

NORTH CAROLINA GENERAL ASSEMBLY

LEGISLATIVE FISCAL NOTE

BILL NUMBER: HB 1476 (House Finance Committee Substitute) Update Internal Revenue Code. Reference

SHORT TITLE: Update Internal Revenue Code. Reference

SPONSOR(S): Representatives Miller, Luebke, and Allen

FISCAL IMPACT

	Yes (x)	No ()	No Estimate Available ()		
	(\$ Million)				
	<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>
REVENUES					
GENERAL FUND	11.8	3.2	1.4	.9	.1

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

EFFECTIVE DATE: Sections 2 and 3 of this bill are effective December 1, 1999, and apply to prosecutions brought on or after that date. 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.

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.

FISCAL RESEARCH DIVISION 733-4910

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APPROVED BY: Tom Covington

DATE: June 14, 1999

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
TOTAL		11.76	3.15	1.43	.87	.07	-1.59	-1.71	-.94	1.75

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 2002, 80% in 2003 through 2005, 90% in 2006, and 100% in 2007 and thereafter,

Wednesday, June 16, 1999



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