NORTH CAROLINA GENERAL ASSEMBLY

LEGISLATIVE FISCAL NOTE

BILL NUMBER: SB 1160 (Ratified Edition)

SHORT TITLE: Revenue Laws Technical Changes

FISCAL IMPACT

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

	FY 2002-03	FY 2003-04	FY 2004-05	FY 2005-06	FY 2006-07
REVENUES					
State General Fund	-	-725,000	-725,000	-725,000	-725,000

PRINCIPAL DEPARTMENTS AFFECTED: Department of Revenue and Department of Commerce. The enactment of the bill is not expected to affect the budget requirements of either department.

EFFECTIVE DATE: When the bill becomes law.

Note: The impact drops to $25,000 per year for three years beginning in 2007-08.

BILL SUMMARY: Section 1 allows a taxpayer that signed a letter of commitment with the Department of Commerce on or before February 28, 2002, to calculate its Bill Lee Act jobs and investment tax credits based on the location's enterprise tier and development zone designation for 2001 rather than 2002. This change would benefit taxpayers creating jobs or making eligible investments in areas whose tier designations increased for the calendar year 2002, thereby reducing magnitude of credits.

BACKGROUND INFORMATION: Under the Bill Lee Act, all counties are divided into five enterprise tiers, ranked by economic distress as measured by a formula that combines the unemployment rate, per capita income, and population growth. The Department of Commerce must designate the counties' tier designations for the following year on or before December 31 of each year. The Department of Commerce failed to designate the counties' tier designation for the 2002 calendar year until April 2002 because the Employment Security Commission was unable to provide the necessary data until the end of March. It appears some taxpayers signed letters of commitment by February 28, 2002, under the belief they would be able to calculate the credit for which they qualified based on the location's enterprise tier designation for 2001.

ASSUMPTIONS AND METHODOLOGY: Bill Lee Act Tiers. The analysis reviewed job creation and investment data from 10 projects that might be affected by the legislation. For each project, the jobs credit difference was calculated by comparing the per job credit amount under the 2001 tier with the tier ranking for 2002. This difference was then multiplied by the anticipated number of new jobs. The resulting number was then divided by 4 since the credit must be taken in four installments. Finally, under the Lee Act the credits are first taken in the tax year following the year the jobs were created.

For the investment tax credit, the impact of the bill is a lower minimum investment threshold for credit eligibility. The eligibility change has no fiscal impact since the thresholds in the affected counties are fairly small. The primary impact comes from the fact that the amount of the credit is the difference between the investment level and the threshold. Thus, the 2001 thresholds provided a larger credit than the 2002 level in the affected counties. In general, the fiscal impact is equal to the difference in the threshold amount. This difference is then divided by seven (7) since this credit must be taken in seven installments, beginning with the year following the year the actual investment took place.

Technical Changes Portion of the Bill. No impact.

SOURCES OF DATA: Discussions with the finance staff of the Department of Commerce and the Executive Director of the Columbus County Economic Development Commission.

TECHNICAL CONSIDERATIONS: The impact estimates may overstate the short-term effect of the bill due to the fact that: (1) some taxpayers will not be able to use the full amount of the credit; and (2) the calculations are based on "letter of commitment" data and some planned projects might not take place.

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