

**NORTH CAROLINA GENERAL ASSEMBLY  
LEGISLATIVE FISCAL ESTIMATE**

**BILL NUMBER:** HOUSE BILL 537 (SENATE FINANCE COMMITTEE SUBSTITUTE)  
**SHORT TITLE:** REFUND FOR FEDERAL RETIREES

<b>FISCAL IMPACT</b>					
	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 (\$MILLION)</b>					
State General Fund*			-2.5	-1.2	-.4
Federal Retiree Reserve	-4.7	-3.3			
<b>PRINCIPAL DEPARTMENT AFFECTED:</b> Department of Revenue					
<b>EFFECTIVE DATE:</b> 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 the majority of retirees, the relief is provided through a 3-year income 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.**

**The Senate Committee Substitute for House Bill 537 allows an unused credit to be carried forward for two years after the 1996-98 three-year credit period. In the case of a deceased retiree, the surviving spouse will now be able to claim the credit. Finally, the right of an estate to claim the credit in the case of no surviving spouse would end with the 1998 tax year.**

**The cost of the additional relief for the 1997-98 and 1998-99 fiscal years would be financed by earmarking most of the remaining proceeds in the Federal Retiree Refund Account. The Account is a special budget reserve established to pay one-time refunds to federal retirees who do not normally file an income tax return or whose tax liability is very small. Of the \$25 million earmarked into the Account, a maximum of \$10.5 million will be needed for the one-time refund for certain retirees and \$5.6 million was transferred to address refunds ordered by the courts for certain tax protesters. This will leave an estimated \$8.9 million that will ultimately revert.**

**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.

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

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**DATE: August 26, 1997**



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