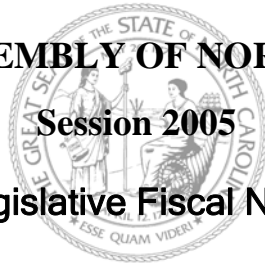


GENERAL ASSEMBLY OF NORTH CAROLINA



Session 2005

Legislative Fiscal Note

**BILL NUMBER:** House Bill 2048 (First Edition)

**SHORT TITLE:** Expansion of Royalty Reporting Option.

**SPONSOR(S):** Representative Luebke

| <b>FISCAL IMPACT</b>   |                                   |                          |                                  |                          |                          |
|--|-----------------------------------|--------------------------|----------------------------------|--------------------------|--------------------------|
|  | <b>Yes (X)</b>                    | <b>No ( )</b>            | <b>No Estimate Available (X)</b> |                          |                          |
|  | <b><u>FY 2006-07</u></b>          | <b><u>FY 2007-08</u></b> | <b><u>FY 2008-09</u></b>         | <b><u>FY 2009-10</u></b> | <b><u>FY 2010-11</u></b> |
| <b>REVENUES:</b>   | See "Assumptions and Methodology" |                          |                                  |                          |                          |
| <b>EXPENDITURES:</b>   |                                   |                          |                                  |                          |                          |
| <b>PRINCIPAL DEPARTMENT(S) &amp; PROGRAM(S) AFFECTED:</b> North Carolina<br>Department of Revenue. |                                   |                          |                                  |                          |                          |
| <b>EFFECTIVE DATE:</b> Tax years beginning on or after January 1, 2006.                            |                                   |                          |                                  |                          |                          |

**BILL SUMMARY** .The 2001 General Assembly enacted legislation that eliminated the tax planning strategy of shifting trademark royalty income to another state in order to avoid the North Carolina income tax. The proposal would extend the 2001 treatment to royalty income from patents and copyrights.

**ASSUMPTIONS AND METHODOLOGY:** A discussion with the Department of Revenue indicates that the enactment of the bill could have a positive impact on General Fund tax revenue but the magnitude of this amount is not known. One factor limiting the impact is that fact that in the wake of the A & F Trademark case (court upheld right of state to tax trademark income), some taxpayers who would potentially be affected by this legislation may already be in compliance. Another issue is the fact that the proposal applies to patent and copyright royalty income only. In general, any revenue gain would be smaller than the receipts from the 2001 act affecting trademark income. During the 2001 discussion the estimated fiscal impact from the trademark provision was \$20 million per year.

**SOURCES OF DATA:** North Carolina Department of Revenue.

**TECHNICAL CONSIDERATIONS:** None

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Fiscal Research Division

**DATE:** May 24, 2006



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