

GENERAL ASSEMBLY OF NORTH CAROLINA

Session 2005

Legislative Fiscal Note

BILL NUMBER: Senate Bill 545 (First Edition)

SHORT TITLE: Teacher Tax Credit.

SPONSOR(S): Senator Forrester

FISCAL IMPACT

	Yes (X)	No ()	No Estimate Available ()		
	(\$ millions)				
	<u>FY 2005-06</u>	<u>FY 2006-07</u>	<u>FY 2007-08</u>	<u>FY 2008-09</u>	<u>FY 2009-10</u>
REVENUES	(31.1)	(31.8)	(32.5)	(33.3)	(34.0)

**PRINCIPAL DEPARTMENT(S) &
PROGRAM(S) AFFECTED:** North Carolina Department of Revenue.

EFFECTIVE DATE: January 1, 2005

BILL SUMMARY:

Adds new GS 105-151.29 to establish a credit against state income tax paid by public school teachers in the amount of \$250 for teachers with at least five but less than ten years of service and \$500 for teachers with ten or more years of service. Limits amount of credit to 50% of income tax due, minus all allowable credits, and allows teacher to carry forward any unused credit for the next five tax years. Defines "public school teacher" as a full-time permanent employee of a public school who spends at least 50% of the school day providing classroom instruction. Makes conforming change. Effective for taxable years beginning on or after January 1, 2005.

ASSUMPTIONS AND METHODOLOGY: Since 1996, the number of North Carolina public school teachers with five to ten years of experience has grown by an average of 5.75% annually. There are currently 19,189 public school teachers in North Carolina with five to ten years of experience and 51,335 teachers with more than ten years experience. The number of public school teachers with ten or more years of experience has grown by an average of 1.51% annually between 1996 and 2003.

	2005-2006	2006-2007	2007-2008	2008-2009	2009-2010
5-10 years	20,292	21,459	22,693	23,998	25,378
10+ years	52,110	52,897	53,696	54,507	55,330
Total	72,403	74,356	76,389	78,505	80,707
\$250 credit to 5-10	\$5,073,092	\$5,364,795	\$5,673,270	\$5,999,483	\$6,344,454
\$500 credit to 10+	\$26,055,079	\$26,448,511	\$26,847,883	\$27,253,287	\$27,664,811
Total	\$31,128,171	\$31,813,306	\$32,521,154	\$33,252,770	\$34,009,265

The projected cost of this tax credit to the State was calculated using these assumptions.

The more rapid growth in the number of new teachers hired over the past decade suggests that the number of teachers claiming the \$250 credit may increase significantly in future years. However, an alternate estimation including the averaged ratio of newly hired public school teachers to retiring teachers from 1996 to 2003 (2.39 to 1) returned similar results. Retaining the assumption of 1.51% growth in the number of teachers with ten or more years experience, the projected cost of this legislation was only marginally higher.

While the bill allows teachers to carry forward unused credits, because of the limited amount of the credit it is assumed for purposes of the fiscal note that no carry forwards occur.

SOURCES OF DATA: North Carolina Department of Education, North Carolina Retirement System

TECHNICAL CONSIDERATIONS: None

FISCAL RESEARCH DIVISION: (919) 733-4910

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DATE: April 15, 2005

Signed Copy Located in the NCGA Principal Clerk's Offices