

**GENERAL ASSEMBLY OF NORTH CAROLINA**

**Session 2017**

**Legislative Fiscal Note**

**BILL NUMBER:** House Bill 54 (First Edition)

**SHORT TITLE:** Protect the Hardworking Taxpayers Act.

**SPONSOR(S):** Representatives Hastings, Saine, Howard, and Setzer

<b>FISCAL IMPACT</b>					
(\$ in millions)					
	<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> No	<input type="checkbox"/> No Estimate Available		
	FY 2017-18	FY 2018-19	FY 2019-20	FY 2020-21	FY 2021-22
<b>State Impact</b>					
General Fund Revenues:	(\$230.0)	(\$240.3)	(\$251.2)	(\$262.5)	(\$274.3)
General Fund Expenditures:					
Special Fund Revenues:					
Special Fund Expenditures:					
State Positions:					
<b>NET STATE IMPACT</b>	<b>(\$230.0)</b>	<b>(\$240.3)</b>	<b>(\$251.2)</b>	<b>(\$262.5)</b>	<b>(\$274.3)</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> Taxable years beginning on or after January 1, 2017					
<b>TECHNICAL CONSIDERATIONS:</b> None					

**BILL SUMMARY:**

Current law provides that in calculating taxable income, a taxpayer may deduct from adjusted gross income either the North Carolina standard deduction or certain itemized deductions. The itemized deduction for mortgage interest and real estate property taxes, as codified in G.S. 105-153.5(2)(b), cannot exceed \$20,000. House Bill 54 would repeal the \$20,000 deduction cap.

**ASSUMPTIONS AND METHODOLOGY:**

In order to determine the impact on North Carolina’s individual income tax collections, this specific scenario was run through the BearingPoint North Carolina Individual Income Tax Model.

For tax year 2017, it’s estimated that removing the \$20,000 cap on the deduction would result in a decrease in individual income tax collections of \$230 Million. A total of 380,107 tax returns are estimated to realize a tax decrease due to the proposed change.

A further breakdown of how the proposed tax change is forecast to impact tax returns can be seen in the table below.

<b>2017 North Carolina Individual Income Tax Estimates</b>				
<b>Eliminate \$20,000 cap on Mortgage Interest and Real Estate Taxes</b>				
<b>OVERALL ESTIMATED 2017 TAX YEAR COST: -\$230M</b>				
<b>ESTIMATED NUMBER OF RETURNS WITH TAX DECREASE: 380,107</b>				
<b>NC Prorated Federal Adjusted Gross Income</b>	<b>Number of Returns With Tax Decrease</b>	<b>Percent of Returns With Tax Decrease</b>	<b>Average Tax Cut</b>	<b>Percent of Total Tax Cut</b>
Less than \$10,000	6,973	1.1%	(18.53)	0.1%
\$10,000 < \$19,999	5,331	1.1%	(13.46)	0.0%
\$20,000 < \$29,999	6,046	1.2%	(62.43)	0.2%
\$30,000 < \$39,999	7,084	1.7%	(138.09)	0.4%
\$40,000 < \$49,999	8,074	2.3%	(216.47)	0.8%
\$50,000 < \$59,999	9,394	3.4%	(247.75)	1.0%
\$60,000 < \$69,999	10,472	4.8%	(278.46)	1.3%
\$70,000 < \$79,999	11,182	6.2%	(311.07)	1.5%
\$80,000 < \$99,999	26,132	9.4%	(315.89)	3.6%
\$100,000 < \$199,999	157,637	27.1%	(401.75)	27.5%
\$200,000 < \$499,999	107,393	62.4%	(849.82)	39.7%
\$500,000 < \$999,999	16,357	77.1%	(1,800.09)	12.8%
Greater than \$999,999	8,033	79.6%	(3,196.66)	11.2%
<b>OVERALL:</b>	<b>380,107</b>	<b>9.1%</b>	<b>(\$605.09)</b>	<b>100.0%</b>

**SOURCES OF DATA:** NC Department of Revenue; BearingPoint North Carolina Individual Income Tax Model; Moody’s

**TECHNICAL CONSIDERATIONS:** None

**FISCAL RESEARCH DIVISION:** (919) 733-4910

**PREPARED BY:** Jonathan Tart, Brian Slivka

**APPROVED BY:**

Mark Trogdon, Director  
Fiscal Research Director

**DATE:** February 14, 2017



**Signed Copy Located in the NCGA Principal Clerk's Offices**