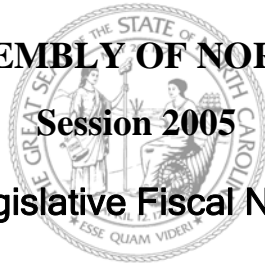


GENERAL ASSEMBLY OF NORTH CAROLINA



Session 2005

Legislative Fiscal Note

BILL NUMBER: House Bill 1898 (First Edition)

SHORT TITLE: S Corp Income Tax Adjustments.

SPONSOR(S): Representative Wilkins

FISCAL IMPACT					
	Yes (X)	No ()	No Estimate Available ()		
	<u>FY 2006-07</u>	<u>FY 2007-08</u>	<u>FY 2008-09</u>	<u>FY 2009-10</u>	<u>FY 2010-11</u>
REVENUES:	See "Assumptions and Methodology"				
EXPENDITURES:					
PRINCIPAL DEPARTMENT(S) & PROGRAM(S) AFFECTED: North Carolina Department of Revenue.					
EFFECTIVE DATE: Tax years beginning on or after January 1, 2006.					

BILL SUMMARY: A C Corporation cannot be a shareholder of an S Corporation. All S shareholders must be individuals or trusts, which means that the taxpayer is subject to the individual income tax. However, current law results in an individual's pro rata share of S Corporation income attributable to North Carolina being subject to corporate income tax adjustments, while S Corporation income not attributable to North Carolina is subject to individual income tax adjustments. The proposal would make an individual's pro rata share of income from an S Corporation subject only to the individual income tax adjustments, rather than being subject to both individual and corporate income tax adjustments. This approach would be more consistent with the tax treatment of an S Corporation generally and would simplify tax form preparation. Consequently, it may result in a higher degree of compliance with the law.

ASSUMPTIONS AND METHODOLOGY: The Department of Revenue has indicated on more than one occasion that the proposal would have a negligible revenue impact because many of the adjustments are duplicated in both individual and corporate income tax law and that some of the adjustments under the corporate income tax that are not under the individual income tax are not applicable to S corporation income tax. Thus, the change has limited application

SOURCES OF DATA: North Carolina Department of Revenue.

TECHNICAL CONSIDERATIONS: None

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DATE: May 24, 2006



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