NORTH CAROLINA GENERAL ASSEMBLY

LEGISLATIVE FISCAL NOTE

BILL NUMBER: HB 317 (First Edition)

SHORT TITLE: Tax Loophole Out/ Alternative Schools In

SPONSOR(S): Representatives Gamble and Luebke

FISCAL IMPACT

Yes (X**)** **No ( )** **No Estimate Available ( )**

($Million)

	FY 1997-98	FY 1998-99	FY 1999-00	FY 2000-01	FY 2001-02
REVENUES					
General Fund	$43.4	$31.4	$33.0	$34.6	$36.3
EXPENDITURES					
General Fund	$43.4	$29.9	0	0	0
Net Impact on Gen. Fund	0	$1.5	$33.0	$34.6	$36.3

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

EFFECTIVE DATE: The corporate tax change is effective for taxable years beginning on or after January 1, 1997. The appropriation is effective July 1, 1997.

BILL SUMMARY: Since 1969, only a corporation domiciled or based in North Carolina, that holds more than 50% of the outstanding voting stock of a subsidiary, may deduct the dividends it receives from that subsidiary. Recent U.S. Supreme Court cases have found that a state cannot discriminate in favor of local commerce against out-of-state commerce. Legislative and Attorney General attorneys believe the subsidiary dividend law discriminates against out-of-state companies and suggest the law be changed before it is challenged in court. The bill would extend the subsidiary dividend deduction to out-of-state corporations and would subtract up to 15% of income-related expenses from the dividends, before the dividends are deducted.

The income earned from the tax change in the first two fiscal years will be spent on State Aid to Local School Administrative Units in FY 1997-98 and on Alternative Schools/At Risk Student allotment in FY 1998-99.

ASSUMPTIONS AND METHODOLOGY: The Tax Research Division of the Department of Revenue estimates the proposed change in the subsidiary dividend deduction will generate $29.9 million a year for the General Fund when fully implemented. The revenue gain for FY 1997-98 will be approximately $43.4 million, based on corporations paying for Tax Year 1997 and for two estimated payments in the first six months of Tax Year 1998. The Department of Revenue believes a 5% growth rate is appropriate for estimating future years. The Department hopes to revise their estimate by mid April 1997 when more recent corporate income data becomes available.

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