

GENERAL ASSEMBLY OF NORTH CAROLINA



Session 2007

Legislative Fiscal Note

BILL NUMBER: Senate Bill 1418 (First Edition)

SHORT TITLE: LIFT Deduction.

SPONSOR(S): Senator Goodall

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 (\$ millions)	(\$145)	(\$168)	(\$187)	(\$182)	(\$182)
EXPENDITURES					
POSITIONS (cumulative):					
PRINCIPAL DEPARTMENT(S) & PROGRAM(S) AFFECTED: Department of Revenue					
EFFECTIVE DATE: January 1, 2007					

BILL SUMMARY: This bill amends GS 105-134.6(c) to increase the NC standard deduction for taxpayers with NC taxable income below \$20,000 (married filing jointly) or \$12,500 (single). The amount of the increase is phased up using a formula based on the taxpayer's filing status and income level. Effective beginning with the 2007 tax year. The bill eliminates or reduces the difference between the federal standard deduction and North Carolina's standard deduction for low-income taxpayers. The difference between the Federal standard deduction and the North Carolina standard deduction is added to the Federal adjusted gross income when determining taxable income for North Carolina individual income taxpayers. By eliminating this difference,

low-income taxpayers will have a reduction in their tax liability. The amount of taxable income making you eligible for the add-back reduction varies by filing status. The table below shows the percentage amount added back by income and filing status.

LIFT Deduction					
Single or Married Filing Separate		Head of Household		Married Filing Jointly	
Taxable Income	Add-back Percentage	Taxable Income	Add-back Percentage	Taxable Income	Add-back Percentage
\$0 - \$7,499	0%	\$0 - \$9,999	0%	\$0 - \$14,999	0%
\$7,500 - \$9,999	50%	\$10,000 - \$12,499	50%	\$15,000 - \$17,499	50%
\$10,000 - \$12,499	80%	\$12,500 - \$14,999	80%	\$17,500 - \$19,999	80%
\$12,500 or more	100%	\$15,000 or more	100%	\$20,000 or more	100%

ASSUMPTIONS AND METHODOLOGY: The revenue loss, which would occur from increasing the standard deduction for low-income taxpayers, was estimated using the BearingPoints income tax simulation model. Based on the model’s results, it is estimated that in FY2007-08 the revenue loss will be \$145 million with 1.19 million tax returns having a reduction in tax liability.

In producing these estimates, it was assumed that the federal standard deduction would continue to be indexed to inflation. Inflation projections were provided by Moody’s economy.com and used in the simulation model. Because the federal standard deduction is indexed to inflation, and North Carolina’s standard deduction remains constant, the reduction in the add-back for low-income taxpayers increases each tax year. This would cause estimated individual income tax revenue losses to increase.

Additionally, based on the projected overall growth in personal income, the incomes of individual taxpayers are increasing each tax year. Personal income growth projections produced by Moody’s economy.com were used in the simulation model. Increases in personal income would tend to eliminate the number of taxpayers who would be eligible for the add-back reduction. It would also reduce the number eligible for the full reduction of the add-back.

The two effects, the increasing size of the add-back reduction and growing nominal personal incomes (incomes unadjusted for inflation), will somewhat offset each other. These two effects explain some of the growth in the earlier fiscal years and then the flattening out of revenue loss from the reduction in the number of taxpayers able to take the reduction in FY 2009-10 and FY 2011-12.

SOURCES OF DATA: BearingPoints tax simulation model, Moody’s economy.com

TECHNICAL CONSIDERATIONS: None

FISCAL RESEARCH DIVISION: (919) 733-4910

PREPARED BY: Barry Boardman
Brian Slivka

APPROVED BY: Lynn Muchmore, Director
Fiscal Research Division

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