

GENERAL ASSEMBLY OF NORTH CAROLINA

Session 2015

Legislative Fiscal Note

BILL NUMBER: Senate Bill 819 (First Edition)

SHORT TITLE: Military State Income Tax Relief.

SPONSOR(S):

FISCAL IMPACT					
(\$ in millions)					
	<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> No	<input type="checkbox"/> No Estimate Available		
	FY 2016-17	FY 2017-18	FY 2018-19	FY 2019-20	FY 2020-21
State Impact					
General Fund Revenues:	(\$104.3)	(\$71.6)	(\$73.7)	(\$75.9)	(\$78.2)
General Fund Expenditures:					
Special Fund Revenues:					
Special Fund Expenditures:					
State Positions:					
NET STATE IMPACT	(\$104.3)	(\$71.6)	(\$73.7)	(\$75.9)	(\$78.2)
Local Impact					
Revenues:					
Expenditures:					
NET LOCAL IMPACT	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
PRINCIPAL DEPARTMENT(S) & PROGRAM(S) AFFECTED: NC Department of Revenue					
EFFECTIVE DATE: January 1, 2016					
TECHNICAL CONSIDERATIONS: None					

BILL SUMMARY:

S819. MILITARY STATE INCOME TAX RELIEF. (May 5, 2016)

AN ACT TO PROVIDE INCOME TAX RELIEF FOR MEMBERS OF THE ARMED FORCES OF THE UNITED STATES WHO ARE NORTH CAROLINA RESIDENTS BUT STATIONED OUTSIDE OF THE STATE.

Amends GS 105-153.4(a), defining North Carolina taxable income, to exclude from the definition the military pay of an active service member of any branch of the Armed Forces of the United States for any period of time the service member is not present in the state if the service member is a North Carolina resident and the service member is not present in the state solely in compliance

with military orders reassigning the service member to a permanent duty station located outside of the state. Effective for taxable years beginning on or after January 1, 2016.

ASSUMPTIONS AND METHODOLOGY:

The first step in determining the fiscal impact is to estimate income for active service members with NC residency. Because no data was available on service members claiming NC residency, military accessions were used as a proxy. The Department of Defense (DOD) provides data on accessions by state. The percentage of NC accessions is assumed to be a good indication of where service members are from and their state of residency.

Based on DOD data, 3.7 percent of military accessions are from North Carolina. Applying the percentage to total military pay results in an estimate of approximately \$2 billion in annual pay to service members with NC residency.

No data is available on the number of service members with NC residency serving outside the state. For purposes of this fiscal note, the percentage serving outside the state is assumed to be the same as the percentage of total active duty military stationed outside NC. This percentage is 93 percent and is applied to income from NC residents to determine the income from active duty residents stationed outside the state.

Applying the average effective income tax rate of 3.5 percent results in a fiscal impact of \$69.5 million annually. Because of the retroactive effective date, the FY 2016-17 impact reflects the full year impact of tax year 2016, plus a half year impact for tax year 2017. A growth rate of 3 percent is applied to determine the impact for future years.

SOURCES OF DATA:

Valuation of the Military Retirement System (revised, January 2015); Department of Defense Office of the Actuary (pp. 66-71)

<http://actuary.defense.gov/Portals/15/Documents/MRF%20ValRpt%202013.pdf>

2014 Demographics, Profile of the Military Community; Office of the Deputy Assistant Secretary of Defense (pg. 33)

<http://download.militaryonesource.mil/12038/MOS/Reports/2014-Demographics-Report.pdf>

Bureau of Labor Statistics

https://www.cna.org/pop-rep/2014/appendixb/b_47.html

TECHNICAL CONSIDERATIONS: None

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