

**NORTH CAROLINA GENERAL ASSEMBLY  
LEGISLATIVE FISCAL NOTE**

**BILL NUMBER:** HOUSE BILL 537  
**SHORT TITLE:** REFUND FOR FEDERAL RETIREES  
**SPONSOR(S):** REP. GRADY

**FISCAL IMPACT**

	Yes (X)	No ( )	No Estimate Available ( )		
	<u>FY 1997-98</u>	<u>FY 1998-99</u>	<u>FY 1999-00</u>	<u>FY 2000-01</u>	<u>FY 2001-02</u>
<b>REVENUES (\$)</b>					
State General Fund*	-7,600,000	-3,300,000	-2,500,000	-1,700,000	-800,000

**PRINCIPAL DEPARTMENT AFFECTED:** Department of Revenue

**EFFECTIVE DATE:** Taxable years beginning on or after January 1, 1996.

\*Impact may be treated as nonrecurring for budget purposes.

**BILL SUMMARY:** The 1996 General Assembly approved legislation that provided relief to federal retirees on the state income tax paid on their pensions during the 1985-88 period, net of any relief already granted (primarily for 1988 tax year). For taxpayers who do not normally file an income tax return, or those whose 1996 tax liability is small relative to their 1985-88 pension tax, a one-time refund equal to 85% of the 1985-88 taxes paid by the retiree will be granted by January 1, 1998. For the majority of retirees, the relief is provided through a 3-year tax credit, beginning with the 1996 tax year. In addition, the 1996 bill allowed the representative of a retiree's estate to claim the relief in the name of a deceased retiree.

**House Bill 537 allows any unused income tax credit for a tax year to be carried forward until the entire installment has been taken. In addition, in the case of a deceased retiree, the surviving spouse may claim the credit.** If there is no surviving spouse, the representative of the estate may claim the credit or refund.

**ASSUMPTIONS AND METHODOLOGY:** The estimated cost of the 1996 legislation providing refunds and tax credits to federal retirees was \$117.8 million. This was \$24.9 million less than the \$142.7 million of cost if all retirees were living and able to obtain 100% relief. Based on mortality data it is estimated that 25% of the retirees have passed away since the 1985-88 period. For this analysis it is assumed that 70% of the relief that would not be taken under the 1996 bill will eventually be received under this bill. This amounts to \$17.5 million of additional relief. This is an estimate because there is no public data available on the nonpension income of retirees or their spouses. In addition, it is impossible to predict when the additional relief will be

taken. For those taxpayers eligible for the additional credit relief, it is assumed that 40% will be taken during 1997-98, 20% during 1998-99, 15% during 1999-00, 10% during 2000-01, and the remaining 15% in later years.

**FISCAL RESEARCH DIVISION (733-4910)**

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