

NORTH CAROLINA GENERAL ASSEMBLY
LEGISLATIVE FISCAL NOTE

Amended from May 20, 1996 Version

Please note: This is an amended fiscal note; the earlier version of this note [issued May 20, 1996] contained an error regarding the elimination of 3 positions in the Department of Insurance. These positions WOULD NOT be eliminated with the passage of this legislation. In addition, annualized costs for implementing this bill in its first year have been reduced to reflect less than a full 12 month funding cycle.

Please note these differences and replace the May 20, 1996 version with this June 3, 1996 version. Thank you. Tom Covington, Director

BILL NUMBER: HB 1095

SHORT TITLE: Premiums Tax Collection

SPONSOR(S): Representative Cansler, Blue, Shubert, Capps, Church, Neely, G. Robinson, and Shaw

FISCAL IMPACT:

Expenditures:	Increase (X)	Decrease ()
Revenues:	Increase ()	Decrease ()
No Impact ()		
No Estimate Available ()		

FUND AFFECTED: **General Fund (X)** **Highway Fund ()** **Local Govt. ()**
 Other Funds ()

BILL SUMMARY:

The proposed act completes the transfer of responsibility of collecting and administering the gross premium taxes by the Department of Insurance to the Department of Revenue. The General Assembly began transferring the responsibility of collecting the gross premiums taxes to the Department of Revenue in 1995. The remaining taxes to be transferred to the Department of Revenue are: the tax on premiums for worker's compensation for self-insured employers and the additional taxes on premiums on contracts of insurance applicable to fire and lightning coverage.

There are two extra taxes on fire and lightning coverage. The first is an extra tax of 1.33% which is distributed 75% to the General Fund and 25% to the Volunteer Fire Department Fund in the Department of Insurance. Although the responsibility for collecting this tax remained with the Dept. of Insurance under the 1995 legislation, the Dept. of Revenue is already collecting it pursuant to an agreement with the Dept. of Insurance. The second fire and lightning tax is at the rate of 0.5% on coverage provided within municipalities and fire districts; the proceeds of this tax are distributed to the municipalities and fire districts for fire fighters' local relief funds.

This bill appropriates \$134,021 for the 1996-97 fiscal year to the Department of Revenue for three positions and operating expenses to support

the work to administer tax collection of all gross premium taxes, tax on fire and lightning insurance contracts, and the insurance regulatory surcharge.

EFFECTIVE DATE:

July 1, 1996 for appropriation to Department of Revenue to support costs to implement the act; January 1, 1997 actual transfer of collection responsibilities.

PRINCIPAL DEPARTMENT(S)/PROGRAM(S) AFFECTED:

NC. Department of Revenue
 NC. Department Insurance

FISCAL IMPACT

	<u>FY 96-97</u>	<u>FY 97-98</u>	<u>FY 98-99</u>	<u>FY 99-00</u>	<u>FY 00</u>
EXPENDITURES					
Recurring	\$ 90,474	117,655	119,331	121,041	122,784
Non-recurring	16,505				
Total	\$ 106,979	117,655	119,331	121,041	122,784
POSITIONS:	3	3	3	3	3

METHODOLOGY

The bill designates the Department of Revenue would add two processing positions and one auditing position. A more accurate explanation from the Department of Revenue indicates the following assignment of personnel: one position will perform collection and recording requirements in the Office Examinations Division, one will assist with accounting functions in the Accounting Division, and one will conduct field audits in the Field Operations Division. Funding requirements are outlined below and reflect costs to support positions and operating requirements for nine (9) months during the 1996-97 fiscal year:

	1 Position	2 nd Position	3 rd Position
Salary	\$13,729	\$12,715	\$25,561
Benefits	4,273	4,086	6,460
Total	\$18,002	\$16,801	\$32,021

Position number one is for a Processing Assistant IV at a grade of 59. The second position is a Processing Assistant III at a grade 57 and the third position is for a Revenue Tax Auditor at a grade 74 for a total of \$66,824 in salaries and benefits. The operating expense associated with the new personnel is \$23,650. The total of salaries, benefits, and operation (recurring) cost is \$90,474. The non-recurring cost is for equipment and furniture; \$16,505. The salaries and benefits are increased annually at a rate of 2%.

CONSIDERATIONS:

In the 1995 Session when the majority of the gross premiums tax and insurance regulatory surcharge tax (approximately \$211 million) was transferred from the Department of Insurance to the Department of Revenue, funding was appropriated to the Dept. of Revenue to support two new positions - a Revenue Tax Auditor and a Processing Assistant V. Although the responsibility for collecting the additional 1.33% tax on fire and lightning premiums remained with the Dept. of Insurance under the 1995 legislation, the Dept. of Revenue is already collecting it pursuant to an agreement with the Dept. of Insurance. This additional fire and lightning premiums tax amounts to approximately \$6.5 million.

In response to HB 1095 and receiving these additional tax collection responsibilities which total approximately \$22.5 million, the Dept. of Revenue is requesting three additional positions. Of the three positions requested, only one will be replacing tax collection functions currently associated with self-insured worker's compensation gross premiums tax and fire and lightning premiums tax in the Dept. of Insurance. The Dept. of Insurance indicates that these tax collection responsibilities are currently part of the duties assigned to three separate positions, and that the sum total of tax collection time for the three is less than half a position.

The accounting position and the field audit position requested are based on the Dept. of Revenue's estimated work requirements for collection of all gross premium taxes, additional premium taxes on fire and lightning insurance contracts, and the insurance regulatory surcharge in a manner consistent with operating policies of the Dept. of Revenue. The Dept. of Revenue feels that a separate accounting function is needed in order to provide better internal control over tax collection and recording of insurance taxes. This was cited as a potential problem in Coopers and Lybrand's financial related audit of the Department of Insurance, January 1995. Additionally, the Dept. of Insurance does not conduct field tax compliance audits, a main element of the Dept. of Revenue's operations. The Dept. of Revenue indicates that such tax audits are necessary to help assure better tax compliance. Consequently they are requesting a Revenue Tax Auditor to conduct these audits.

FISCAL RESEARCH DIVISION

733-4910

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