



NORTH CAROLINA GENERAL ASSEMBLY

Legislative Services Office

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Mark Trogdon, Director

July 24, 2014

MEMORANDUM

TO: Senator Josh Stein

FROM: Brian Slivka Barry Boardman, Ph.D.
Fiscal Research Division Fiscal Research Division

SUBJECT: Updated Personal Income Tax Projections

Per your request, we are providing you with the updated impact of changes to the Personal Income tax in S.L. 2013-316 (HB 998). Neither the Corporate income nor Sales tax changes in the bill have been updated. At this point in time, not enough new data is available to update those numbers. The modeled updated change to Personal Income tax collections was a \$200 million reduction in revenue for tax year 2015. The modeled change in revenue is the result of new Internal Revenue Code data on North Carolina personal income taxpayers, and an update to the economic forecast embedded in the model.

With the recent release of the 2012 IRS Statistics of Income data, the Fiscal Research Division was requested to update the Bearing Point North Carolina Individual Income Tax Model. In addition to adding a full year of personal income data to the model, we have updated the forecasted economic growth rates used within the model. They make use of the July 2014 forecasts from Moody's Analytics, which includes a growth forecast for personal income. It should be noted that the Bearing Point model is used to model tax law changes, but is not used to develop the total Personal Income tax revenue forecast for the General Fund budget.

The significant changes to the personal income tax enacted last year included both base-broadening and rate reductions. We now know the rate reduction is having a greater immediate impact on collections, while most of the base-broadening will not impact collections until taxpayers file their returns next April 15, 2015. The timing of when these changes will impact revenues has proven difficult to gauge. These timing issues are likely to continue through FY14-15. Because of this, it's difficult to determine what percent of the tax year impact should be associated to which fiscal year.

Therefore, it is more beneficial to look at tax year numbers, as this removes the timing element from the equation. We have provided comparison estimates of S.L. 2013-316 (HB 998) on

Personal Income tax collections for both the original July 2013 estimate, and the updated July 2014 estimate by tax year.

**Impact of S.L. 2013-316 (HB 998) with Updated Individual Income Tax Estimates
(\$ millions)**

	TY2014	TY2015	TY2016	TY2017	TY2018
July 2013 Estimate	-475.0	-690.0	-850.0	-1,100.0	-1,300.0
July 2014 Update	-680.0	-890.0	-1,000.0	-1,250.0	-1,475.0
Difference	-205.0	-200.0	-150.0	-150.0	-175.0

As noted in the April 2014 Consensus Revenue report, growth in wages has lagged behind the original consensus forecast of May 2013. That **slower wage growth pattern is embedded in the tax model and is the predominate reason the tax revenue estimates for July 2014 are lower than those estimated in July 2013.**

Also of note, the impact from eliminating the \$50,000 business income tax deduction has not significantly changed. Eliminating that deduction, using our updated model assumptions, still yields approximately \$400M in additional revenue.

Please let us know if you have any questions. We can be reached at 919-733-4910.