

NORTH CAROLINA GENERAL ASSEMBLY

LEGISLATIVE FISCAL NOTE

BILL NUMBER: House Bill 1644 (First Edition)

SHORT TITLE: Income Surtax to Save Education and Services

SPONSOR(S): Representatives Luebke, Insko, Weiss, et al.

FISCAL IMPACT					
	Yes (X)	No ()	No Estimate Available ()		
	(\$ millions)				
	<u>FY 2002-03</u>	<u>FY 2003-04</u>	<u>FY 2004-05</u>	<u>FY 2005-06</u>	<u>FY 2006-07</u>
REVENUES					
General Fund					
Corporate Inc. Tax	14.2	16.3			
Individual Inc. Tax	<u>136.6</u>	<u>147.6</u>			
Total General Fund	150.8	163.9			
EXPENDITURES					
General Fund					
Dept. of Revenue	.01				
PRINCIPAL DEPARTMENTS AFFECTED; Department of Revenue					
EFFECTIVE DATE: Effective for taxable years beginning on or after January 1, 2002 and expires for taxable years that begin on or after January 1, 2004.					

BILL SUMMARY: The bill imposes a 2% surtax on corporate and individual income tax payments for tax years 2002 and 2003.

ASSUMPTIONS AND METHODOLOGY:

Corporate Surtax

The annual impact is based on the estimated annual liability for the 2002 and 2003 tax years. The first step in this analysis was to match monthly corporate income tax receipt data with the appropriate liability year, assuming that all corporations used a January-December fiscal year. In order to put 2001 tax year refunds on an annual basis, the year-over-year growth for January-June, 2002 was used as a proxy for full year. The same methodology was used for final tax payments, except that May and June final payments also had to be estimated.

After the 2001 annual liability was estimated, the number was grown to 2002 and 2003 by reviewing the forecast of U.S. pre-tax profits contained in the June, 2002 **Economy.Com** national economic forecast.

Individual Surtax

The Department of Revenue reported \$6.50 billion in individual income tax due on three million taxable returns filed for the 1999 tax years and \$7.07 billion income tax due on 3.1 million returns for 2000. The estimated income tax due in 2001 is \$6.87 billion, but final numbers are not yet available from the Department. The Fiscal Research Division General Fund Revenue Forecast estimates that individual income tax collections will fall to \$6.83 billion in tax year 2002, but then rise to \$7.38 billion in 2003 when the economy and financial markets rebound. A 2% surtax on the estimated 2002 and 2003 tax payments will result in a General Fund revenue increase of \$136.6 million in FY 2002-03 and \$147.6 million in FY 2003-04. The 2002 surtax will be paid in the spring of 2003 and the 2003 surtax will be paid in the spring of 2004 when returns are filed.

Expenditures

The Department of Revenue estimates that it will need a one-time appropriation of \$12,000 for reprogramming the computers that handle corporate and individual income tax return processing.

TECHNICAL CONSIDERATIONS: The Department of Revenue normally would not adjust withholding tables for a temporary surtax. In addition, the bill contains a provision forgiving individual estimated tax payments for the 2002 tax year that would normally result from the additional tax liability. For 2003, the normal estimated tax remittance rules would apply though it is possible that some affected taxpayers might not adjust their payments to reflect the additional liability. Since estimated payments amount to only 13% of the payments made during the tax year, the maximum amount of additional estimated payments for the 2003 tax year that would come in during the 2002-03 fiscal year would be \$8.6 million. Since this would simply be a borrowing from the 2003-04 fiscal year, **one technical suggestion would be to amend the bill to not require estimated tax payments for 2002 or 2003.**

This suggestion would apply to the corporate income surtax also. The estimates shown assume no change in estimated tax payments, meaning the full liability occurs through higher final payments or reduced refunds.

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