GENERAL ASSEMBLY OF NORTH CAROLINA

Session 2007

Legislative Fiscal Note

BILL NUMBER: House Bill 2336 (First Edition)

SHORT TITLE: Extend R&D Credit.

SPONSOR(S): Representatives Weiss, Luebke, Wainwright, and Gibson

FISCAL IMPACT

	Yes ( )	No ( )	No Estimate Available ( )		
	FY 2008-09	**FY 2009-10**	**FY 2010-11**	**FY 2011-12**	**FY 2012-13**
REVENUES ($ millions):					
R & D credit	**(1.0)**	**(2.1)**	**(2.3)**	**(2.5)**	**(2.6)**
EXPENDITURES:					
POSITIONS (cumulative):					

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

EFFECTIVE DATE: This act would be effective when it becomes law.

BILL SUMMARY: This proposal extends for five years the following the tax credit for research and development due to expire January 1, 2009:

Credit for Research and Development

In 2004, the General Assembly enacted a new research and development tax credit as an alternative to the Bill Lee research and development credit, which was set to expire along with the entire Bill Lee Act as of January 1, 2006.

Eligibility. **–** Effective for expenses on or after May 1, 2005, a taxpayer that has qualified North Carolina research expenses or North Carolina University research expenses is allowed a credit. The taxpayer must satisfy Bill Lee Act requirements related to employee wages, the provision of health insurance, the taxpayer's Occupational Safety and Health Act record, and the taxpayer's environmental record. The taxpayer is not required to have no overdue tax debts.

Credit Amount. – For North Carolina university research expenses, the credit amount is equal to 20% of the amount the taxpayer paid to the university for the research and development. For all other qualified research expenses, the credit is equal to a percentage of the expenses as follows:

- For small businesses[1], the rate is 3.25%.
- For research and development conducted in a development tier one area, the rate is 3.25%.
- For other research and development expenditures, the rate ranges from 1.25% to 3.25% as the amount of those expenditures increases.

Sunset. – The credit is currently scheduled to expire for taxable years beginning on or after January 1, 2009. This bill would extend the tax credit for five years, until January 1, 2014.

ASSUMPTIONS AND METHODOLOGY: The methodology used to estimate the fiscal impact of extending the tax credits through 2013 was to examine the level of credits currently taken and estimate future growth based on current trends in the credit combined with a forecast of economy-based growth. Since this credit is relatively new and has seen only modest use since its inception in 2005. it is expected to grow moderately over the next several years.. With recent enhancements to the credit and a noticeable increase in credits taken, the credits could reach $2 million for FY 2008-09 and future growth is anticipated at nearly 7 percent per year. Because tax credits are typically taken based on tax years, which do not coincide with the State’s fiscal year, FY 2008-09 losses represent a partial year’s credits.

SOURCES OF DATA: Department of Revenue, Moody’s economy.com

TECHNICAL CONSIDERATIONS: None

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Signed Copy Located in the NCGA Principal Clerk's Offices

[1] A small business is a business whose annual receipts, combined with the annual receipts of all related persons, does not exceed $1,000,000.