

GENERAL ASSEMBLY OF NORTH CAROLINA



Session 2009

Legislative Fiscal Note

BILL NUMBER: Senate Bill 1006 (Third Edition)

SHORT TITLE: Withholding on Contractors Identified by ITIN.

SPONSOR(S): Senator Hoyle

FISCAL IMPACT					
	Yes (x)	No ()	No Estimate Available ()		
	<u>FY 2009-10</u>	<u>FY 2010-11</u>	<u>FY 2011-12</u>	<u>FY 2012-13</u>	<u>FY 2013-14</u>
REVENUES:					
General Fund	*Estimated impact of \$8 million in FY 09-10 - potential annual increase of \$18 million – see assumptions and methodology*				
PRINCIPAL DEPARTMENT(S) & PROGRAM(S) AFFECTED: NC Department of Revenue					
EFFECTIVE DATE: Effective for taxable years beginning on or after January 1, 2010.					

BILL SUMMARY:

Senate Bill 1006 would require a person who, in the regular course of a trade or business, pays more than \$1,500 during a calendar year as compensation other than wages to an ITIN holder to withhold 4% of the payment and remit the withheld taxes to the Department of Revenue. An ITIN holder is defined as a person whose taxpayer identification number is an Individual Taxpayer Identification Number (ITIN). An ITIN is issued to a person who is required to have a taxpayer identification number but is not eligible to obtain a social security number.

ASSUMPTIONS AND METHODOLOGY:

Compensation paid to ITIN holders, along with other non-employee compensation payments, is reported to the Internal Revenue Service on the Form 1099 Misc. return. The Department of Revenue receives extract tapes containing Form 1099 data through the Federal Data Exchange Program. Based on 2006 tax year data, the most recent year for which data is available, the Department estimates that non-taxed income received by individuals with ITIN numbers and tax liability in excess of \$300 amounted to \$452 million.

SB 1006 would require withholding of 4% of compensation paid to contractors with ITINs. Applying the 4% rate to the non-taxed income figure of \$452 million results in an annual revenue increase of \$18.1 million. Because the bill would be in effect for only half of FY 2009-10 and to allow for minor implementation lags, an estimate of \$8 million is used for the first-year impact.

SOURCES OF DATA: NC Department of Revenue

TECHNICAL CONSIDERATIONS: None

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