NORTH CAROLINA GENERAL ASSEMBLY

LEGISLATIVE FISCAL NOTE

BILL NUMBER: SB 280 (First Edition)

SHORT TITLE: Earned Income Tax Credit

SPONSOR(S): Senators Odom, Dannelly and Winner

FISCAL IMPACT

Yes (X) **No ( )** **No Estimate Available ( )**

	($Millions)				
	FY 1997-98	**FY 1998-99**	**FY 1999-00**	**FY 2000-01**	**FY 2001-02**
REVENUES					
General Fund	(86.0)	(89.6)	(93.1)	(96.7)	(100.4)
EXPENDITURES					
General Fund	.87	.78	.79	.81	.82
Net Impact - General Fund	**(86.87)**	**(90.38)**	**(93.89)**	**(97.51)**	**(101.22)**
POSITIONS:					
Dept. of Revenue	(The Department will use overtime and temporary workers.)				

PRINCIPAL DEPARTMENT(S) & PROGRAM(S) AFFECTED: Department of Revenue (various divisions)

EFFECTIVE DATE: Effective for Tax Years beginning on or after January 1, 1997.

BILL SUMMARY: The bill creates a refundable earned income tax credit (EIC) for the state individual income tax equal to 10% of the federal EIC. For 1996, you must have a gross income of under $25,078 if you have one qualifying child or a gross income under $28,495 if you have two or more qualifying children. A qualifying child can be a son, daughter, adopted child, grandchild, stepchild or foster child under age 19 (under age 24 if full-time student) or any age if disabled. The child must live in the household more than six months. To receive the earned income credit without children, your income must be under $9,500 and you must be between age 25 and 65.

BACKGROUND:

How much credit can a taxpayer receive? The Internal Revenue Service (IRS) prints an Earned Income Credit (EIC) Table in the 1040 Instructions booklet for taxpayers to look up their credits. For the 1996 tax year, the following credits apply:

A. **Childless Taxpayer** = The highest credit earned is $323 with an income between $4,200 and $5,300. For every $50 increase in income after $5,300, the credit is reduced $4. The credit is phased out entirely at $9,500 in income.

B. **Taxpayer with One Child** = The maximum credit is $2,152 with an income between $6,300 and $11,650. For every $50 increase in income after $11,650, the credit is reduced $8. The credit is phased out entirely at $25,050 in income.

C. **Taxpayer with Two or More children** = The maximum credit is $3,556 with an income between $8,850 and $11,650. For every $50 increase in income after $11,650, the credit is reduced $11. The credit is phased out entirely at $28,495 in income.

ASSUMPTIONS AND METHODOLOGY:

Revenue

In 1994, 638,801 North Carolinians with adjusted gross income of less than $30,000 filed returns with earned income credits worth $735.6 million. Of the taxpayers that requested the EIC, 494,870 received refunds totaling $576.7 million. North Carolinians received refunds for 78.4% of their earned income credit in 1994.

Nationally, EIC returns rose 19.8% from 1993 to 1994 and refundable credits rose 38.9% in the same year due to expansion of the eligibility standards (extended benefit to workers without children), an increase in the EIC benefit, and the simplification of the credit. For North Carolina for the same period, the growth in returns was 18.1% and the growth in the tax credit amount was 28.5%.

Based on information from the IRS and the Congressional Budget Office (CBO), the Center on Budget and Policy Priorities in Washington, D. C. estimates the EIC benefits received by North Carolina residents to be as follows in the next five years.

FY 1997-98	$860 million
FY 1998-99	896 million
FY 1999-00	931 million
FY 2000-01	967 million
FY 2001-02	1,004 million

The state credit would be equal to 10% of the above credits each year.

Expenditure

According to a study by KPMG Peat Marwick in 1992, the Tax Fairness Act of 1989 removed 411,510 taxpayers from the tax rolls by substantially raising the standard deduction and personal exemption amounts on the individual income tax return. In 1997, the Department of Revenue believes that 450,000 taxpayers who are not currently filing tax returns will once again file tax returns in order to receive the new credit authorized in Senate Bill 280. These returning taxpayers will increase the workload and costs of the following divisions in the Department:

	First Year	Recurring Costs
Computer Programming (1)	$19,550	
Accounting Division (2)		
Labor	14,688	14,688
Additional checks and envelopes	21,398	21,398
Postage	144,750	144,750
Returns Processing Division (3)		
Labor	444,100	444,100
Storage Rental	10,000	10,000
Shelving	15,000	
Personal Taxes Division (4)		
Tax Forms & Instructions	14,288	49,500
Labels & Envelopes	15,320	1,557
Postage	175,500	74,250
Total	$874,594	$760,243

(1) The computer programming costs are based on 391 hours of work at $50/hour.

(2) The Accounting Division will need to print checks, buy envelopes and pay first class postage for 450,000 refund checks. The Division will use temporary workers for the estimated 1,728 additional hours it anticipates it will need.

(3) The Returns Processing Division will incur costs in Validation ($151,092), Data Entry ($270,634), Error Resolution ($20,733), and Central Files ($26,640). This Division will utilize existing workers in an overtime mode to complete the 27,514 hours of work and hire temporary workers for 1,912 hours of work generated by SB 280. The primary use of existing workers versus temporary workers is due to space constraints and to ability to forgo buying additional equipment.

(4) The primary cost in the Personal Taxes Division is postage. The first year cost assumes first class mail because the taxpayer is not in the Revenue computer database and does not have a pre-addressed mailing label. In the second year, the taxpayer will be in the system, mailing labels will be printed, and a bulk postage rate can be used.

Salaries for overtime pay were adjusted for inflation with rates provided by the Office of State Budget and Management and identical to the rates used in the General Fund Model. All other costs were not inflated.

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DATE: March 21, 1997

Official
Fiscal Research Division
Publication

Signed Copy Located in the NCGA Principal Clerk's Offices