



NORTH CAROLINA GENERAL ASSEMBLY

2023 Session

Legislative Fiscal Note

REVISED

Short Title: 2023 Appropriations Act.
Bill Number: House Bill 259 (Second Edition)
Sponsor(s): Rep. Lambeth, Rep. Saine, and Rep. Arp

SUMMARY TABLE

This Note has been revised to correct the local revenue impact.

The following table summarizes the fiscal impact of tax changes. A more detailed fiscal chart is shown on page 4 followed by a table of fee changes on page 6.

FISCAL IMPACT OF TAX REVENUE CHANGES IN HB 259, V2 (\$ in millions)

	<u>FY 2023-24</u>	<u>FY 2024-25</u>	<u>FY 2025-26</u>	<u>FY 2026-27</u>	<u>FY 2027-28</u>
State Revenue Impact					
Tax Changes					
Personal Income Tax	(203.3)	(285.3)	(87.5)	(83.5)	(81.8)
Sales and Use Tax	(14.8)	(17.9)	(18.6)	(19.4)	(20.0)
Franchise Tax	-	(49.2)	(102.6)	(160.4)	(222.8)
Miscellaneous	(27.1)	(71.6)	(74.6)	(77.7)	(80.9)
Fee Changes	See Fiscal Analysis Section.				
Less Expenditures	[Not addressed within this Fiscal Note.]				
General Fund Tax Revenue	(245.2)	(424.0)	(283.3)	(341.0)	(405.5)
Highway Fund Tax Revenue	(0.1)	(11.5)	(19.8)	(20.8)	(21.9)
Highway Trust Fund Tax Revenue	(0.3)	(0.9)	(0.9)	(0.9)	(1.0)
NET STATE TAX IMPACT	(\$245.6)	(\$436.4)	(\$304.0)	(\$362.7)	(\$428.4)
Local Tax Revenue Impact					
Sales and Use Tax	(7.3)	(9.2)	(9.5)	(9.9)	(10.3)
NET LOCAL TAX IMPACT	(\$7.3)	(\$9.2)	(\$9.5)	(\$9.9)	(\$10.3)

FISCAL IMPACT SUMMARY

This Fiscal Note addresses only those bill sections that affect State or local revenue.

Tax Changes

Sections 42.1- 42.5 decrease the individual income tax rate and increase deductions and credits.

Individual Income Tax	Current Law	House Bill 259 (v.2) (For Tax Year 2024)
Tax Rate	4.6%	4.5%
Standard Deduction	Married: \$25,500 HOH: \$19,125 Single: \$12,750	Married: \$26,000 HOH: \$19,500 Single: \$13,000
Child Deduction	Ranges from \$500 to \$3,000	Ranges from \$600 to \$3,600
Adoption Credit	Not available	\$2,000 per child refundable credit
Credit for Organ and Bone Marrow Donation	Not available	Credit for unreimbursed expenses

Note: HOH stands for Head of Household filing status.

Section 42.6 decreases the Franchise Tax Rate from \$1.50 per \$1,000 to \$1.00 per \$1,000 over five years.

Tax Return Year	2024	2025	2026	2027	2028
Rate per \$1,000	\$1.40	\$1.30	\$1.20	\$1.10	\$1.00

Section 42.7 eliminates the Privilege License Tax on Professionals.

Sections 42.8 – 42.9 repeal the 2030 sunset for the Mill Rehabilitation and Historic Rehabilitation Tax Credits and expand the percentage of expenses eligible for the Mill Rehabilitation Tax Credit.

Development Tier Area	Mill Rehabilitation Tax Credit Percentage	
	Current Law	House Bill 259 (v.2) (For Tax Year 2024)
Tier One or Two Area	40%	45%
Tier Three Area	30%	35%

Sections 42.10-42.14 reduces sales tax liability for Continuing Care Retirement Communities, the Motorsports Industry, commercial aircraft, and cargo vessels.

Section 42.15 reenacts a Modified Conservation Tax Credit.

Fee Changes

Section 19G.4 increases fee revenue received by sheriff's offices and the State Bureau of Investigation by establishing an annual registration fee for sex offenders.

Section 30.1 reduces the Insurance Regulatory Charge by lowering the insurance regulatory charge applied to the tax liability of most insurance companies' gross premiums for 2024 and 2025.

FISCAL ANALYSIS

Tax Changes

The following table summarizes the estimated five-year State revenue impact of the bill's tax changes.

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Tax Changes in HB 259 (v.2) (\$ in millions)	FY 2023-24	FY 2024-25	FY 2025-26	FY 2026-27	FY 2027-28
PERSONAL INCOME TAX[^]					
• Reduce tax rate from 4.6% to 4.5% in 2024 instead of 2025	(160.6)	(196.3)			
• Increase child deduction per child by 20%. (Effective [Eff.] 1/1/2024)	(12.5)	(24.6)	(23.7)	(22.3)	(21.6)
• Increase standard deduction to \$26,000 for Married Filing Jointly, \$19,500 for Head of Household, and \$13,000 for Single filers. (Eff. 1/1/2024)	(30.4)	(60.5)	(59.0)	(56.3)	(55.3)
• Create a refundable adoption tax credit of \$2,000 per child. (Eff. 1/1/2024)	-	(4.1)	(4.1)	(4.1)	(4.1)
• Create tax credit for certain expenses related to organ and bone marrow donations. (Eff. 1/1/2023)	(1.0)	(1.0)	(1.0)	(1.0)	(1.0)
Subtotal: Personal Income Tax	(203.3)	(285.3)	(87.5)	(83.5)	(81.8)
PRIVILEGE TAX					
• Repeal the State privilege license tax on professionals. (Eff. 7/1/2023)	(2.1)	(6.8)	(6.9)	(7.0)	(7.1)
FRANCHISE TAX					
• Reduce the franchise tax rate from \$1.50 per \$1,000 to \$1.00 per \$1,000 over a five-year period.*	-	(49.2)	(102.6)	(160.4)	(222.8)
SALES AND USE TAX^{**}					
• Create a sales tax exemption for items other than alcoholic beverages sold by Continuing Care Retirement Communities. (CCRCs) (Eff. 10/1/2023)	(6.0)	(8.0)	(8.3)	(8.7)	(9.0)
• Reduce a sales and use tax assessment imposed on a CCRC for failure to collect and remit sales tax; allow a refund of sales tax collected and remitted on retail sales since July 1, 2020, for CCRCs (Eff. 7/1/2023) ^{***}	at least (4.4)	-	-	-	-
• Extend sales tax exemption and refund provisions for the professional motorsports industry. (Eff. 1/1/2024) ^{****}	(4.0)	(10.0)	(10.4)	(10.8)	(11.2)
• Expand sales tax exemption for parts and accessories used to repair aircraft with lower take-off weights (HB 216-Expansion of Aviation Sales Tax Exemption). (Eff. 7/1/2023)	(0.5)	(0.5)	(0.6)	(0.6)	(0.6)
• Extend sales tax exemption for aviation fuel for use in commercial aircraft. ^{****} (Credited to Highway Fund)	-	(11.0)	(19.3)	(20.3)	(21.4)
• Extend sales tax refund for aviation fuel for motorsports events. ^{****} (Credited to Highway Fund)	-	(0.2)	(0.2)	(0.2)	(0.2)
• Expand sales tax exemption for certain freight vessels to those operating inland and on intracoastal waterways. (Eff. 10/1/2023)	(0.3)	(0.5)	(0.5)	(0.5)	(0.5)
Subtotal: Sales and Use Taxes	(15.2)	(30.2)	(39.3)	(41.1)	(42.9)
OTHER TAX PROVISIONS					
• Make the Historic and Mill Rehabilitation Tax Credits permanent. ^{*****}	-	-	-	-	-
• Increase the Mill Rehabilitation Tax Credit based on economic tier area. (Eff. For expenses incurred on or after 1/1/2024)	-	(12.5)	(13.0)	(13.5)	(14.0)
• Reenact a conservation tax credit (H.B. 290-Protecting NC's Military and Working Lands). (Eff. 1/1/2023)	(25.0)	(52.3)	(54.7)	(57.2)	(59.8)
Subtotal: Other Tax Provisions	(25.0)	(64.8)	(67.7)	(70.7)	(73.8)
Total Impact on General Fund Revenue	(245.2)	(424.0)	(283.3)	(341.0)	(405.5)
Total Impact on Non-General Fund Revenue	(0.4)	(12.4)	(20.7)	(21.7)	(22.9)
TOTAL IMPACT ON STATE REVENUE	(245.6)	(436.4)	(304.0)	(362.7)	(428.4)

[^]The impact of each personal income tax change is in isolation; the personal income tax subtotal may not equal the sum of its parts. ^{*}The fiscal impact of reducing the franchise tax rate to 0.1% in 2028 is not reflected in this chart. It would be realized in Fiscal Year 2028-29, reducing revenue by \$290.2 million. ^{**}Certain sales tax provisions would also reduce local government revenue and have a small impact on the Highway Fund and Highway Trust Fund due to the transfer provision enacted in the 2022 Appropriations Act. ^{***}Estimate does not account for any foregone assessments or sales tax refunds that may be claimed; the known impact is \$4.4 million, but the full impact is unknown and could be significant. ^{****}These provisions are set to expire January 1, 2024, under current law. ^{*****}Under current law, the Historic Rehabilitation and Mill Rehabilitation tax credits expire for expenses incurred after 2029. The fiscal impact of making the Historic and Mill Rehabilitation credits permanent would be realized beginning in FY 2030-31 and is highly uncertain.

The estimated fiscal impacts of changes to the Individual Income Tax Rate and deduction amounts are calculated using the Fiscal Research Division's Individual Income Tax Microsimulation model. Timing adjustments are made to account for differences in the tax year and the State's fiscal year.

The estimated fiscal impact of the refundable adoption tax credit is calculated based on adoption statistics compiled by the Department of Health and Human Services.

The estimated fiscal impact of the credit for expenses related to organ and bone marrow donations is based on data compiled by the US Department of Health and Human Services and the Center for International Blood and Marrow Transplant Research.

The estimated fiscal impact of repealing the Privilege License Tax is based on data provided by the Department of Revenue's Tax Research Division and assumes a growth rate equal to Moody's Analytics' forecasted growth in North Carolina professional and business services employment.

The estimated fiscal impact of reducing the franchise tax rate is based on the February 2023 Consensus Revenue forecast.

The estimated fiscal impact of provisions reducing sales tax for specific industries is based on proprietary data provided by affected taxpayers and trade associations, and from information provided by the Department of Revenue from the Sales and Use Tax Division and the Tax Compliance Division. The estimated fiscal impact of forgiving assessments and allowing refunds for Continuing Care Retirement Communities could vary significantly because the provision is effective retroactively.

The estimated fiscal impact of expanding the Mill Rehabilitation Tax Credit is based on Economic Incentive Reports published by the Department of Revenue. The number of projects and associated investment varies substantially from year to year, increasing volatility of the yearly cost of the credit. The estimated fiscal impact of repealing the 2030 sunset for the Mill Rehabilitation and Historic Rehabilitation Tax Credits is significant but a specific estimate is unavailable due to unknowns about multiple variables that far into the future.

The estimated fiscal impact of creating a Conservation Tax Credit is based on data from other states that have a similar tax credit, with adjustments made for NC-specific characteristics.

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Fee Changes

The following table summarizes the estimated fiscal impact of fee changes over the biennium.

Fee Changes in HB 259 (v.2) (\$ in millions)		FY 2023-24	FY 2024-25
•	Establishes Sex Offender Registration Fee. (State Bureau of Investigation)	0.9	0.9
•	Establishes Sex Offender Registration Fee. (Various N.C. sheriff's offices)	1.8	1.8
•	Codifies a fee already charged to vendors for sales of material goods transacted through the Department's eProcurement System. (Department of Administration Special Fund)	-	-
•	Temporarily reduces the insurance regulatory charge from 6.5% to 4.0% of gross premiums tax liability for calendar year 2024 and 2025. (Insurance Regulatory Fund)	(20.1)	(39.2)

This bill establishes an annual registration fee of \$150 for sex offender registration. This fee is expected to generate \$872,500 for the State Bureau of Investigation (SBI) and \$1.75 million to local sheriff's offices in Fiscal Year 2023-24. Fiscal Research estimates the impact of the sex offender registry fee based on the number of registered sex offenders in the State from the NC Sex Offender and Public Protection Registry database.

A 1.75% fee is charged to vendors for sales of material goods transacted through the Department of Administration's (DOA) eProcurement System. The fee has remained the same since it was established by DOA, and its proceeds are used to help maintain the system. There is no fiscal impact because the bill only codifies the existing fee and prohibits the Department from modifying it without legislative approval.

The bill temporarily reduces the insurance regulatory charge from 6.5% to 4.0% of gross premiums tax liability for calendar years 2024 and 2025. The temporary reduction will spend down a portion of the Insurance Regulatory Fund balance, which is currently more than the Department of Insurance's operating costs, including a reasonable margin for reserve. The change is estimated to reduce revenue allocated to the Insurance Regulatory Fund by \$20.1 million in FY 2023-24 and \$39.2 million in FY 2024-25. These estimates are based on projected gross premiums tax liability from the February 2023 Consensus Revenue Forecast.

TECHNICAL CONSIDERATIONS

N/A.

DATA SOURCES

Fiscal Research Microsimulation Tax Model; Analytics; Internal Revenue Service; Center for International Blood and Marrow Transplant Research; Consensus Revenue Forecast; Moody's Georgia Office of Planning and Budget; North Carolina Departments of Revenue, Health and Human Services, Insurance, Transportation, and Commerce; North Carolina Association of Assessing Officers; North Carolina Sex Offender and Public Protection Registry database; North Carolina sheriffs' offices; Office of State Budget and Management; confidential information about

Continuing Care Retirement Communities; confidential information about aircraft parts, accessories, and service contracts; confidential information about certain freight vessels transporting freight; State Bureau of Investigation; South Carolina Revenue and Fiscal Affairs Office; US Department of Health and Human Services; US Small Business Administration; Virginia Department of Conservation and Recreation.

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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