NORTH CAROLINA GENERAL ASSEMBLY

LEGISLATIVE FISCAL NOTE

BILL NUMBER: House Bill 2

SHORT TITLE: Income Tax Cut/Child Credit

SPONSOR(S): Representatives Daughtry, Gray, Arnold, Hayes, Russell, Brawley, Cansler, McComas, C. Wilson.

FISCAL IMPACT: **Expenditures:** **Increase (**X **)** **Decrease ( )**
Revenues: **Increase ( )** **Decrease (**X **)**
No Impact ( )
No Estimate Available ( )

FUND AFFECTED: General Fund (X **) Highway Fund ( ) Local Govt. ( )**
Other Funds ( )

BILL SUMMARY: Increases the income tax personal exemption from $2,000 to $2,250 for tax year 1995, and to $2,500 for tax year 1996. Establishes a credit of $50 for each dependent child. Part-year residents and nonresidents would only receive a pro-rated portion of the child credit. The credit may not exceed the amount of tax owed, reduced by the sum of allowable credits.

EFFECTIVE DATE: January 1, 1995 for the $2,250 personal exemption and child credit. January 1, 1996 for the $2,500 personal exemption.

FISCAL IMPACT

	95-96	96-97	97-98	98-99	99-00
REVENUES: (in $millions)					
GENERAL FUND					
Exemption Increase	-$162.4	-$169.7	-$174.8	-$180.0	-$185.4
Child Credit	-$75.1	-$77.4	-$79.7	-$82.1	-$84.6
Total	-$237.5	-$247.1	-$254.4	-$262.1	-$270.0

ASSUMPTIONS AND METHODOLOGY: The estimates for 1995-96 and 1996-97 are based on tax return data for tax year 1993 provided by the Department of Revenue. The 1993 data was adjusted by the Fiscal Research Division to project 1995 and future tax year liabilities.

Increasing the value of personal exemptions causes revenue loss because each taxpayer's taxable income is reduced by the amount of the exemption increase, multiplied by the number of exemptions claimed. The amount of revenue loss per taxpayer is equal to the decrease in the taxpayer's taxable income multiplied by that taxpayer's marginal tax rate.

The 1995-96 revenue loss for the exemption increase includes a $37.5 million one-time revenue loss. This is due to the fact that tax withholding rates during tax year 1995, prior to enactment of the measure, will be higher than would be warranted by the higher exemption level. As a result, taxpayers will have too much income withheld for part of the year, and payments and refunds during the 1995-96 fiscal year will reflect the return of these amounts. This one-time revenue loss will not occur again during 1996-97 because new withholding tables will be prepared in advance of the effective date of the remaining increase and income will be withheld at the correct rates.

For the child credit, revenue loss per taxpayer is equal to the value of the credit multiplied by the number of dependent children claimed. There is no one-time revenue loss associated with the child credit.

TECHNICAL NOTES: The Department of Revenue indicates that it will be required to incur costs of $116,600 in both 1995-96 and 1996-97 in order to print withholding tables that reflect the revised exemption amounts and distribute them to employers.

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