT tax in FY 09-10, the League received information on the number of businesses taxed from 120 cities.

U.S. Census County Business Patterns database: NS1100A2: 2011 Nonemployer Statistics: Geographic Area Series: Nonemployer Statistics for the US, States, Metropolitan Areas, and Counties: 2011; CB1100A11: 2011 County Business Patterns: Geography Area Series: County Business Patterns

TECHNICAL CONSIDERATIONS: None

¹ Source: <http://www.referenceforbusiness.com/industries/Finance-Insurance-Real-Estate/Operators-Residential-Mobile-Home-Sites.html>