

NORTH CAROLINA GENERAL ASSEMBLY

LEGISLATIVE FISCAL NOTE

BILL NUMBER: House Bill 1480 (First Edition)

SHORT TITLE: Repeal Upper Income Tax Bracket

SPONSOR(S): Representative Baker

FISCAL IMPACT					
	Yes (X)	No ()	No Estimate Available ()		
	(\$million)				
	<u>FY 2002-03</u>	<u>FY 2003-04</u>	<u>FY 2004-05</u>	<u>FY 2005-06</u>	<u>FY 2006-07</u>
REVENUES					
General Fund	(\$50.4)	(\$61.6)			
EXPENDITURES					
POSITIONS:					
PRINCIPAL DEPARTMENT(S) & PROGRAM(S) AFFECTED:	Department of Revenue				
EFFECTIVE DATE:	This act is effective when it becomes law.				

BILL SUMMARY: The bill repeals the temporary 8.25% individual income tax bracket in tax year 2003 instead of tax year 2004.

BACKGROUND: The 2001 General Assembly approved a temporary increase in the individual income tax. Senate Bill 1005 (2001 SL, Chapter 424) added a new 8.25% bracket to each class of taxpayers for tax years 2001, 2002, and 2003. The new tax brackets for taxable incomes are twice the previous top rate as shown in the following chart.

Filing status		Taxable income is more than	But not over
Single	6%	\$0	\$12,750
	7%	\$12,750	\$60,000
	7.75%	\$60,000	\$120,000
	8.25%	\$120,000	
Head of Household	6%	\$0	\$17,000
	7%	\$17,000	\$80,000
	7.75%	\$80,000	\$160,000
	8.25%	\$160,000	
Married Filing Jointly or Qualifying Widow(er)	6%	\$0	\$21,250
	7%	\$21,250	\$100,000
	7.75%	\$100,000	\$200,000
	8.25%	\$200,000	
Married Filing Separately	6%	\$0	\$10,625
	7%	\$10,625	\$50,000
	7.75%	\$50,000	\$100,000
	8.25%	\$100,000	

ASSUMPTIONS AND METHODOLOGY:

The revenue estimate for tax year 2003 was computed using the North Carolina Individual Income Tax Model. The model projects \$112 million in additional income for tax year 2003 from 13,348 single filers, 73,736 married couples, and 1,935 heads of households. Due to monthly withholding and quarterly estimated payments, the tax gain is collected over two fiscal years. It is assumed that taxpayers will pay 45% of their 2003 tax bill in the first six months of 2003, which is fiscal year 2002-03. Taxpayers will pay the remaining 55% of their 2003 tax bill in the second half of 2003 and by filing a tax return in April 2004, both of which are in fiscal year 2003-04. The tax year 2003 gain over the two fiscal years was estimated as follows:

FY 2002-03	\$50.4 mil.
FY 2003-04	\$61.6 mil.

Since this revenue gain has been included in the General Fund availability forecast for FY 2002-03 and FY 2003-04, repeal of the 8.25% tax bracket for tax year 2003 will result in a revenue loss of an equal amount for the two fiscal years.

SOURCES OF DATA: N.C. Individual Income Tax Model created by Barents Group of KPMG Consulting Inc.

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