

GENERAL ASSEMBLY OF NORTH CAROLINA



Session 2007

Legislative Fiscal Note

BILL NUMBER: House Bill 1016 (Second Edition)

SHORT TITLE: Revise 529 Plan Deduction.

SPONSOR(S): Representatives Dickson, Wainwright, Carney, and Barnhart

FISCAL IMPACT					
	Yes (X)	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:	(0.2)	(0.2)	(0.2)	(0.2)	(0.2)
PRINCIPAL DEPARTMENT(S) & PROGRAM(S) AFFECTED: Department of Revenue					
EFFECTIVE DATE: Sections 1 and 2 effective when law. Section 3 effective for taxable years beginning on or after January 1, 2007.					

BILL SUMMARY: Revises the tax deduction created in S.L. 2006-221 for contributions made into North Carolina’s National College Savings Program. This proposed committee substitute to House Bill 1016 increases the allowable deduction from \$2,000 to \$2,500 for single filers and from \$4,000 to \$5,000 for married filers filing joint returns, and removes the 2011 sunset for the deduction.

ASSUMPTIONS AND METHODOLOGY: Under current law, taxpayers who made contributions into North Carolina’s National College Savings Program during calendar year 2006 were eligible to deduct part or all of those contributions. For tax year 2006 and beyond, single filers are eligible to deduct up to \$2,000 in contributions, and married joint filers are eligible to deduct up to \$4,000 in contributions from their taxable income.

The increase in the allowable deductions for contributions made into the program will result in a slight negative fiscal impact. However, House Bill 1016 does not remove income limitations set in current law. This will most likely prohibit some taxpayers from claiming the deduction, particularly taxpayers who have made significant annual contributions into the program. The estimated fiscal impact produced by Fiscal Research does not control for the income limitation, and as a result the fiscal impact shown is conservative.

Additionally, the level of contributions made by a taxpayer in a given year is not a reliable indicator of income level since program participants may make occasional large annual

contributions due to inheritance, large one-time gifts, or “rollovers” from other 529 savings programs in other states. For this reason, the analysis assumes a 7% income tax rate for all contributors regardless of contribution size.

SOURCES OF DATA: College Foundation of North Carolina

TECHNICAL CONSIDERATIONS: None

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