

NORTH CAROLINA GENERAL ASSEMBLY

LEGISLATIVE FISCAL NOTE

BILL NUMBER: SB 1223 (First Edition)

SHORT TITLE: Simplify & Reduce Personal Income Taxes

SPONSOR(S): Senator Webster

FISCAL IMPACT					
	Yes (X)	No ()	No Estimate Available ()		
	(\$million)				
	<u>FY 1998-99</u>	<u>FY 1999-00</u>	<u>FY 2000-01</u>	<u>FY 2001-02</u>	<u>FY 2002-03</u>
REVENUES					
General Fund	(\$452.7)	(\$367.0)	(\$439.1)	(\$516.8)	(\$592.3)
PRINCIPAL DEPARTMENT(S) & PROGRAM(S) AFFECTED: Department of Revenue - Personal Taxes Division					
EFFECTIVE DATE: This bill is effective for taxable years beginning on or after January 1, 1998.					

BILL SUMMARY: This bill indexes the state's personal exemption and standard deduction amounts to the federal amounts.

ASSUMPTIONS AND METHODOLOGY:

The 1998 federal rates published by the Internal Revenue Service are shown below. The rates are set each year by increasing the prior year amounts by the CPI, then round down to the nearest \$50. The projected rates for tax years 1999 to 2003 are as follows:

	<u>State</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>
<u>Standard Deduction</u>							
Single	\$3,000	\$4,250	\$4,350	\$4,500	\$4,650	\$4,800	\$4,950
Married	5,000	7,100	7,300	7,500	7,750	8,050	8,300
Head of Household (HoH)	4,400	6,250	6,400	6,600	6,850	7,050	7,300
Aged Single (HoH)	750	1,050	1,050	1,100	1,150	1,150	1,200
Aged Married	600	850	850	900	900	950	950
Dependent	500	700	700	700	750	750	800
<u>Personal Exemption</u>	2,500	2,700	2,750	2,850	2,950	3,050	3,150
<u>CPI</u>		1.032	1.031	1.03	1.034	1.033	1.035

To estimate the fiscal impact of this proposal on the General Fund, these rates were entered into the Individual Income Tax computer model used by the Department of Revenue, the Fiscal Research Division, and the Office of State Budget and Management. The results from the model were checked against the 1994 Individual Income Tax Detail Report issued by the Department of Revenue. Manual calculations were consistent with the model projections. The results for setting the personal exemption and standard deduction amounts to the federal level in tax year 1998 and indexing future years to the CPI are shown below. The income caps on personal exemption are removed in this proposal.

	Tax Year (\$ Million)					
	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>
Index - No Cap	(\$286.5)	(\$332.4)	(\$401.5)	(\$476.6)	(\$556.9)	(\$627.7)

	Fiscal Year (\$ Million)				
	<u>FY 98-99</u>	<u>FY 99-00</u>	<u>FY 00-01</u>	<u>FY 01-02</u>	<u>FY 02-03</u>
Index - No Cap	(\$452.7)	(\$367.0)	(\$439.1)	(\$516.8)	(\$592.3)

The first year impact in FY 98-99 includes the revenue loss for tax year 1998 and half the loss for tax year 1999 due to taxpayers adjusting their withholding tables and estimated payments. The impact for each following year is half of one tax year plus half of the next tax year. For example, the FY 99-00 estimate is half of 1999 plus half of 2000.

**FISCAL RESEARCH DIVISION
733-4910**

PREPARED BY: Richard Bostic
APPROVED BY: Tom Covington

DATE: June 7, 1998



Signed Copy Located in the NCGA Principal Clerk's Offices