

NORTH CAROLINA GENERAL ASSEMBLY

LEGISLATIVE FISCAL NOTE

BILL NUMBER: HB 1318 (First Edition)

SHORT TITLE: Limit Nonresident Withholding

SPONSOR(S): Representatives Neely, et al.

FISCAL IMPACT

	Yes (X)	No ()	No Estimate Available ()		
	(\$million)				
	<u>FY 1998-99</u>	<u>FY 1999-00</u>	<u>FY 2000-01</u>	<u>FY 2001-02</u>	<u>FY 2002-03</u>
REVENUES	(7.0)	(7.0)	(7.0)	(7.0)	(7.0)

**PRINCIPAL DEPARTMENT(S) &
PROGRAM(S) AFFECTED:** Department of Revenue

EFFECTIVE DATE: The act is effective retroactively as of January 1, 1998.

BILL SUMMARY: This bill will limit the withholding requirement for payments to nonresident contractors to apply only to athletes and entertainers.

ASSUMPTIONS AND METHODOLOGY:

The fiscal note for HB 57 (S. L. 1997-109) attributed most of the estimated revenue gain from nonresident withholding to collections from out of state building contractors. In that note it was reported that the North Carolina Licensing Board for General Contractors had 1,765 out of state companies licensed to work in the state in 1995. These firms sought licensing to work on projects greater than \$30,000 on buildings, highways, public utilities, grading, and improvement of structures. The majority of these firms are from southeastern states such as South Carolina (426), Georgia (205), Virginia (174), Tennessee (155), and Florida (152). However, the Licensing Board stated that other contractors work in the state without a license because of the contract size (< \$30,000) or because they are doing federal jobs.

From 1993 to 1996, 48 out-of-state firms, representing both design and construction, did business with the State Construction Office. The Department of Revenue was asked to check on whether these firms filed income tax returns in North Carolina. Of the 48 firms, only 58.3% or

28 filed returns. If firms working directly for the state are filing only 58.3% of the time, one may assume those contractors working for private customers file at lower rates or not at all.

The previous fiscal note assumed that each licensed nonresident contractor earned \$100,000 a year in North Carolina and did not file income tax returns in North Carolina. If the state withheld 4% of the income from these 1,765 nonresident contractors, the estimated revenue gain would have been \$7.06 million a year. Passage of this bill will negate the collection of this revenue.

FISCAL RESEARCH DIVISION

733-4910

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DATE: May 25, 1998



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