GENERAL ASSEMBLY OF NORTH CAROLINA

Session 2015

Legislative Fiscal Note

BILL NUMBER: House Bill 991 (First Edition)

SHORT TITLE: Small Business Incentive Act.

SPONSOR(S): Representatives Alexander and R. Moore

FISCAL IMPACT
($ in millions)

☑ Yes ☐ No ☑ No Estimate Available

	FY 2016-17	FY 2017-18	FY 2018-19	FY 2019-20	FY 2020-21
State Impact					
General Fund Revenues:					
General Fund Expenditures:					
State Positions:					
NET STATE IMPACT	**No estimate available. Please see Assumptions & Methodology section for additional details.**				
Local Impact					
Revenues:					
Expenditures:					
NET LOCAL IMPACT	**No estimate available. Please see Assumptions & Methodology section for additional details.**				

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

EFFECTIVE DATE: July 1, 2016

TECHNICAL CONSIDERATIONS:
None

BILL SUMMARY:

Section 1

Under Chapter 105 of the General Statutes, North Carolina imposes a Sales and Use tax on the sale at retail and the use, storage, or consumption in North Carolina of tangible personal property, unless the property is specifically exempted from the Sales and Use tax under G.S. 105-164.13 or other provision of law.

The bill amends GS 105-164.13 by adding a new subsection (66) to exempt certain tangible personal property (TPP) that:

1) Represents a leasehold improvement or new equipment that will be used to produce goods or deliver services by a small business whose gross annual sales do not exceed $2 million;
2) Is capitalized by the taxpayer for tax purposes under the Internal Revenue Code; and
3) Has a value of at least $50,000.

Under the bill, the following items would not be eligible for this tax exemption, even if they met the above criteria:

1) A passenger automobile with a price exceeding $100,000;
2) A passenger automobile not used principally for business purposes; and
3) A watercraft used principally for entertainment and pleasure outings for which no admission is charged.

Section 1 is effective July 1, 2016, and applies to sales made on or after that date.

Section 2

Amends GS 105-275 to add a new subsection (49) to the classes of property designated as special classes under Article V, Section 2(2), of the Constitution. Fifteen percent (15%) of the appraised value of tangible personal property is excluded from the property tax base if the property is exempt from sales tax under GS 105-164.13(66) and the tangible personal property has a value of at least $100,000. Effective for taxes imposed for taxable years beginning on or after July 1, 2016.

ASSUMPTIONS AND METHODOLOGY:

Section 1

The fiscal impact will result from reduced Sales and Use tax revenue for items that meet the criteria outlined in the bill, as these items are currently subject to the State's Sales and Use tax, whose rate ranges by county from a low of 6.75% to a high of 7.5%.

By capping gross receipts at $2 million per business, the bill restricts which businesses would be eligible to claim the exemption. Data from the Department of Revenue suggest that North Carolina has approximately 800,000 businesses; an analysis of data regarding these businesses suggests that approximately 90% have gross receipts of under $2 million. Nearly half of those represent sole proprietorships, most of which are unlikely to purchase eligible equipment due to the $50,000 minimum threshold for eligibility.

The bill also limits the number of articles of TPP for which the exemption applies. However, neither the Department of Revenue nor the IRS has data that enables Fiscal Research to identify the number of eligible businesses that intend to make eligible leasehold improvements or new equipment purchases of over $50,000. Consequently, no specific estimate of fiscal impact is available for Section 1.

Section 2

Section 2 would reduce property tax revenues from business personal property that is exempted under the bill. The Department of Revenue does not have data on the value of business personal property. The value of non-motor vehicle personal property is $77 billion for FY 2015-16; however, this figure includes a large component of other personal property. Because the bill limits the exclusion to businesses with gross receipts under $2 million and capitalized equipment with a value of at least $50,000, the value of excluded property would be a small portion of total business personal property, however, insufficient data is available to determine the value of the exclusion.

SOURCES OF DATA: North Carolina Department of Revenue

TECHNICAL CONSIDERATIONS: None

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