

NORTH CAROLINA GENERAL ASSEMBLY

LEGISLATIVE FISCAL NOTE

BILL NUMBER: SB 841 (Second Edition) **REVISED NOTE**

SHORT TITLE: Modify Corporate Dividend Taxation

SPONSOR(S): Senator Hoyle

FISCAL IMPACT					
	Yes (X)	No ()	No Estimate Available ()		
	(\$Million)				
	<u>FY 1997-98</u>	<u>FY 1998-99</u>	<u>FY 1999-00</u>	<u>FY 2000-01</u>	<u>FY 2001-02</u>
REVENUES					
General Fund	(\$3.35)	(\$3.40)	(\$3.51)	(\$3.69)	(\$3.87)
PRINCIPAL DEPARTMENT(S) & PROGRAM(S) AFFECTED:	Department of Revenue				
EFFECTIVE DATE:	Effective for taxable years beginning on or after January 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 clarify that dividend income can be either business income or non-business income.

ASSUMPTIONS AND METHODOLOGY: Using a database of 1994 taxable C corporations, the Tax Research Division of the Department of Revenue estimates the proposed changes in corporate dividend taxation in SB 841 will create a \$3.35million loss in the General Fund for FY 1997-98. The state's revenue loss is a tax savings to both the non-NC domiciled corporations (\$3.05 million) and the NC domiciled corporations (\$.3 million). The Department of Revenue believes a 5% growth rate in dividends is appropriate for estimating the impact in future years. The tax loss is reduced by the decline of the corporate income tax rate over the next three years as follows:

FY 1997-98	7.25%
FY 1998-99	7.0%
FY 1999 & thereafter	6.9%

FISCAL RESEARCH DIVISION

DATE: July 30, 1997

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