BILL NUMBER: Senate Bill 726 (First Edition)

SHORT TITLE: IRC Update.

SPONSOR(S): Senators Rucho, Rabon, and Tillman

### FISCAL IMPACT

($ in millions)

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<tbody>
<tr>
<td>General Fund Revenues:</td>
<td>($1.5)</td>
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<td>General Fund Expenditures:</td>
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<td>Special Fund Revenues:</td>
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<td>Special Fund Expenditures:</td>
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<td>State Positions:</td>
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**NET STATE IMPACT**: ($1.5) ($1.5) ($1.6) ($1.6) ($1.6)

| 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:
When it becomes law

### TECHNICAL CONSIDERATIONS:
None

### BILL SUMMARY:

The bill would update from January 1, 2015, to January 1, 2016, the reference to the Internal Revenue Code, thereby conforming to various federal provisions, including a deduction for teachers’ classroom expenses of up to $250. The Bill would decouple from the following provisions:

- Enhanced Section 179 expensing limits
- Qualified tuition and expenses deduction
- Mortgage insurance premium as interest deduction
- Income exclusion for discharge of residence indebtedness
- Income exclusion for IRA distributions to charity by a person who has reached age 70.5.

ASSUMPTIONS AND METHODOLOGY:

The fiscal impact to the General Fund from updating the reference to the Internal Revenue Code is a result of conformity to the deduction for teachers’ classroom expenses of up to $250. The estimate is based on the US Joint Committee on Taxation (JCT) estimates on changes to federal taxes. The methodology used begins with these JCT estimates, which are calculated by federal fiscal year. Since the federal fiscal year ends 9/30 and the State’s fiscal year ends 6/30, Fiscal Research adjusts these numbers to an approximate state fiscal year tax impact. Then, the next step is to prorate the national numbers to the state impact. This adjustment involved two steps: accounting for the relative size of the state based on federal tax collections and then adjusting for the difference in federal marginal tax rates and the state tax rate. Once North Carolina’s share of the JCT estimates were determined, state tax liability changes were estimated and allocated to the appropriate fiscal year.

SOURCES OF DATA: NC Department of Revenue, US Joint Committee on Taxation

TECHNICAL CONSIDERATIONS: None

FISCAL RESEARCH DIVISION: (919) 733-4910

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APPROVED BY

Susan Jacobs, Acting Director

Fiscal Research Division

DATE: April 26, 2016

Signed Copy Located in the NCGA Principal Clerk’s Offices