

NORTH CAROLINA GENERAL ASSEMBLY

LEGISLATIVE FISCAL NOTE

BILL NUMBER: HB 1404 (First Edition)
SHORT TITLE: Expand Qualified Business Credit
SPONSOR(S): Representative Culpepper, et al.

FISCAL IMPACT					
	Yes (X)	No ()	No Estimate Available ()		
	<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					
General Fund					
Delay Sunset			(\$6 mil.)	(\$6 mil.)	
Increase Cap		(\$6 mil.)	(\$6 mil.)	(\$6 mil.)	-
Total - GF		(\$6 mil.)	(\$12 mil.)	(\$12 mil.)	
PRINCIPAL DEPARTMENT(S) & PROGRAM(S) AFFECTED: Department of Revenue; Department of the Secretary of State					
EFFECTIVE DATE: Section 3 (increasing the cap) is effective for investments made on or after January 1, 1998. The remaining sections of the act are effective when it becomes law.					

BILL SUMMARY: The bill delays the sunset on the qualified business tax credit from January 1, 1999 to January 1, 2001 and increases the cap on these credits from \$6 million to \$12 million.

BACKGROUND: The qualified business tax credits given since 1993 are as follows:

1993	\$4,711,913
1994	\$6,011,513
1995	\$3,523,894
1996	\$4,677,221
1997	\$6,000,000 *
1998	\$4,893,891 **

* The Department of Revenue received requests for \$9,264,679 in credits, but the General Assembly limited the credit amount to \$6 million in 1997.

** This amount represents the applications processed as of May 28, 1998. (applications pending)

ASSUMPTIONS AND METHODOLOGY:

DELAY SUNSET

The current tax credit for qualified business ventures expires for investments made on or after January 1, 1999. This means that investments made in 1998 will be taken in tax year 1999. The last General Fund impact for this credit will be in FY 99-00 when individual income tax returns are filed in the spring of 2000. (carry forwards will extend some of the credits into future years). Budget availability estimates for future years assume the credit will sunset in 1999. **Delaying the sunset from 1999 to 2001 continues the credit two additional years and produces an annual General Fund revenue loss of \$6 million for fiscal years 2000-01 and 2001-02.**

CAP INCREASE

Section 3 of the bill will increase from \$6 million to \$12 million the amount of credits allowed taxpayers each year. **For budgetary planning and projection purposes, the fiscal impact of the increased cap for FY 1999-00 through FY 2001-02 is \$6 million per year.** The state's General Fund will be legally obligated to award a credit for each legitimate investment up to the \$12 million cap. If fully utilized, the increased credit amount will affect budget availability in the next two biennia. Based on the considerable interest in this credit by Certified Public Accountants, investment firms, the Council for Entrepreneurial Development, and others, it is not unreasonable that the maximum amount of credits will be used.

FISCAL RESEARCH DIVISION

733-4910

PREPARED BY: Richard Bostic

APPROVED BY: Tom Covington

DATE: June 2, 1998



Signed Copy Located in the NCGA Principal Clerk's Offices