

GENERAL ASSEMBLY OF NORTH CAROLINA



Session 2007

Legislative Fiscal Note

BILL NUMBER: House Bill 132 (First Edition)

SHORT TITLE: Conform Personal Tax Deduct and Exempt to IRC.

SPONSOR(S): Representative Blust

FISCAL IMPACT					
	Yes (X)	No ()	No Estimate Available ()		
	<u>FY 2007-08</u>	<u>FY 2008-09</u>	<u>FY 2009-10</u>	<u>FY 2010-11</u>	<u>FY 2011-12</u>
REVENUES (\$ billions)	(\$1.26)	(\$1.34)	(\$1.40)	(\$1.48)	(\$1.58)
EXPENDITURES					
POSITIONS (cumulative):					
PRINCIPAL DEPARTMENT(S) & PROGRAM(S) AFFECTED: Department of Revenue. Would require changes to the current tax form.					
EFFECTIVE DATE: January 1, 2007					

BILL SUMMARY: The bill conforms personal tax deductions and exemptions to federal IRC. North Carolina personal income tax uses federal taxable income as the starting point for calculating NC taxable income. Because the federal personal exemptions and standard deductions have already been subtracted and the federal amounts are larger than the NC amounts, taxpayers must add back the difference in order to calculate NC taxable income. The Act repeals the add-back requirement [GS 105-134.6(c)(4) and (4a)] so that NC will allow the more generous federal amounts for personal exemptions and standard deductions. Makes conforming changes. Effective beginning with 2007 tax year.

ASSUMPTIONS AND METHODOLOGY:

The Bearing Point Tax Simulation Model was used to measure the impact of conforming North Carolina's standard deduction and personal exemption to the respective federal amounts. The table below shows the results of the model's calculations. In FY2007-08, there would be a revenue loss of \$1.26 billion, and 437,000 taxpayers would no longer have a personal income tax liability. The increase in subsequent fiscal years is primarily due to the growing difference between state versus federal deductions and exemptions.

Under current law, the federal standard deduction and personal exemption are greater than North Carolina's. Because of this difference, income is added back to the federal taxable income when calculating North Carolina taxable income. Thus, state taxable income is greater than the federal taxable income, all else equal. The federal tax code increases the standard deduction and personal exemption each tax year based on the increase in the Consumer Price Index. Whereas, North Carolina's standard deduction and personal exemption are fixed. Therefore, the difference between the North Carolina taxable income and the federal taxable income is increasing.

Table 1: Fiscal Impact of HB132

	FY0708	FY0809	FY0910	FY1011	FY1112
Revenue Loss (\$ millions)	\$1,263	\$1,342	\$1,397	\$1,479	\$1,581
No Longer Pay Taxes	437,000	540,000	504,000	381,000	359,000

SOURCES OF DATA: Internal Revenue Service, Department of Revenue

TECHNICAL CONSIDERATIONS: None

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