



NORTH CAROLINA GENERAL ASSEMBLY

Session 2021

Legislative Fiscal Note

REVISED

Short Title: A Tax Plan for a Just Recovery.
Bill Number: Senate Bill 710 (First Edition)
Sponsor(s): Senators Nickel and Murdock

SUMMARY TABLE

	FISCAL IMPACT OF S.B. 710, V.1 (\$ in millions)				
	<u>FY 2021-22</u>	<u>FY 2022-23</u>	<u>FY 2023-24</u>	<u>FY 2024-25</u>	<u>FY 2025-26</u>
State Impact					
General Fund Revenue					
SECTION 1	1,001.5	719.7	743.4	770.7	801.6
SECTION 2	1,221.7	912.3	950.6	990.5	1,032.1
Less Expenditures	-	-	-	-	-
General Fund Impact	2,223.2	1,632.0	1,694.0	1,761.2	1,833.7
NET STATE IMPACT	\$2,223.2	\$1,632.0	\$1,694.0	\$1,761.2	\$1,833.7

FISCAL IMPACT SUMMARY

The legislation changes the individual income tax rate from 5.25% to a graduated tax rate schedule of 5.25%, 6.5%, and 7% and increases the corporate income tax rate from 2.5% to 5%, effective for tax year 2021. This would increase tax year 2021 revenue collections by approximately \$1.6 billion. The total increase in revenue collections for FY 2021-22 includes the full impact of the 2021 tax year combined with a partial impact of the 2022 tax year.

FISCAL ANALYSIS

The estimated fiscal impact of the changes to the individual income tax rate was determined using the Fiscal Research Division’s Individual Income Tax Microsimulation Model for tax year 2021. In this model, the tax rate was changed from a flat rate of 5.25% to rates that differ by filing status and taxable income group as described in the bill. For example, for married, filing jointly returns, the tax rate was unchanged (5.25%) for the first \$500,000 of NC taxable income, increased to 6.5% for amounts over \$500,000 but not more than \$1 million, and increased to 7% for amounts over \$1 million. Overall, the rate changes result in increased revenue collections. Much of this increase in revenue comes from increasing the tax rate on the highest earners, who have the most volatile income. This leads to added uncertainty in the estimate. Corporate tax revenue is estimated to double as a result of increasing the rate from 2.5% to 5%. The bill is effective beginning with the 2021 tax year. Because the legislation is not likely to be enacted in time for filers to make

adjustments to withholdings and estimated taxes during the current fiscal year, this analysis assumes that the full impact of the 2021 tax year will be realized in FY 2021-22.

TECHNICAL CONSIDERATIONS

N/A.

DATA SOURCES

N.C Department of Revenue, Fiscal Research Division

LEGISLATIVE FISCAL NOTE – PURPOSE AND LIMITATIONS

This document is an official fiscal analysis prepared pursuant to Chapter 120 of the General Statutes and rules adopted by the Senate and House of Representatives. The estimates in this analysis are based on the data, assumptions, and methodology described in the Fiscal Analysis section of this document. This document only addresses sections of the bill that have projected direct fiscal impacts on State or local governments and does not address sections that have no projected fiscal impacts.

CONTACT INFORMATION

Questions on this analysis should be directed to the Fiscal Research Division at (919) 733-4910.

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