NORTH CAROLINA GENERAL ASSEMBLY

LEGISLATIVE FISCAL NOTE

BILL NUMBER: Senate Bill 1309 (First Edition)

SHORT TITLE: Pension Tax Withholding

SPONSOR(S): Senators Kerr and Hoyle

FISCAL IMPACT

Yes ( ) **No (X)** **No Estimate Available ( )**

	FY 2000-01	FY 2001-02	FY 2002-03	FY 2003-04	FY 2004-05
REVENUES					
GENERAL FUND	see Assumptions and Methodology				
EXPENDITURES					
GENERAL FUND	No Fiscal Impact				

PRINCIPAL DEPARTMENT(S) & PROGRAM(S) AFFECTED: Department of Revenue

EFFECTIVE DATE: This act becomes effective January 1, 2001.

BILL SUMMARY:
The bill requires withholding of state income taxes on an eligible rollover distribution and prohibits a taxpayer from electing out of withholding on the distribution. This bill will conform state law to federal law in regards to income tax withholding on distributions from pension plans that are eligible for rollover from one 401(k) or IRA into another.

BACKGROUND:
The 1999 General Assembly approved HB 1466 (S.L. 1999-414) to provide that a pension payer required to withhold federal taxes on a pension payment to a North Carolina resident must withhold state taxes on a pension payment, annuity, or deferred compensation unless the recipient elects not to withhold. When analyzing the HB 1466, the Fiscal Research Division of the General Assembly found that the Internal Revenue Service (IRS) did not track the number of taxpayers that had federal income tax withheld from their pension payment, annuity, or deferred compensation. When a company submits withheld income taxes, it does not separately account for current and former employees. Similarly, the North Carolina Department of Revenue has no

data on the number of taxpayers that had chosen voluntary withholding of their pension payment, annuity, or deferred compensation.

ASSUMPTIONS AND METHODOLOGY:

While no data is available from the IRS or the Department of Revenue on withholding on eligible rollover distributions, the General Fund should not receive a windfall from this tax amendment. First, these IRA or 401(K) distributions normally occur when individuals change jobs. If the individuals roll their pension distributions into another IRA or 401(K) within 60 days, then their withholding is refunded. Second, those not intending to rollover the funds into a new IRA or 401(K) may have already included the tax into their quarterly estimated payments. The state might gain a small amount of interest on funds that are withheld monthly instead of submitted quarterly in estimated payments. Unfortunately, the extent of this gain cannot be quantified.

FISCAL RESEARCH DIVISION 733-4910

PREPARED BY: Richard Bostic

APPROVED BY: James D. Johnson

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