



NORTH CAROLINA GENERAL ASSEMBLY

Session 2021

Legislative Fiscal Note

Short Title: JOBS Grants and Tax Relief.
Bill Number: House Bill 334 (Fourth Edition)
Sponsor(s):

SUMMARY TABLE

The following table summarizes the fiscal impact of the bill by tax type. A more detailed fiscal chart is shown on page 3 of this document.

FISCAL IMPACT OF HB 334, V4 (\$ in millions)

	<u>FY 2021-22</u>	<u>FY 2022-23</u>	<u>FY 2023-24</u>	<u>FY 2024-25</u>	<u>FY 2025-26</u>
State Impact					
General Fund Revenue					
Federal ARPA Funds	1,000.0	-	-	-	-
Personal Income Tax	(584.3)	(1,287.4)	(1,324.5)	(1,363.9)	(1,404.8)
Corporate Income Tax	-	-	(78.0)	(279.4)	(497.7)
Franchise Tax	-	(150.0)	(156.3)	(162.9)	(169.7)
Miscellaneous	9.2	11.1	5.7	(29.3)	(18.0)
Transfer to Highway Fund	(69.4)	(71.6)	(71.6)	(71.7)	(71.7)
Less Expenditures	1,000.0	-	-	-	-
General Fund Impact	(644.5)	(1,497.9)	(1,624.7)	(1,907.2)	(2,161.9)
Highway Fund Revenue	69.4	71.6	71.6	71.7	71.7
Less Expenditures	-	-	-	-	-
Highway Fund Impact	69.4	71.6	71.6	71.7	71.7
Univ. Cancer Research Fund Revenue	6.6	13.5	13.7	14.0	14.3
Less Expenditures	-	-	-	-	-
UCRF Impact	6.6	13.5	13.7	14.0	14.3
NET STATE IMPACT	(\$568.5)	(\$1,412.8)	(\$1,539.4)	(\$1,821.5)	(\$2,075.9)
Local Impact					
Local Revenue	-	-	-	-	-
Miscellaneous	(1.8)	(1.8)	(1.8)	(1.7)	(1.7)
Less Local Expenditures	-	-	-	-	-
NET LOCAL IMPACT	(\$1.8)	(\$1.8)	(\$1.8)	(\$1.7)	(\$1.7)

FISCAL IMPACT SUMMARY

Part I. JOBS Grant Program

Section 1.2 appropriates \$1 billion of federal funds to the Office of State Budget and Management to allocate to the Department of Commerce for grant payments to North Carolina businesses that received financial assistance from certain State or federal COVID-related programs.

Part II. Tax Policy Initiatives and Part III. Internal Revenue Code Update

- Section 2A.1 reduces tax revenue by lowering the Personal Income tax rate from 5.25% to 4.99%;
- Section 2A.2 reduces tax revenue by increasing the Personal Income tax standard deduction to match the 2022 federal standard deduction;
- Section 2A.3 reduces tax revenue by increasing the Personal Income tax child deduction by \$500 and expanding eligibility for the deduction;
- Section 2B.1 reduces tax revenue by eliminating the Corporate Income tax over five years;
- Section 2C.1 reduces revenue by eliminating the North Carolina property bases from the Franchise tax calculation;
- Section 2D.1 reduces tax revenue by extending the time to complete eligible Mill Rehabilitation tax credit projects by two years;
- Section 2E.1 reduces tax revenue by limiting Gross Premium tax base for premiums paid to a surety bondsman to the amount paid by the surety bondsman to the insurer of the bail bonds;
- Section 2F.1 increases tax revenue to the General Fund and the University Cancer Research Fund by expanding the State’s existing 12.8% excise tax on Other Tobacco Products to include all cigars shipped to North Carolina residents from out of State sellers. It also places a cap of 30¢ per cigar on all sales of cigars, regardless of whether they are sold in-person or online.
- Section 2G.1 increases State and local sales tax revenue by applying the existing general rates of sales and use tax to short-term motor vehicle rentals by a peer-to-peer vehicle sharing facilitator. The section also requires that peer-to-peer sales and use tax proceeds, along with all proceeds of the short-term motor vehicle rental tax and the vehicle subscription rental tax, be credited to the Highway Fund.
- Section 2H.1 reduces local property tax revenue by exempting from property tax: 1) vaccines, and 2) commercial real property set aside for burial purposes.
- Section 2I.1 replaces the 10% penalty for failure to pay tax due with a graduated penalty of 2% for each month that the payment is late, not to exceed a total penalty of 10%.
- Sections 3A – 3C lower the State’s personal income tax revenue by updating North Carolina’s reference to the Internal Revenue Code (IRC) from May 1, 2020 to April 1, 2021. The fiscal impact results from conforming to a lower threshold amount for the medical expense deduction (7.5% of income instead of 10%) for 2021 and beyond. The bill decouples from additional federal tax provisions that otherwise would reduce State revenue.



FISCAL ANALYSIS

Part I. JOBS Grant Program

The bill appropriates \$1 billion of federal funds for FY 2021-22 to be used for the State's new Job Opportunity and Business Saving Grant Program (JOBS Grant Program), which is designed to help businesses that received funds under the federal Paycheck Protection Program. The Department of Commerce may use up to \$1 million of these funds to administer the program.

Part II. Tax Policy Initiatives and Part III. IRC Update

The following table summarizes the General Fund impact of Parts II and III of the bill.

	FY 2021-22	FY 2022-23	FY 2023-24	FY 2024-25	FY 2025-26
TAX POLICY INITIATIVES					
Personal Income Tax (changes effective 2022 tax year)					
• Reduce tax rate to 4.99%					
• Increase standard deduction to match 2022 federal standard deduction					
• Conform to 2022 federal medical expense deduction					
• Increase child deduction by \$500 and expand eligibility up to AGI of \$140,000 MFJ, \$105,000 HOH, \$70,000 S/MFS					
Subtotal: Personal Income Tax	(584.3)	(1,287.4)	(1,324.5)	(1,363.9)	(1,404.8)
Corporate Income Tax					
• Repeal over 5 years: 2% in 2024; 1.5%, 2025; 1%, 2026; 0.5%, 2027; 0% in 2028	-	-	(78.0)	(279.4)	(497.7)
Franchise Tax					
• Eliminate alternate property bases (effective for tax calculated on 2022 returns)	-	(150.0)	(156.3)	(162.9)	(169.7)
Miscellaneous Tax Changes					
• Extend time to complete eligible Mill Rehabilitation projects	5.8	-	(5.8)	(41.0)	(30.0)
• Limit Gross Premiums Tax on surety of bail bonds	(0.7)	(1.0)	(1.0)	(1.0)	(1.0)
• Modify Excise tax on cigars	3.7	11.7	12.0	12.2	12.4
• Expand the sales tax base to include peer-to-peer (P2P) vehicle rentals	0.4	0.5	0.5	0.6	0.6
• Credit short-term vehicle rental and P2P proceeds to Highway Fund	(69.4)	(71.6)	(71.6)	(71.7)	(71.7)
• Replace flat 10% late tax penalty with graduated penalties.	No estimate	No estimate	No estimate	No estimate	No estimate
• Create local property tax exemptions for commercial cemeteries and vaccines held by private medical practices. (\$2 m loss to locals)	-	-	-	-	-
Subtotal: Miscellaneous Tax Changes	(60.2)	(60.5)	(65.9)	(101.0)	(89.7)
IRC UPDATE					
• Conform to 2022 federal medical expense deduction					Included in Personal Income Tax estimates above.
• SALT cap workaround and State NOL calculation	-	-	-	-	-
REVENUE LAWS CHANGES					
• Technical changes with no fiscal impact	-	-	-	-	-
Total General Fund Impact	(644.5)	(1,497.9)	(1,624.7)	(1,907.2)	(2,161.9)

Individual Income Tax Changes (Sections 2A.1 – 2A.3)

Fiscal Research estimated the impact of the individual income tax changes using the Fiscal Research Division's Individual Income Tax Microsimulation model. The full year impact of the individual income tax changes in 2022 is approximately \$1.2 billion. Because the income tax changes are effective for taxable years beginning January 1, 2022, the FY 2021-22 estimate includes the withholding and estimated payments for the first half of 2022, which represents approximately 45% of the annual impact.

Corporate Income Tax Changes (Section 2B.1)

The estimated fiscal impact of phasing out the corporate income tax is based on the most recent consensus revenue forecast for the biennium, adjusted for growth in subsequent years. Timing adjustments are made to account for differences between the State's fiscal year and the typical tax year.

Franchise Tax Change (Section 2C.1)

Fiscal Research estimated the impact of the franchise tax rate reduction based on the Consensus Revenue Forecast and based on franchise tax statistics provided by the Department of Revenue.

Mill Rehabilitation Extensions (Section 2D.1)

Extending the time to complete eligible projects will reduce State Revenue. Fiscal Research's estimate was developed based on a review of eligible projects and the projected average amount of credit used to reduce tax collections.

Gross Premiums Tax on Surety Bonds (Section 2E.1)

Fiscal Research estimated the impact using industry data comparing tax liability under current law vs. tax liability under the proposed tax base change.

Excise Tax on Cigars (Section 2F.1)

Fiscal Research's estimate is based on confidential, proprietary data from one or multiple tobacco companies.

Sales Tax on Peer-to-Peer Vehicle Rentals (Section 2G.1)

The bill expands the State and local sales tax base to include vehicle rental transactions conducted through a peer-to-peer (P2P) facilitator, and it requires these funds to be transferred annually to the Highway Fund.

Fiscal Research's estimate was based on data provided by the Maryland General Assembly, which enacted an 8% P2P tax in 2018. Maryland's expected gross sales revenue was adjusted to account for North Carolina's higher population of residents over age 18 (approximately 175% higher) and to reflect North Carolina's State and local tax rates.

Highway Fund Transfer (Section 2G.1)

The bill directs that taxes collected on the State's existing 5% vehicle subscription tax and 8% short-term car rental tax must be credited to the Highway Fund. Currently, \$10 million of these funds are credited to the Highway Fund and the remainder to the General Fund. The estimate is based on the Consensus Revenue Forecast.



Property Tax Reductions (vaccines and cemeteries) (Section 2H.1)

Most vaccines are provided by governmental or nonprofit health organizations; these vaccines are already exempt from business personal property taxes. The additional revenue loss from exempting vaccines held by private health facilities is unknown but minimal.

The fiscal impact of exempting commercial cemetery burial property is expected to reduce local government revenues by \$2 million annually. The estimate is based on data provided by the North Carolina Association of Assessing Officers, based on FY 2018-19 property tax information available from 65 counties. The average revenue loss for those 65 counties was scaled up to estimate the impact across the State's 100 counties and their municipalities.

Graduated Late Payment Penalty (Section 2I.1)

Changing the automatic full 10% penalty for failure to pay tax due to a graduated penalty of 2% for each month the payment is late, not to exceed 10%, will reduce collections in the Fines and Forfeitures Fund by an unknown amount. About \$75 million per year is credited to the Fund currently.

IRC Update (Section 3A – 3C)

Reducing the threshold for the medical expense deduction to 7.5% is expected to reduce revenue collections by approximately \$22.5 million initially, and this estimate is adjusted for growth in subsequent years. The estimate was developed using the Fiscal Research Microsimulation Tax Model using Federal and North Carolina tax return data.

TECHNICAL CONSIDERATIONS

N/A.

DATA SOURCES

Fiscal Research Microsimulation Tax Model; NC Dept. of Revenue; NC Association of Assessing Officers; Cigar Association of America; Maryland General Assembly; US Census Bureau.

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

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