

NORTH CAROLINA GENERAL ASSEMBLY

LEGISLATIVE FISCAL NOTE

BILL NUMBER: H 146 (Fourth Edition)

SHORT TITLE: Modify Partnership Tax Credit

SPONSOR(S): Luebke, Allen, Gray, Hill, Jarrell, Pope, and Tucker

FISCAL IMPACT

Yes ()

No ()

No Estimate Available (X)

PRINCIPAL DEPARTMENT AFFECTED: The tax credits are administered by the Department of Revenue. The enactment of the proposal will not affect the Department's budget requirements.

EFFECTIVE DATE: Tax years beginning on or after January 1, 2002, except for credit for conservation land donations

BILL SUMMARY: Generally, partnerships are treated for State tax purposes in the same fashion as under Federal law. In the case of tax credits, this means that when the partnership is eligible for a tax credit, the credit is allocated to the partners.

Under North Carolina law, certain credits are limited to a specific dollar amount. However, there is an exemption from the cap for partnerships. Thus, the statutory limit applies to each of the partners. This application is inconsistent with Federal rules on partnerships and the State treatment of S corporations, neither of which have such an exemption. The practical effect of the State exemption is to substantially expand the total amount of credit taken.

The bill eliminates the inconsistency by removing the partnership exemption from the specific dollar amount limitation. Thus, the dollar cap would apply to the partnership instead of individual partners.

ASSUMPTIONS AND METHODOLOGY: There is no available data at this time to assist in the determination of the General Fund revenue gain that would result from the enactment of the proposal. For most tax credits affected, the credit usage is small and the Department of Revenue does not routinely tabulate credits from actual tax returns.

The most likely credit to be affected is the credit for conservation land donations. Though the Department of Environment and Natural Resources has a wealth of data on the usage of the credit since its inception in 1983, the credit limits were increased substantially on January 1, 1999. Thus, there is little data under the new limits.

To the extent that large donations are made by partnerships with large numbers of partners, the revenue gain from the proposal could be significant. However, **the enactment of the proposal would likely limit these types of donations in the future.**

Finally, the act would not affect the conservation land donations credit until January 1, 2005.

FISCAL RESEARCH DIVISION 733-4910

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