



NORTH CAROLINA GENERAL ASSEMBLY

2025 Session

Legislative Fiscal Note

Short Title: Various Revenue Laws Changes.
Bill Number: Senate Bill 595 (Second Edition)
Sponsor(s): Sen. Tom McInnis and Sen. David W. Craven, Jr.

SUMMARY TABLE

FISCAL IMPACT OF S.B. 595, V.2 (\$ in millions)

	<u>FY 2025-26</u>	<u>FY 2026-27</u>	<u>FY 2027-28</u>	<u>FY 2028-29</u>	<u>FY 2029-30</u>
State Impact					
General Fund Revenue	(7.5)				
Less Expenditures	-	-	-	-	-
General Fund Impact	(7.5)	-	-	-	-
Highway Fund Revenue	0.6	1.0	1.1	1.1	1.2
Less Expenditures	-	-	-	-	-
Highway Fund Impact	0.6	1.0	1.1	1.1	1.2
NET STATE IMPACT	(6.9)	1.0	1.1	1.1	1.2

FISCAL IMPACT SUMMARY

Section 1.6 creates a personal income tax deduction for timberland losses for individuals impacted by Hurricane Helene. This would allow taxpayers to deduct timberland losses to the extent that insurance reimbursement payments or disaster relief payments have not already offset the timberland loss. The Fiscal Research Division (FRD) estimates this deduction would have a one-time impact, reducing revenues by approximately \$7.5 million in Fiscal Year (FY) 2025-26.

Section 1.7 waives the accrual of interest from September 25, 2024 through September 25, 2025 on an underpayment of tax for franchise, corporate income, and personal income taxpayers for those taxpayers affected by Hurricane Helene or taxpayers residing in Nash County. This section extends a waiver that previously applied through May 1, 2025. FRD expects a limited number of taxpayers to delay payments and estimates no measurable fiscal impact.

Section 7 has a fiscal impact because it expands the applicability of the current 8% short-term car rental tax (currently charged for vehicle rental transactions via traditional methods (e.g., Avis, Enterprise, etc.) to include rental transactions conducted through a peer-to-peer facilitator (e.g.,



Turo, Getaround, etc.).¹ FRD estimates this section will increase Highway Fund revenues by approximately \$1 million in a full fiscal year.

Section 8.4 confirms that the franchise tax treatment of insurance company assets is the same for a parent company and its subsidiary insurance company. Specifically, the bill authorizes a deduction for the investment by a parent company in its subsidiary insurance company if the subsidiary is subject to gross premiums tax instead of franchise tax, and the parent's ownership investment in the subsidiary is more than 80%. FRD is unable to estimate a fiscal impact for this section.

FISCAL ANALYSIS

Timberland Loss Deduction (Sec. 1.6).

The North Carolina Forest Service (NCFS) estimates Hurricane Helene damaged 822,000 acres of North Carolina timberland, resulting in \$214 million in timber damage. NCFS estimates that 78% of total timberland damage occurred on private land. Therefore, FRD estimates roughly 640,000 acres of private timberland were damaged ($822,000 \times 78\%$), resulting in approximately \$167 million in timberland damage ($\$214 \text{ million} \times 78\%$) in late 2024. While some taxpayers may have received insurance reimbursement payments or other disaster relief payments that offset timberland losses and correspondingly reduce the amount of losses eligible to be deducted, FRD is unable to determine the total amount of reimbursement. Therefore, this analysis assumes all estimated losses are deductible.

FRD assumes taxpayers will file amended returns for the 2024 tax year during FY 2025-26, taking the timberland loss deduction, and claiming a refund of tax paid. Additionally, FRD assumes \$167 million in timberland losses will be deducted by personal income taxpayers. In this analysis, FRD multiplied the 2024 personal income tax rate, 4.5%, by the \$167 million in timberland losses to estimate the fiscal impact of the deduction. FRD estimates this timberland loss deduction would reduce revenue by approximately \$7.5 million in FY 2025-26 ($\$167 \text{ million} \times 4.5\%$).

Interest Waiver for Certain State Taxes (Sec. 1.7).

FRD anticipates this section would have a minimal impact on tax collections. In S.L. 2024-51, interest was waived for an underpayment of tax for franchise, corporate income, and personal income taxpayers for those taxpayers affected by Hurricane Helene or taxpayers residing in Nash County from September 25, 2024 through May 1, 2025. Since it is past the previous May 1st deadline, FRD assumes most of the taxpayers who would have postponed payment until September 25, 2025 will have already filed to avoid the accrual of interest. Therefore, FRD estimates extending the waiver of interest through September 25, 2025 would have a negligible fiscal impact.

¹ These transactions involve individuals allowing their personal vehicles to be rented by other individuals who reserve and pay for the vehicle rental via a peer-to-peer facilitator that connects the two individuals.

Expand 8% Short-Term Car Rental Tax to Include Peer-to-Peer (P2P) Rentals² (Sec. 7).

FRD's estimate is based on data provided by the Maryland General Assembly, which enacted a 6% P2P tax. FRD used Maryland's anticipated sales tax revenue and its sales tax rate to arrive at the State's amount of rental gross receipts. Maryland's expected gross sales values were then adjusted to account for North Carolina's higher population of residents over age 18 (approximately 175% higher) and to reflect North Carolina's applicable tax rate of 8%. FRD then adjusted these values for anticipated growth in the transportation services industry. FRD estimates this change will increase Highway Fund revenue by approximately \$600,000 in FY 2025-26 due to the partial fiscal year impact of the October 1, 2025 effective date, and by about \$1.0 million in subsequent years. In addition, peer-to-peer vehicle rentals are not currently subject to local vehicle rental taxes whereas short-term rentals by traditional car rental companies are subject to applicable local taxes ranging from 1.5% to 8%, as well as certain charges for rentals at airports.³ The bill would subject P2P vehicle rentals to such taxes. Using data on expected rental gross receipts, FRD estimates this change would generate minimal revenue for the various local governments and authorities.

Clarification of Franchise Tax Treatment of Insurance Assets (Sec. 8.4)

In general, a corporation is subject to a franchise tax of .0015% of its net assets apportioned to North Carolina, determined based on the share of its revenue derived from the State. However, an insurance company subject to the gross premiums tax on insurance policies written in the State is exempt from franchise tax.

Section 8.4 authorizes a deduction for the investment by a parent company in its subsidiary insurance company if the subsidiary is subject to gross premiums tax, and the parent's ownership investment in the subsidiary is more than 80%. The legislation is effective beginning with the 2019 tax year and would resolve a disputed tax assessment currently in the appeals process that has not been collected. Additionally, if there are other taxpayers that have the same set of facts as those at issue in the appealed assessment, this provision may enable them to claim refunds of franchise paid to the extent the statute of limitations (generally three years) has not expired. The Department of Revenue is not aware of any taxpayers that may be eligible for a refund.

Since the outcome of the appealed assessment and the applicability of the retroactive effective date to other taxpayers is unknown, the Fiscal Research Division is not able to estimate a fiscal impact for this provision.

TECHNICAL CONSIDERATIONS

Taxpayers may have received insurance reimbursement payments or relief payments that reduce the amount of timberland losses eligible to be deducted. Such reimbursements may result in the fiscal impact of the timberland loss deduction being less than the provided estimate.

² Peer-to-peer vehicle sharing is an alternative business model to traditional car rental companies. Under this model, a business entity operates an online platform that facilitates the short-term use of motor vehicles between registered vehicle owners and users. Owners register and list their vehicles on the entity's website for use by others for a fee. It is similar in concept to Airbnb, which facilitates accommodation rentals between homeowners and travelers.

³ There are currently 42 counties, 71 municipalities, and two regional transportation authorities levying these taxes.



DATA SOURCES

North Carolina Forest Service, the North Carolina Department of Revenue, Maryland General Assembly, Moody's Analytics, and data from one or more proprietary sources.

LEGISLATIVE FISCAL NOTE – PURPOSE AND LIMITATIONS

This document is an official fiscal analysis prepared pursuant to Chapter 120 of the General Statutes and rules adopted by the Senate and House of Representatives. The estimates in this analysis are based on the data, assumptions, and methodology described in the Fiscal Analysis section of this document. This document only addresses sections of the bill that have projected direct fiscal impacts on State or local governments and does not address sections that have no projected fiscal impacts.

CONTACT INFORMATION

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