

NORTH CAROLINA GENERAL ASSEMBLY

LEGISLATIVE FISCAL NOTE

BILL NUMBER: House Bill 1388 (First Edition)

SHORT TITLE: Remove Sunset on State Ports Tax Credit

SPONSOR(S): Representatives Hurley, McComas, Preston, and Smith

FISCAL IMPACT					
	Yes (X)	No ()	No Estimate Available ()		
	<u>FY 2001-02</u>	<u>FY 2002-03</u>	<u>FY 2003-04</u>	<u>FY 2004-05</u>	<u>FY 2005-06</u>
REVENUES					
General Fund					
Tax Credit	(\$657,000)	(\$657,000)	(\$657,000)	(\$657,000)	(\$657,000)
Exclude Wood Chips	<u>\$96,000</u>	<u>\$96,000</u>	<u>\$96,000</u>	<u>\$96,000</u>	<u>\$96,000</u>
Net GF	(\$561,000)	(\$561,000)	(\$561,000)	(\$561,000)	(\$561,000)
EXPENDITURES					
PRINCIPAL DEPARTMENT(S) & PROGRAM(S) AFFECTED: Department of Revenue; North Carolina State Ports Authority					
EFFECTIVE DATE: This act is effective for taxable years beginning on or after March 2, 2000.					

BILL SUMMARY: The bill removes the sunset on the North Carolina State Ports Authority tax credit for wharfage, handling, and throughput charges and makes wood chips ineligible for the credit.

BACKGROUND:

The 1992 General Assembly enacted the State Ports Authority income tax credit to encourage exporters to use the two State-owned port terminals at Wilmington and Morehead City. The amount of the tax credit is equal to the amount of wharfage, handling, and throughput charges paid to the North Carolina State Ports Authority in the taxable year that exceeds the average amount of charges paid to the Authority for the current tax year and the two previous tax years. The credit is limited to 50% of the tax imposed on the taxpayer for the taxable year. Any excess credit may be carried forward and applied to the taxpayer's income tax liability for the next five years. The maximum cumulative credit that one taxpayer may claim is \$2 million. Originally scheduled to sunset in 1996, the sunset was extended by the General Assembly in 1995 and again in 1997. The tax credit ended on February 28, 2001.

ASSUMPTIONS AND METHODOLOGY: The North Carolina State Ports Authority makes an annual report to the General Assembly detailing the annual increase in cargo tons, cargo fees, and the amount of tax credit taken in the previous year. The income tax credits reported in these annual statements since the program's inception are as follows:

1993	\$ 26,867
1994	\$512,003
1995	\$643,965
1996	\$854,645
1997	\$515,977
1998	\$814,986
1999	\$656,134
2000	\$741,836 (preliminary report by phone)

The average tax credit for the seven years 1994 through 2000 is \$677,078 and the median tax credit for the same period is \$656,134. This fiscal note will use the median credit amount rounded up to the nearest thousand, thus extending the State Ports Authority tax credit will cost the state General Fund \$657,000 per year over the next five years. The Ports Authority staff reports that no company has reached the \$2 million maximum cumulative credit and there are no companies close to the maximum amount of credits.

Since 1996-97, the two companies that ship wood chips through Morehead City have earned the following tax credits:

1996-97	\$47,900
1997-98	\$150,300
1998-99	\$90,000
1999-00	0
2000-01	0

A Deputy Executive Director with the State Ports Authority said the volume of wood chip shipments did not qualify for a tax credit in the last two fiscal years. Without projections of wood chip shipments over the next five years, this fiscal analysis assumes an average tax credit of \$96,000 based on actual credits received from 1996 to 1999. By excluding wood chips from tax credit eligibility, \$96,000 can be subtracted from the \$657,000 estimated credit each year. The net cost of extending the credit will be \$561,000 each fiscal year.

TECHNICAL CONSIDERATIONS:
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DATE: April 30, 2001



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