



NORTH CAROLINA GENERAL ASSEMBLY

Session 2019

Legislative Fiscal Note

Short Title: Taxpayer Refund Act.
Bill Number: House Bill 74 (Third Edition)
Sponsor(s):

SUMMARY TABLE

FISCAL IMPACT OF PCS to H.B. 74, (\$ in millions)

	<u>FY 2019-20</u>	<u>FY 2020-21</u>	<u>FY 2021-22</u>	<u>FY 2022-23</u>	<u>FY 2023-24</u>
State Impact					
General Fund Revenue	(663.0)	-	-	-	-
Less Expenditures	5.6	-	-	-	-
General Fund Impact	(668.6)	-	-	-	-
Special Fund Revenues	-	-	-	-	-
Less Expenditures	12.5	-	-	-	-
Special Fund Impact	(12.5)	-	-	-	-
NET STATE IMPACT	(\$681.1)	-	-	-	-

FISCAL IMPACT SUMMARY

The proposed committee substitute (PCS) would reduce tax revenue by \$663 million by enacting an individual income tax credit for tax year 2018 that would be paid out to taxpayers by issuing checks in FY 2019-20. The PCS also includes approximately \$5.6 million in appropriations from the General Fund to the Department of Revenue for implementation of the individual income tax credit.

Additionally, the PCS appropriates \$12.5 million to the Department of Revenue from the Collections Assistance Fee Special Fund for operations and maintenance of tax systems.

FISCAL ANALYSIS

Revenue

This bill would provide a tax credit for taxpayers who file 2018 North Carolina Individual Income Tax Returns by October 15, 2019. The maximum credit would be \$250 for married tax payers who

file jointly and \$125 for all other tax payers. The tax credit cannot exceed a taxpayer's net tax liability.

The Department of Revenue will mail a check to all filers for whom the application of the retroactive tax credit creates an overpayment. The check will be issued for the amount of the overpayment plus any interest due. The credit will be applied retroactively to 2018 returns and interest will accrue from 45 days following the latest of the date the final return was filed, the date the final return was due to be filed, or the date the overpayment occurs.

To estimate the fiscal impact of the tax credit, we used information from the Department about the number of 2018 individual income tax returns and extension applications that had been received as of the first week of August 2019 to predict the total number of returns that would be filed by October 15, 2019. We used this estimate of the number of returns that would be filed along with the FRD Microsimulation Tax Model to estimate the reduction in total tax liability that would occur due to the application of the credit. The total estimated fiscal impact includes \$17 million to cover the cost of interest.

Expenditures

Administrative Costs

The majority of administrative costs to the Department come from printing and mailing. Internal labors costs for system programming, resolving returned mail issues, and fielding taxpayer phone calls related to the refund are not included in the given cost estimate. There are four main cost categories associated with printing and mailing:

Initial Mailings. The Department will distribute the refunds in the form of mailed checks to taxpayers. The per-piece cost of these mailings is approximately \$1.02. This includes the refund check, an insert explaining the refund, an envelope, and postage costs. This analysis assumes that approximately 3,767,000 checks will be mailed, therefore the total initial mailing costs are about \$3,850,000.

Return Mailings. This analysis assumes that 1% of all initial check mailings will be returned to sender, at which point the agency will make an additional attempt to distribute the refund. The per-piece mailing cost remains at \$1.02 for such mailings, which will need to go to an estimated 37,670 taxpayers. Therefore, the total return mailings will likely cost about \$38,500.

1099G Forms. This analysis assumes that the Department will need to mail a 1099G form to an additional 1,319,000 taxpayers. The per-piece mailing cost of this form is \$0.43. Therefore, the estimated total 1099G mailing costs are \$572,260.

Third-Party Printing. To meet the high volume of printing associated with implementing the tax refund, the Department anticipates needing to outsource a portion of printing. The agency estimates the value of the contract with a third party vendor at \$1,000,000.

In addition to printing and mailing, the Department of Revenue has identified the need for a public information campaign to ensure that taxpayers understand the refund. The agency estimates that the cost of undertaking a marketing campaign is \$100,000.

The table below shows a simplified breakdown of the agency’s administrative costs:

Cost Category	Per-Piece Cost	Estimated Pieces	Total Cost
Initial Mailings	\$1.02	3,767,000	\$3,849,874
Return Mailings	\$1.02	37,670	\$38,499
1099G Forms	\$0.43	1,319,000	\$572,446
Third Party Printing	n/a	n/a	\$1,000,000
Marketing	n/a	n/a	\$100,000
ADMINISTRATIVE COST TOTAL	--	--	\$5,559,797

Tax System Maintenance

The PCS includes a nonrecurring appropriation of \$12,500,000 to the Department of Revenue from the Collections Assistance Fee Special Fund. These are annual costs to the agency for maintaining its regular tax information systems.

DATA SOURCES

North Carolina Department of Revenue, FRD Individual Income Tax Microsimulation Model

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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