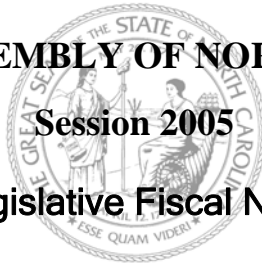


GENERAL ASSEMBLY OF NORTH CAROLINA



Session 2005

Legislative Fiscal Note

BILL NUMBER: Senate Bill 1456 (First Edition)

SHORT TITLE: Rewarding Work Tax Credit.

SPONSOR(S): Senator Hoyle

FISCAL IMPACT					
	Yes (X)	No ()	No Estimate Available ()		
	<u>FY 2006-07</u>	<u>FY 2007-08</u>	<u>FY 2008-09</u>	<u>FY 2009-10</u>	<u>FY 2010-11</u>
REVENUES:	(71.5)	(73.5)	(75.7)	(78.0)	(80.3)
EXPENDITURES:					
POSITIONS (cumulative):					
PRINCIPAL DEPARTMENT(S) & PROGRAM(S) AFFECTED: North Carolina Department of Revenue.					
EFFECTIVE DATE: January 1, 2006.					

BILL SUMMARY: The legislation creates a North Carolina Earned Income Tax Credit (EITC). The credit is equivalent to 5% of the federal credit received by a qualifying individual. The credit is reduced for nonresidents and part-year residents. The credit is also refundable.

ASSUMPTIONS AND METHODOLOGY: In 1975 the federal government introduced the Earned Income Tax Credit. The credit allows a reduction in taxes due from low-income families and individuals. Single and married individuals who worked full-time or part-time during the calendar year can qualify, depending on their income. Because the credit is refundable, qualifying families and individuals can receive a payment in addition to a tax reduction. The federal credit was expanded in 1986, 1990, 1993 and 2001. Currently 18 states offer some form of an Earned Income Tax Credit, most linked to the federal credit.

In federal tax year 2001, 660,829 North Carolina taxpayers filed returns that qualified for the federal EITC. In total, these taxpayers received \$1,137,872,000 in Earned Income credits, \$1,010,709,000 of which was refundable. This represents approximately 3.53% of the US total.

The US Department of the Treasury projects the following federal costs and growth rates associated with the EITC.

Federal EITC Costs		
<u>Fiscal Year</u>	<u>Cost (millions)</u>	<u>% Growth</u>
2001-2002	\$32,280	10.10%
2003	\$35,540	2.62%
2004	\$36,470	2.47%
2005	\$37,370	3.99%
2006	\$38,860	3.09%
2007	\$40,060	2.77%
2008	\$41,170	

Applying these growth rates, and the 2003-2008 average growth rate, to the North Carolina base in the out years, produces the following *federal* EITC liability.

<u>Fiscal Year</u>	<u>Cost (millions)</u>	<u>% Growth</u>	<u>NC Cost of Federal EITC (millions)</u>
2001-02	32,280	10.10%	1,139
2002-03	35,540	2.62%	1,255
2003-04	36,470	2.47%	1,287
2004-05	37,370	3.99%	1,319
2005-06	38,860	3.09%	1,372
2006-07	40,060	2.77%	1,414
2007-08	41,170	2.99%	1,453
2008-09	42,399	2.99%	1,497
2009-10	43,665	2.99%	1,541
2010-11	44,969	2.99%	1,587

The legislation offers North Carolina taxpayers a state credit equal to 5% of the federal credit. The estimated total state credit, and the proportion that will likely be refunded based on federal experience, is shown below.

Fiscal Year	NC EITC @ 5%	Refundable Portion
2006-07	70.7	62.92
2007-08	72.65	64.66
2008-09	74.85	66.62
2009-10	77.05	68.57
2010-11	79.35	70.62

As a second method of estimation, the proposal was evaluated using Fiscal Research’s Income Tax Model. This model produced a similar estimate for tax year 2006 of \$72.3 million. The average of the numbers produced by the model (using federal growth figures) and those generated by the above methodology are used as the fiscal estimate.

SOURCES OF DATA: Internal Revenue Service, US Department of the Treasury.

TECHNICAL CONSIDERATIONS: None

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