

**GENERAL ASSEMBLY OF NORTH CAROLINA**



**Session 2009**

**Legislative Fiscal Note**

**BILL NUMBER:** Senate Bill 1006 (Second Edition)

**SHORT TITLE:** Withholding on Contractors Identified by ITIN.

**SPONSOR(S):** Senator Hoyle

<b>FISCAL IMPACT</b>					
	<b>Yes (x)</b>	<b>No ( )</b>	<b>No Estimate Available ( )</b>		
	<b><u>FY 2009-10</u></b>	<b><u>FY 2010-11</u></b>	<b><u>FY 2011-12</u></b>	<b><u>FY 2012-13</u></b>	<b><u>FY 2013-14</u></b>
<b>REVENUES:</b>					
<b>General Fund</b>					
	<b>*Potential annual increase of \$18 million – see assumptions and methodology*</b>				
<b>PRINCIPAL DEPARTMENT(S) &amp; PROGRAM(S) AFFECTED:</b> NC Department of Revenue					
<b>EFFECTIVE DATE:</b> Effective for taxable years beginning on or after January 1, 2010.					

**BILL SUMMARY:**

Senate Bill 1006 would require a person who pays compensation other than wages to someone whose taxpayer identification number is an ITIN as opposed to a social security number to withhold 4% of the compensation. The bill would become effective January 1, 2010. The bill also integrates the new provisions into the current statutes, it modifies the definition of 'contractor' to conform to the new provisions, and it conforms the due date of the withholding returns and remittances to the general due date for income tax withholdings.

**ASSUMPTIONS AND METHODOLOGY:**

Compensation paid to ITIN holders, along with other non-employee compensation payments, is reported to the Internal Revenue Service on the Form 1099 Misc. return. The Department of Revenue receives extract tapes containing Form 1099 data through the Federal Data Exchange Program. Based on 2006 tax year data, the most recent year for which data is available, the Department estimates that non-taxed income received by individuals with ITIN numbers and tax liability in excess of \$300 amounted to \$452 million.

SB 1006 would require withholding of 4% of compensation paid to contractors with ITINs. Applying the 4% rate to the non-taxed income figure of \$452 million results in an annual revenue increase of \$18.1 million. The bill would be in effect for half of FY 2009-10, which would result in a first-year increase of about \$9 million.

**SOURCES OF DATA:** NC Department of Revenue

**TECHNICAL CONSIDERATIONS:** None

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