

GENERAL ASSEMBLY OF NORTH CAROLINA



Session 2007

Legislative Fiscal Note

BILL NUMBER: House Bill 184 (First Edition)

SHORT TITLE: Military Personnel Income Tax Change.

SPONSOR(S): Representatives Moore, Faison, Clary, and Pate

FISCAL IMPACT					
	Yes ()	No ()	No Estimate Available ()		
	<u>FY 2007-08</u>	<u>FY 2008-09</u>	<u>FY 2009-10</u>	<u>FY 2010-11</u>	<u>FY 2011-12</u>
REVENUES:					
Traditional Military	(94)	(98)	(102)	(106)	(110)
Guard & Reserve	(8)	(8)	(8)	(8)	(8)
EXPENDITURES:					
POSITIONS (cumulative):					
PRINCIPAL DEPARTMENT(S) & PROGRAM(S) AFFECTED: North Carolina Department of Revenue.					
EFFECTIVE DATE: January 1, 2007					

BILL SUMMARY: Exempts from income certain compensation paid to active duty military and national guard personnel. Enacts new GS 105-134.6(b)(19) to establish a income tax deduction from NC taxable income for compensation paid by the US armed forces. Effective for taxable years beginning on or after January 1, 2007.

ASSUMPTIONS AND METHODOLOGY: Under current law, all military pay earned by enlisted personnel, warrant officers, and commissioned warrant officers are exempt from state income tax if the individual is either serving in a combat zone or is hospitalized as a result of serving in a combat zone. A similar exemption is applied to commissioned officers serving in a combat zone or hospitalized as a result of serving in a combat zone. However, the exemption is limited to the highest rate of enlisted pay plus imminent danger/hostile fire pay. As a result, the legislation only impact military personnel who list North Carolina as their state of residence and are not in a combat zone, or those officers whose current exemption is capped.

According to the Department of Defense 2006 Atlas/Data Abstract Workforce publication, there were 101,935 active duty military personnel in North Carolina in 2005. Their average pay at that time \$40,111. Approximately 41.7% of those individuals are in the Army, 48.4% are Navy and Marine Corp personnel, and the balance are in the Air Force.

According to the Department of Defense Statistical Report of Personnel and Readiness, there were approximately 25,500 military personnel who declared North Carolina as their legal residence in 2001. This is the most recent number available. In 2001, that represented 2.5% of all active duty military personnel. For the purpose of this memo, this relationship between North Carolina legal residency and total active duty personnel will be held constant. The Federal Office of Management and Budget projects military growth at -0.5 percent for 2007 and -1.1 percent in 2008. Based on those projections, active duty military personnel claiming North Carolina as their state of residency are estimated as follows.

Calendar year	NC Residents
2005	28,583
2006	28,440
2007	28,297
2008	28,156
2009	28,015
2010	27,875
2011	27,736
2012	27,597

The average military pay at North Carolina military installations was \$40,111 in 2005. Under federal law, military pay increases are linked to the Bureau of Labor Statistics generated Employment Cost Index (ECI) for civilian employment. For 2005 and 2006 military pay increases was 1/2 % above the private sector increase for employment costs. After 2006, the increase must match the ECI. Based on ECI forecasts provided by Economy.com suggest the following average salaries for calendar years 2007 – 2012.

Calendar year	Average Pay
2005	\$40,111
2006	\$41,359
2007	\$42,834
2008	\$44,349
2009	\$45,897
2010	\$47,497
2011	\$49,154
2012	\$50,840

Previously provided military data suggests that 53% of North Carolina residents that are active duty military are married with an average of two dependents. The remaining 47% are single. For purposes of this analysis, spouses are assumed to earn 80% of the average military pay. No other exemptions or exclusions to state income are considered. Using this data, applying the appropriate federal and state deductions, exemptions, and credits, produces the following calendar year losses.

Tax Year	2007	2008	2009	2010	2011	2012
Married	60,958,639	63,503,006	66,081,045	68,729,764	71,455,405	74,204,339
Single	33,061,434	34,577,701	35,831,344	37,119,890	38,446,414	39,784,495
Total Loss	94,020,073	98,080,707	101,912,389	105,849,654	109,901,819	113,988,834

The legislation also exempts pay received by Reserve and National Guard members while on active duty. According to the North Carolina National Guard Association membership report there were 11,562 active members. According to the Department of Defense 2006 Atlas/Data Abstract Workforce publication, the average pay was \$10,400. Applying an average personal income tax rate of 6.7% suggests a loss of approximately \$8 million annually.

NOTE: Given the age of many of the active duty military estimates, and changing deployment situations, actual impacts could vary significantly.

SOURCES OF DATA: Department of Defense, North Carolina National Guard, Army Reserve, and the United States Office of Management and Budget.

TECHNICAL CONSIDERATIONS: None

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