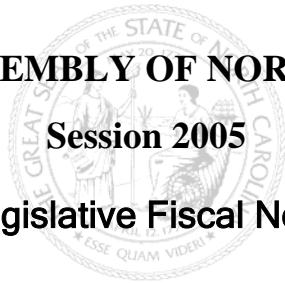


GENERAL ASSEMBLY OF NORTH CAROLINA



Session 2005

Legislative Fiscal Note

BILL NUMBER: House Bill 1613 (First Edition)

SHORT TITLE: Central Administrative Office Credit.

SPONSOR(S): Representative Vinson

FISCAL IMPACT (\$Mill.)					
	Yes (x)	No ()	No Estimate Available ()		
	<u>FY 2005-06</u>	<u>FY 2006-07</u>	<u>FY 2007-08</u>	<u>FY 2008-09</u>	<u>FY 2009-10</u>
REVENUES:					
State General Fund	-	-	-\$3.0	-\$3.2	-\$3.4
EXPENDITURES:					
POSITIONS					
(cumulative):					
PRINCIPAL DEPARTMENT(S) & PROGRAM(S) AFFECTED: Department of Commerce and Department of Revenue. The enactment of the bill is not expected to affect the General Fund budget requirements of either agency. .					
EFFECTIVE DATE: Property placed in service on or after January 1, 2006 but prior to January 1, 2010.					

ISSUE BACKGROUND: The Bill Lee Act is the package of state tax incentives adopted in 1996 and modified on numerous occasions. The incentives are primarily in the form of income and franchise tax credits for investment in machinery and equipment, job creation, worker training, research/development, and investment in central administrative offices.

The central administrative credit is equal to 7% of the eligible investment in real property (including leased property), subject to an annual credit limit of \$500,000. The taxpayer must hire at least 40 full-time administrative employees at the facility to qualify. The credit must be taken over 7 years, beginning the year after the facility is placed in service. The current credit sunsets on January 1 2006.

BILL SUMMARY: Extends the sunset for the central administrative office credit from January 1, 2006 to January 1, 2010. In addition, the extended credit can be taken against the income tax and the franchise tax, but not the insurance premiums tax (current law).

ASSUMPTIONS AND METHODOLOGY: The starting point for the analysis is the June 1 2005 report of the Department of Commerce on Bill Lee Act activity through the 2003 tax year. This report shows central office credits generated and credit taken by year as follows:

Central Office Credits By Tax Processing Year (\$ Million)							
	1997	1998	1999	2000	2001	2002	2003
Credits Generated	2.1	6.9	6.2	3.1	2.8	1.1	0.0
Credits Taken	0.0	0.0	1.7	1.1	1.8	1.6	1.9

The second row of the table indicates the credit usage has been relatively stable at \$1.1-\$1.9 million per year for the most recent five year period. This time frame includes years of strong economic growth as well as a major recession. For the purpose of future year estimates we grew the 2003 number at 6% per year, a rate that approximates long-run economic growth in North Carolina.

Under current law many of the Lee Act credits sunset on January 1 2006. If this were not the case, the fiscal note would need to adjust for the fact that eligibility for the central office credit makes some companies eligible for Lee Act credits even though they are part of an industrial classification not covered by Lee Act. However, the Lee Act sunset means that the only companies for which a Lee Act eligibility adjustment should be made are those taking the restructured research and development credit (2009 sunset).

The Department of Commerce analyzed the amount of Lee Act credits taken by the taxpayers who also claimed the central office credit. In addition, we have from the 2005 Lee Act report the amount of research and development tax credits, relative to the other credits. Finally, a substantial amount of the R & D credits are taken by companies already eligible for Lee Act credit because of industry classification. If we combine all of these factors it would appear that the maximum amount of additional Lee Act credits available because of the extension of the central office credit is no more than \$.5 million for the 2006 tax year. This amount is grown by 6% per year to correspond to long-term growth of the state economy.

The central office credit is taken over 7 years, beginning with the year after the property is placed in service. Thus, the January 1 2006 effective date means that the first impact of the sunset extension would be for the 2007 tax year. For the purpose of this analysis we assume that all of the tax year impact comes through lower April 15 income tax payments or higher tax refunds. Thus, the full amount of the 2007 tax year impact would come during the 2007-08 fiscal year.

SOURCES OF DATA:

TECHNICAL CONSIDERATIONS: None

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