



NORTH CAROLINA GENERAL ASSEMBLY

Session 2019

Legislative Fiscal Note

Short Title: Tax Reduction Act of 2019.
Bill Number: Senate Bill 622 (First Edition)
Sponsor(s): Senators Tillman, Hise, and Newton

SUMMARY TABLE

FISCAL IMPACT OF S.B. 662. V. 1 (\$ in millions)

	<u>FY 2019-20</u>	<u>FY 2020-21</u>	<u>FY 2021-22</u>	<u>FY 2022-23</u>	<u>FY 2023-24</u>
State Impact					
General Fund Revenue					
Personal Income Tax	(1.0)	(39.9)	(87.8)	(88.5)	(89.3)
Corporate Tax	(98.9)	(232.4)	(242.1)	(252.1)	(262.5)
Sales and Use Taxes	94.6	132.2	137.5	142.9	148.6
Other Tax Changes	-	(4.5)	(5.0)	(5.5)	(6.0)
General Fund Impact	(5.3)	(144.6)	(197.4)	(203.2)	(209.2)
Highway Fund Revenue					
Sales and Use Taxes	-	(5.4)	(10.8)	(10.9)	(11.1)
Highway Fund Impact	-	(5.4)	(10.8)	(10.9)	(11.1)
NET STATE IMPACT	(\$5.3)	(\$150.0)	(\$208.2)	(\$214.1)	(\$220.3)
Local Revenue Impact					
Sales and Use Taxes	<u>45.2</u>	<u>60.6</u>	<u>60.5</u>	<u>63.1</u>	<u>65.7</u>
NET LOCAL IMPACT	\$45.2	\$60.6	\$60.5	\$63.1	\$65.7

FISCAL IMPACT SUMMARY

S622, Tax Reduction Act of 2019, makes the following changes:

Personal Income Taxes

- Section 1.1 increases the standard deduction from \$10,000 to \$10,375 for single taxpayers or married taxpayers filing separately; from \$15,000 to \$15,563 for taxpayers filing as head of household; and from \$20,000 to \$20,750 for married taxpayers filing jointly effective 2021.

- Section 1.2 allows taxpayers age 70.5+ to roll over distributions to charitable nonprofits tax-free beginning 2019.

Corporate Income and Franchise Taxes

- Sections 2.1 through 2.3 reduce the franchise tax rate to \$1.30/\$1,000 effective for 2019 returns and to \$1.00/\$1000 effective for 2020 returns. They also eliminate the 55% appraised value base and keep the \$1.50 tax rate for utilities until 2026.
- Sections 3.1 through 3.6 enact market-based sourcing, effective for 2020 returns.
- Sections 4.1 through 4.9 require marketplace facilitators to collect and remit sales tax under certain circumstances.
- Section 5.1 provides a tax deduction for State economic incentive grants, effective for 2019.

Sales and Use Taxes

- Section 5.3.(a) extends the sunset date for an existing sales tax exemption for qualifying airlines until January 1, 2024.
- Sections 5.3.(b) – (c) extend the sunset date for existing sales tax exemptions and refunds for the motorsports industry until January 1, 2024.

Other Tax Changes

- Section 5.2 extends the State’s Historic Rehabilitation Tax Credit to include expenses incurred by January 1, 2024.
- Sections 6.1 through 6.5 provide tax and regulatory exemptions for companies and individuals that come into the state exclusively to perform disaster recovery work during a disaster response period.

FISCAL ANALYSIS

Personal Income Tax

Personal Income Tax Changes	FY 2019-20	FY 2020-21	FY 2021-22	FY 2022-23	FY 2023-24
- Standard Deduction change	-	(38.9)	(86.7)	(87.4)	(88.1)
- IRA Distributions to Charities	(1.0)	(1.0)	(1.1)	(1.1)	(1.2)
Total	(1.0)	(39.9)	(87.8)	(88.5)	(89.3)

The estimated fiscal impact was calculated using NC tax return data, the Fiscal Research Microsimulation Tax Model, IRS tax data for NC filers, and information from the Joint Committee on Taxation. Analysis and modeling inputs took into consideration a standard deduction of \$20,750 for married taxpayers filing jointly, \$15,563 for taxpayers filing as head of household, and \$10,375 for single taxpayers or married taxpayers filing separately.

The maximum reduction in annual personal income tax liability due to the increase in the standard deduction is approximately \$20 per return for single taxpayers or married taxpayers filing separately; \$30 for taxpayers filing as head of household; and \$39 for married taxpayers filing jointly.

Corporate Income and Franchise Tax

Corporate Income & Franchise Tax Changes	FY 2019-20	FY 2020-21	FY 2021-22	FY 2022-23	FY 2023-24
- Franchise tax changes	(101.9)	(239.9)	(250.0)	(260.5)	(271.4)
- Market-based sourcing	3.0	7.5	7.9	8.4	8.9
- Deduction for economic incentive grants	Revenue decrease of less than \$1m per year.				
Total	(98.9)	(232.4)	(242.1)	(252.1)	(262.5)

The fiscal impact was estimated based on the consensus revenue forecast, and based on statistics showing the number of filers and amount of tax collected by tax base. The impact of the change to the apportionment calculation was calculated based on informational reports submitted by corporations showing the amount of taxable income and taxable franchise tax base under current law compared to the proposed methodology. Adjustments were made to account for other factors including changes to the calculation of the tax base and changes to the tax rates that occurred subsequent to the filing of the informational reports.

Sales and Use Taxes

Sales and Use Tax Changes	FY 2019-20	FY 2020-21	FY 2021-22	FY 2022-23	FY 2023-24
General Fund					
- Marketplace facilitators	97.5	135.2	140.6	146.2	152.0
- Motorsports sales tax benefits	(2.9)	(3.0)	(3.1)	(3.3)	(3.4)
Subtotal	94.6	132.2	137.5	142.9	148.6
Highway Fund					
- Airline fuel sales tax exemption	-	(5.4)	(10.8)	(10.9)	(11.1)
Total	94.6	126.8	126.7	132.0	137.5

Marketplace Facilitators

The bill newly requires marketplace facilitators to collect and remit sales taxes. This requirement will increase General Fund sales tax revenue. The potential impact was estimated using multiple data points, including:

- State General Fund revenue increases experienced since the Department of Revenue implemented a requirement that non-marketplace online retailers collect and remit sales taxes under certain conditions, due to the US Supreme Court's June 2018 ruling in *South Dakota v. Wayfair, Inc.*;
- Amazon.com, Inc.'s Quarterly Earnings Reports.
- US Census Bureau estimates of United States' ecommerce revenues.

The FY 2019-20 revenue estimate assumes a July 1 enactment and September 1 implementation.

Sales Tax Benefits for Motorsports

The bill extends current sales tax exemptions and refunds for professional motorsports teams which otherwise would sunset January 1, 2020; the bill extends the sunset until January 1, 2024.

Fiscal Research used data from the North Carolina Department of Revenue’s 2017 Tax Expenditure Report to determine the annual cost of these tax benefits.

Sales Tax Exemption for Qualifying Airlines

The bill extends from January 1, 2020 to January 1, 2024, the expiration for a sales tax exemption for sales of aviation gasoline and jet fuel to an interstate air business for use in a commercial aircraft. This extension reduces revenue in the Highway Fund, where the revenue would otherwise be credited. Revenue estimates are based on proprietary data provided by industry, as well as data provided by the Department of Revenue.

Other Tax Changes

Other Tax Changes	FY 2019-20	FY 2020-21	FY 2021-22	FY 2022-23	FY 2023-24
- Disaster relief legislation.	Unknown decrease in corporate, franchise, individual income tax.				
- Historic Rehabilitation Tax Credit	-	(4.5)	(5.0)	(5.5)	(6.0)
Total	-	(4.5)	(5.0)	(5.5)	(6.0)

Historic Rehabilitation Tax Credit

Under current law, the tax credit expires for expenses incurred on or after January 1, 2020. The bill extends the expiration date, resulting in a loss of tax revenue. The estimate is based on tax return data showing the reduction in tax collections resulting from the credit.

TECHNICAL CONSIDERATIONS

N/A.

DATA SOURCES

Department of Revenue; US Bureau of Economic Analysis; Securities and Exchange Commission; Moody’s Analytics; Internal Revenue Statistics of Income Program; Joint Committee on Taxation

FISCAL ANALYSIS MEMORANDUM – PURPOSE AND LIMITATIONS

This document is a fiscal analysis of a bill, draft bill, amendment, committee substitute, or conference committee report that is confidential under Chapter 120 of the General Statutes. The estimates in this analysis are based on the data, assumptions, and methodology described in the Fiscal Analysis section of this document. This document only addresses sections of the bill that have projected direct fiscal impacts on State or local governments and does not address sections that have no projected fiscal impacts. This document is not an official fiscal note. If a formal fiscal note is requested, please email your request to the Fiscal Research Division at FiscalNoteRequests@ncleg.net or call (919) 733-4910.

LEGISLATIVE FISCAL NOTE – PURPOSE AND LIMITATIONS

This document is an official fiscal analysis prepared pursuant to Chapter 120 of the General Statutes and rules adopted by the Senate and House of Representatives. The estimates in this analysis are based on the data, assumptions, and methodology described in the Fiscal Analysis section of this document. This document only addresses sections of the bill that have projected direct fiscal impacts on State or local governments and does not address sections that have no projected fiscal impacts.

CONTACT INFORMATION

Questions on this analysis should be directed to the Fiscal Research Division at (919) 733-4910.

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