

# GENERAL ASSEMBLY OF NORTH CAROLINA



Session 2007

## Legislative Fiscal Note

**BILL NUMBER:** Senate Bill 238 (Second Edition)

**SHORT TITLE:** Modify Tax on Property Coverage Contract.

**SPONSOR(S):** Senator Kerr

FISCAL IMPACT (\$ millions)					
	Yes (X)	No ( )	No Estimate Available ( )		
	<u>FY 2007-08</u>	<u>FY 2008-09</u>	<u>FY 2009-10</u>	<u>FY 2010-11</u>	<u>FY 2011-12</u>
<b>REVENUES:</b>					
General Fund	(\$1.49)	(\$3.07)	(\$3.28)	(\$3.52)	(\$3.76)
Vol. Fire Dept. Fund	\$1.49	\$3.07	\$3.28	\$3.52	\$3.76
<b>PRINCIPAL DEPARTMENT(S) &amp; PROGRAM(S) AFFECTED:</b> Department of Revenue, Department of Insurance					
<b>EFFECTIVE DATE:</b> January 1, 2008					

### BACKGROUND:

During the 2005-06 Session, the General Assembly enacted HB 1891, which simplified the additional tax on gross premiums for fire and lightning coverage. The bill combined the existing statewide and local taxes on this coverage and clarified the types and percentages of premiums subject to the tax. The bill also established percentages for distribution of the proceeds under the combined tax that were proportional to the distributions under the separate state and local taxes. The bill also established a tax rate for the statewide tax distribution and a new method for distributing the Firemen's Relief Fund portion of the tax. The existing method of distribution required insurance companies to document premiums written by fire district and a simpler method was created under HB1891 to eliminate the need to track premiums by district.

### BILL SUMMARY:

Senate Bill 238 establishes a revenue neutral rate of 0.74% for the combined statewide tax established under HB1891. The bill also reduces the percentage of collections going to the General Fund to allow additional funding for the Volunteer Fire Department Fund. The distribution established under HB 1891 for the tax is: General Fund - 55%; Firemen's Relief Fund - 25%; and Volunteer Fire Department Fund - 20%. SB 238 reduces the General Fund allocation by 10% and increases the Volunteer Fire Department Fund allocation by 10%. This bill also establishes the

distribution method for the portion of the tax that is distributed for the Firemen’s Relief Fund. The new distribution method provides for each county to receive the same amount it received in the previous fiscal year as a base distribution. The incremental change in the total allocation for the relief fund would be distributed to each county based on population and distributed to fire districts within each county based on property values. Finally, the bill changes the criteria the Department of Insurance uses in providing grants to volunteer fire departments by increasing the maximum size of the grants to \$30,000; increasing the maximum population of eligible districts to 12,000; and increasing the maximum number of allowed paid firefighters on staff from three to six.

**ASSUMPTIONS AND METHODOLOGY:**

The revenue neutral rate in the bill is derived by dividing annual collections by the taxable premiums. Information on calendar year premiums for 2005 was available from the Department of Insurance. The NC Department of Revenue provided tax collections for the period of April 2005 through March 2006, the time period for which collections most closely correspond to 2005 premiums. The rate resulting from this calculation is 0.74%.

To determine the amount of revenue loss to the General Fund related to the change in percentage allocations, fire and lightning tax collections were projected for the next five fiscal years based on the relationship between gross premiums collections and North Carolina personal income, for which projections are available from Moody’s Economy.com. Both the current and proposed allocation percentages are applied to the projected fiscal year collections. The differences between the current and proposed allocations represent the annual loss and gain for the General Fund and Volunteer Fire Department Fund, respectively. Because the effective date is January 1, 2008, the impact for FY 2007-08 is partial. The new allocations would apply to installments made in April and June, which represent approximately 52% of fiscal year collections. Therefore, the General Fund revenue loss for FY 2007-08 was calculated by applying the new percentage allocation to 52% of the fiscal year revenue and applying the current allocation to the remaining portion.

<b>Current Allocation Fire and Lightning Tax (Included in HB 1891) (\$ millions)</b>					
	FY 2007-08	FY 2008-09	FY 2009-10	FY 2010-11	FY 2011-12
General Fund 55%	\$15.79	\$16.87	\$18.07	\$19.35	\$20.70
Volunteer Fire Fund 20%	\$5.74	\$6.13	\$6.57	\$7.04	\$7.53
Firemen’s Relief Fund 25%	\$7.18	\$7.67	\$8.21	\$8.80	\$9.41
<b>Total</b>	<b>\$28.71</b>	<b>\$30.67</b>	<b>\$32.85</b>	<b>\$35.19</b>	<b>\$37.64</b>

<b>Proposed Allocation under SB 238 - Fire and Lightning Tax (\$ millions)</b>					
	FY 2007-08	FY 2008-09	FY 2009-10	FY 2010-11	FY 2011-12
General Fund 45%	\$14.29	\$13.80	\$14.78	\$15.83	\$16.94
Volunteer Fire Fund 30%	\$7.23	\$9.20	\$9.85	\$10.56	\$11.29
Firemen's Relief Fund 25%	\$7.17	\$7.67	\$8.21	\$8.80	\$9.41
<b>Total</b>	<b>\$28.71</b>	<b>\$30.67</b>	<b>\$32.85</b>	<b>\$35.19</b>	<b>\$37.64</b>

**SOURCES OF DATA:** NC Department of Revenue; NC Department of Insurance; Moody's Economy.com

**TECHNICAL CONSIDERATIONS:** None

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