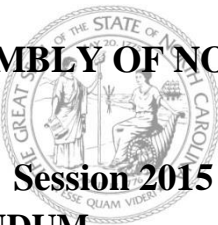


# GENERAL ASSEMBLY OF NORTH CAROLINA



**Session 2015**

## FISCAL ANALYSIS MEMORANDUM

[This confidential fiscal memorandum is a fiscal analysis of a draft bill, amendment, committee substitute, or conference committee report that has not been formally introduced or adopted on the chamber floor or in committee. This is not an official fiscal note. If upon introduction of the bill you determine that a formal fiscal note is needed, please make a fiscal note request to the Fiscal Research Division, and one will be provided under the rules of the House and the Senate.]

**DATE:** March 7, 2016

**TO:** Revenue Laws Committee

**FROM:** Jonathan Tart, Fiscal Research Division

**RE:** IRC Update

<b>FISCAL IMPACT</b>					
(\$ in millions)					
<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> No Estimate Available					
	FY 2015-16	FY 2016-17	FY 2017-18	FY 2018-19	FY 2019-20
<b>State Impact</b>					
General Fund Revenues:	(\$1.5)	(\$1.5)	(\$1.6)	(\$1.6)	(\$1.6)
General Fund Expenditures:					
Special Fund Revenues:					
Special Fund Expenditures:					
State Positions:					
<b>NET STATE IMPACT</b>	<b>(\$1.5)</b>	<b>(\$1.5)</b>	<b>(\$1.6)</b>	<b>(\$1.6)</b>	<b>(\$1.6)</b>
<b>Local Impact</b>					
Revenues:					
Expenditures:					
<b>NET LOCAL IMPACT</b>	<b>\$0.0</b>	<b>\$0.0</b>	<b>\$0.0</b>	<b>\$0.0</b>	<b>\$0.0</b>
<b>PRINCIPAL DEPARTMENT(S) &amp; PROGRAM(S) AFFECTED:</b> NC Department of Revenue					
<b>EFFECTIVE DATE:</b> When it becomes law					
<b>TECHNICAL CONSIDERATIONS:</b>					
None					

**BILL SUMMARY:**

The bill would update from January 1, 2015, to January 1, 2016, the reference to the Internal Revenue Code, thereby conforming to various federal provisions, including a deduction for teachers' classroom expenses of up to \$250. The Bill would decouple from the following provisions:

- Enhanced Section 179 expensing limits
- Qualified tuition and expenses deduction
- Mortgage insurance premium as interest deduction
- Income exclusion for discharge of residence indebtedness
- Income exclusion for IRA distributions to charity by a person who has reached age 70.5.
- Income exclusion for amounts paid to wrongly incarcerated individuals for civil damages or restitution

**ASSUMPTIONS AND METHODOLOGY:**

The fiscal impact to the General Fund from updating the reference to the Internal Revenue Code is a result of conformity to the deduction for teachers' classroom expenses of up to \$250. The estimate is based on the US Joint Committee on Taxation (JCT) estimates on changes to federal taxes. The methodology used begins with these JCT estimates, which are calculated by federal fiscal year. Since the federal fiscal year ends 9/30 and the State's fiscal year ends 6/30, Fiscal Research adjusts these numbers to an approximate state fiscal year tax impact. Then, the next step is to prorate the national numbers to the state impact. This adjustment involved two steps: accounting for the relative size of the state based on federal tax collections and then adjusting for the difference in federal marginal tax rates and the state tax rate. Once North Carolina's share of the JCT estimates were determined, state tax liability changes were estimated and allocated to the appropriate fiscal year.

**SOURCES OF DATA:** NC Department of Revenue, US Joint Committee on Taxation

**TECHNICAL CONSIDERATIONS:** None

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**PREPARED BY:** Jonathan Tart