

Senate Bill 394: Lower Tax Rates for a Stronger NC Economy

Sponsored by Senators Clodfelter, Hartsell, Jenkins, and Meredith

A proposed committee substitute was presented to the Senate Finance Committee on April 3, 2015. The attached proposed committee substitute, S394-CSRbx-20, is a revision of the one presented in April.

- Bill Contents
- Fiscal Impact Summary
- Personal Income Tax Incidence Chart
- Differences between the revised proposal and the one distributed in April.

SB 394: Lower Tax Rates for a Stronger NC Economy

Revised PCS – May 30, 2013

S394-CSRbx-20

Summary

	Eff. Date
Individual Income Tax Changes	
Eliminate \$50,000 business deduction	01/01/2013
5.95% Flat Rate	01/01/2015
New household deduction ranging from \$500 to \$5,000 (MFJ)	
Amend Personal Exemption	
New housing expense allowance equal to greater of \$5,000 or the mortgage interest amount attributable to the taxpayer's legal residence, not to exceed \$10,000 (MFJ)	
Eliminate Standard and Itemized Deductions	
Eliminate Other Retirement Benefits Deduction	
Eliminate all Credits, except for the following:	
NEW: Charitable Contributions Credit – 5.95% Rate and \$300 Credit Cap (\$5,042 in contributions)	
NEW: Sales tax credit equal to \$25 if AGI less than \$50,000	
Business Tax Changes	
Repeal State and Local Privilege License Tax	Various
Expand franchise tax base and reduce rate to \$1.25/\$1,000	01/01/2015
Moves to single sales factor apportionment formula with sales factor 70% weighting	01/01/2014
Replaces NEL with modified NOL deduction (no carryback)	01/01/2014
Expand corporate income tax base and reduce rate to 5.95%	01/01/2014
Repeal ineffective tax credits and extend sunset on others	01/01/2014
Repeal 1%, \$80 excise tax	01/01/2014
Repeal piped gas excise tax	01/01/2014
Repeal electricity franchise tax	01/01/2014
Repeal discounts	07/01/2014
Eliminate annual report fees	01/01/2015
Sales Tax Changes	
Repeal vending, newspaper, and various other exemptions	07/01/2013
Transfer entertainment from privilege tax and expand to include other recreation charges	07/01/2013
Include tangible personal property services	01/01/2014
Include real property care and maintenance services	07/01/2014
Limit equipment exemptions to capital equipment	01/01/2014
Modify other exemptions and rates for consistency	01/01/2014
Eliminate electricity preferential rates and tax at combined State rate	01/01/2014

Include piped natural gas in State and local tax base
Reduce State Sales Tax Rate To 4.5%

01/01/2014
09/01/2014

State/Local Distribution Changes

Repeal distribution to Public School Capital Fund	04/01/2014
Repeal distribution of State excise tax on beer and wine	07/01/2014
Distribute a portion of the franchise tax revenues to cities	January 1, 2015 FY14-15
Retain local government sales tax refund	07/01/2015
Require counties to distribute 10% of revenue from excise tax on conveyances to cities on a per capita basis	
Reduce Medicaid hold-harmless	07/01/2013

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SB 394 (CS-RBx-16): Lower Rates for a Stronger NC Economy

Summary	Eff. Date	State \$Millions				Local \$Millions				
		13-14	14-15	15-16	16-17	13-14	14-15	15-16	16-17	
Business Tax Changes										
Repeal state and local privilege license tax	Various	(50.0)	(51.3)	(52.5)	(53.8)	(54.7)	(54.7)	(54.7)	(54.7)	
Expand franchise tax base to LLCs and insurance companies and reduce rate to \$1.25/\$1,000 with \$200 minimum fee	01/01/2015		140.0	142.0	145.0	66.0	67.0	68.0		
Expand corporate income tax base and reduce rate to 5.95%	01/01/2014	(65.1)	(158.6)	(167.5)	(176.3)					
Increase sales factor apportionment weight from 50% to 70%	01/01/2014	(37.8)	(84.7)	(86.2)	(87.9)					
Repeal ineffective tax credits and extend sunset on others	01/01/2014	6.3	(21.4)	(54.7)	(54.7)					
Repeal 1%, \$80 excise tax	01/01/2014	(17.4)	(39.2)	(40.2)	(40.2)					
Repeal piped gas excise tax	01/01/2014	(11.4)	(25.6)	(26.0)	(26.7)	(20.0)	(20.1)	(20.4)	(20.7)	
Repeal electricity franchise tax	01/01/2014	(78.5)	(157.0)	(157.0)	(160.9)	(93.5)	(187.0)	(189.0)	(190.9)	
Repeal discounts	07/01/2014		12.0	12.0	12.0					
Adopt federal NOL, but with no carryback provision	01/01/2014	(1.3)	(2.8)	(2.9)	(3.1)	(0.1)	(0.2)	(0.2)	(0.2)	
Eliminate annual report fees	01/01/2015		(30.0)	(31.2)	(32.4)					
Total Business Tax Changes			(255.2)	(418.5)	(464.2)	(438.8)	(113.6)	(196.0)	(197.3)	(198.5)
Individual Income Tax Changes										
5.95% Flat Rate	01/01/2015		(352.2)	(920.1)	(950.6)					
Household Deduction: \$1,000/\$800/\$500 (MFI/HOH/S)										
Establish new personal exemptions: (AGI amounts shown are for Married Filing Jointly)										
AGI < \$50,000: \$5,000										
AGI between \$50,000 and \$125,000: \$3,000										
AGI between \$125,000 and \$200,000: \$1,000										
AGI > \$200,000: \$500										
Housing Expense Allowance										
Greater of \$5,000/\$4,000/\$2,500 (MFI/HOH/S) or Mortgage Interest										
Mortgage interest capped at \$10,000/\$8,000/\$5,000 (MFI/HOH/S)										
Eliminate Other Retirement Benefits Deduction										
Eliminate all Credits, except for the following:										
Charitable Contributions Credit - 5.95% Rate and \$300 Credit Cap (\$5,042 in contributions)										
Sales Tax Credit: (AGI amounts shown are for Married Filing Jointly)										
AGI < \$50,000: \$25										
AGI > \$50,000: \$0										
Eliminate \$50K business exemption	01/01/2013	365.7	385.7	421.4	442.0					
		365.7	33.5	(498.7)	(508.6)					
Sales Tax Changes										
Repeal vending, newspaper, and various other exemptions	07/01/2013	28.9	31.4	32.2	33.0	12.2	13.2	13.6	13.9	
Transfer entertainment from privilege tax and expand to include other recreation charges	07/01/2013	55.0	125.7	133.0	136.2	23.2	52.9	56.0	57.4	
Include tangible personal property services	01/01/2014	100.2	230.6	237.7	245.9	42.2	97.1	100.1	103.5	
Include real property care and maintenance services	07/01/2014	0.0	179.7	195.4	200.1	0.0	75.7	82.3	84.2	
Limit equipment exemptions to capital equipment	01/01/2014	3.3	7.7	7.9	8.1	1.4	3.2	3.3	3.4	
Remove vehicle caps, include doc fees in vehicle pricing	01/01/2014	16.9	39.0	40.0	41.0					
Retain local government sales tax refunds	07/01/2015			92.6	95.4			(92.6)	(95.4)	
Modify other exemptions and rates for consistency	01/01/2014	6.7	15.3	15.7	16.1	3.4	7.8	8.0	8.2	
Subtotal Sales Tax Changes		211.1	629.5	754.5	775.7	82.3	249.9	170.6	175.2	
Air Passenger Fuel Exemption	01/01/2014	(1.6)	(3.1)	(3.2)	(3.3)		(1.3)	(1.3)	(1.4)	
Include electricity/preserve local distribution	01/01/2014	92.1	230.0	239.3	248.2	93.5	187.0	189.0	190.9	
Include piped natural gas	01/01/2014	32.0	68.5	69.9	71.6	13.5	30.3	31.1	31.8	
Reduce State Sales Tax Rate To 4.5%	09/01/2014		(269.1)	(366.4)	(382.8)					
Marketplace Fairness Act, 5743	01/01/2014		70.0	70.0	70.0		29.5	29.5	29.5	
Total Sales Tax Changes		333.6	725.8	764.2	779.4	189.3	496.8	420.2	427.4	
State/Local Distribution Changes										
Repeal distribution to Public School Capital Fund	04/01/2014	0.0	85.5	89.0	92.6	0.0	(85.5)	(89.0)	(92.6)	
Repeal distribution of State excise tax on beer and wine	07/01/2014		36.8	37.8	37.8		(36.8)	(37.8)	(37.8)	
Medicaid hold-harmless \$0 vs \$500K gain	41,456.0	1.8	19.6	22.2	25.2	(1.8)	(19.6)	(22.2)	(25.2)	
Counties share 10% of real estate conveyance										
Total State/Local Distribution Changes		1.8	141.9	149.0	155.6	(1.8)	(141.9)	(149.0)	(155.6)	
Reserves										
Accelerated unemployment payback implementation and transitional adjustments			(200.0)	(350.0)						
Reserve (FY 15-16)			(62.2)							
Total Reserves			(302.2)	(350.0)						
Total All Changes			(437.2)	(132.6)	(49.8)	(12.4)	(73.9)	(156.9)	(73.9)	(73.4)

05/29/2013

2015 Estimated Impact of Individual Income Tax Proposal

TOTAL RETURNS

Federal AGI ¹	Total Returns	Current - Returns with Tax Due	Proposal - Returns with Tax Due	Change in Returns with Tax Due	Current - Revenue (\$Millions)	Proposal - Revenue (\$Millions)	Change - Revenue (\$Millions)	Current - Average Tax Due	Proposal - Average Tax Due	Change - Average Tax Due	Percent Change
Infinity (> \$9,999)	665,646	203,686	160,299	(43,387)	28.9	20.8	(8.11)	43	31	(12)	-28.1%
\$9,999 < \$19,999	526,951	358,431	285,512	(72,919)	129.3	86.1	(43.26)	245	163	(82)	-33.5%
\$19,999 < \$29,999	637,908	569,227	541,327	(27,900)	464.8	359.1	(105.75)	729	593	(166)	-22.8%
\$29,999 < \$39,999	698,369	643,240	654,378	11,138	864.9	730.5	(134.43)	1,255	1,060	(195)	-15.5%
\$39,999 < \$49,999	316,249	289,939	303,800	13,861	514.6	475.0	(39.61)	1,627	1,502	(125)	-7.7%
\$49,999 < \$59,999	232,238	215,560	225,664	10,104	479.4	464.3	(15.09)	2,064	1,988	(65)	-3.1%
\$59,999 < \$69,999	197,592	185,697	193,775	8,078	486.9	489.4	2.52	2,515	2,528	13	0.5%
\$69,999 < \$79,999	166,804	157,831	164,139	6,308	489.4	505.7	6.33	2,994	3,032	38	1.3%
\$79,999 < \$89,999	253,423	244,662	250,715	6,053	942.3	944.8	2.39	3,718	3,728	9	0.3%
\$89,999 < \$99,999	537,776	530,719	536,379	5,660	3,469.0	3,542.8	73.88	6,451	6,588	137	2.1%
\$99,999 < \$199,999	124,187	123,387	124,143	756	1,923.9	1,848.4	(75.50)	15,492	14,884	(608)	-3.9%
\$199,999 < \$999,999	15,318	15,161	15,313	152	651.6	592.0	(59.64)	42,541	38,647	(3,893)	-9.2%
\$999,999 < Infinity	7,795	7,665	7,793	128	1,564.9	1,497.5	(67.39)	200,792	192,112	(8,640)	-4.3%
TOTAL	4,371,286	3,545,206	3,463,237	(81,969)	12,029.66	11,566.03	(463.63)	2,762	2,646	(106)	-3.9%

5.95% Flat Rate

Standard Deduction: \$1,000 / \$800 / \$500 (MFI / HOH / S)

Eliminate Other Retirement Benefits Deduction

Establish new personal exemptions: (AGI amounts shown are for Married Filing Jointly)

AGI < \$50,000: \$5,000

AGI between \$50,000 and \$125,000: \$3,000

AGI between \$125,000 and \$200,000: \$1,000

AGI > \$200,000: \$500

Eliminate \$50,000 Business Exemption

Mortgage Interest or Housing Exemption:

Greater of Mortgage Interest or \$5,000 / \$4,000 / \$2,500 (MFI / HOH / S) Housing Exemption capped at \$10,000 / \$8,000 / \$5,000 (MFI / HOH / S).

Eliminate all Credits, except for the following:

Charitable Contributions Credit - 5.95% Rate and \$300 Credit Cap (\$5,042 in contributions)

Sales Tax Credit: (AGI amounts shown are for Married Filing Jointly)

AGI < \$50,000: \$25

AGI > \$50,000: \$0

^{1/} Federal AGI is prorated to capture only portion that is North Carolina income

*** The distribution tables are based on the BearingPoint Tax Model. The distributions do not reflect the additional adjustments, based on the most recent data from the Department of Revenue, necessary to estimate the total fiscal impact. **

SINGLE

Federal AGI ¹	Total Returns	Current - Returns with Tax Due	Proposal - Returns with Tax Due	Change in Returns with Tax Due	Current - Revenue (\$Millions)	Proposal - Revenue (\$Millions)	Change - Revenue (\$Millions)	Current - Average Tax Due	Proposal - Average Tax Due	Change - Average Tax Due	Percent Change
Infinity (< 9,999)	420,712	168,832	128,842	(40,160)	22.72	15.46	(7.26)	54	37	(17)	-31.0%
9,999 < 19,999	244,793	206,584	201,902	(4,682)	93.09	71.49	(21.60)	380	292	(88)	-23.2%
19,999 < 29,999	260,230	239,421	247,932	8,511	260.35	229.99	(30.36)	1,000	884	(117)	-11.7%
29,999 < 39,999	319,456	306,100	313,656	7,556	507.38	457.69	(49.69)	1,588	1,433	(156)	-9.8%
39,999 < 49,999	142,208	134,041	138,545	4,504	281.67	265.21	(16.46)	1,981	1,865	(116)	-5.8%
49,999 < 59,999	90,240	85,368	88,230	2,862	221.80	213.33	(8.47)	2,458	2,364	(94)	-3.8%
59,999 < 69,999	63,228	60,182	62,435	2,253	187.26	184.90	(2.36)	2,962	3,082	121	4.1%
69,999 < 79,999	49,309	47,379	49,030	1,651	173.26	181.83	8.57	3,514	3,688	174	4.9%
79,999 < 89,999	54,882	52,829	54,522	1,693	230.94	240.92	9.98	4,223	4,408	183	4.3%
89,999 < 99,999	66,898	65,812	66,905	993	465.22	441.50	(23.72)	6,905	6,600	(305)	-4.4%
199,999 < 499,999	12,517	12,401	12,503	102	192.44	192.44	0.00	16,407	15,374	(1,033)	-6.3%
499,999 < 999,999	1,752	1,709	1,747	38	74.08	68.23	(5.85)	42,283	38,944	(3,339)	-7.9%
999,999 < Infinity	1,301	1,264	1,301	37	288.09	270.87	(17.22)	208,065	208,201	136	0.1%
TOTAL	1,727,328	1,382,022	1,367,250	(14,772)	2,981.23	2,843.85	(137.37)	2,167	2,080	(87)	-4.0%

MARRIED FILING JOINTLY

Federal AGI ¹	Total Returns	Current - Returns with Tax Due	Proposal - Returns with Tax Due	Change in Returns with Tax Due	Current - Revenue (\$Millions)	Proposal - Revenue (\$Millions)	Change - Revenue (\$Millions)	Current - Average Tax Due	Proposal - Average Tax Due	Change - Average Tax Due	Percent Change
Infinity (< 9,999)	99,030	22,938	23,128	190	4.69	4.40	(0.29)	47	44	(3)	-6.2%
9,999 < 19,999	83,806	31,924	22,923	(9,001)	5.28	2.96	(2.32)	63	35	(28)	-43.9%
19,999 < 29,999	126,548	90,802	72,623	(18,179)	44.32	25.20	(19.12)	350	199	(151)	-43.1%
29,999 < 39,999	167,171	139,743	142,265	2,522	125.68	93.50	(32.18)	752	559	(192)	-25.6%
39,999 < 49,999	116,384	101,941	110,012	8,071	139.32	124.46	(14.86)	1,177	1,051	(126)	-10.7%
49,999 < 59,999	113,604	102,407	109,192	6,785	193.31	181.15	(12.16)	1,702	1,683	(19)	-1.1%
59,999 < 69,999	117,263	108,801	114,305	5,504	261.92	259.24	(2.68)	2,204	2,202	(2)	-0.1%
69,999 < 79,999	109,155	102,310	106,802	4,492	298.57	296.48	(2.09)	2,735	2,716	(19)	-0.7%
79,999 < 89,999	190,491	183,603	187,951	4,348	677.13	670.36	(6.77)	3,555	3,519	(36)	-1.0%
89,999 < 99,999	463,033	457,179	461,749	4,570	2,962.82	3,048.34	85.52	6,399	6,583	185	2.9%
199,999 < 499,999	110,012	109,350	109,985	636	1,692.26	1,690.70	(1.56)	15,383	14,823	(560)	-3.6%
499,999 < 999,999	13,348	13,237	13,348	111	588.33	515.41	(73.92)	42,578	39,613	(2,965)	-6.9%
999,999 < Infinity	6,215	6,144	6,213	69	1,213.95	1,134.26	(79.69)	185,326	182,504	(2,822)	-1.5%
TOTAL	1,718,060	1,470,279	1,480,437	10,218	8,187.58	7,995.46	(192.12)	5,589	5,401	(188)	-3.4%

** The distribution tables are based on the BearingPoint Tax Model. The distributions do not reflect the additional adjustments, based on the most recent data from the Department of Revenue, necessary to estimate the total fiscal impact. **

MARRIED FILING SEPARATELY

Federal AGI ¹	Total Returns	Current - Returns with Tax Due	Proposal - Returns with Tax Due	Change in Returns with Tax Due	Current - Revenue (\$Millions)	Proposal - Revenue (\$Millions)	Change - Revenue (\$Millions)	Current - Average Tax Due	Proposal - Average Tax Due	Change - Average Tax Due	Percent Change
Infinity (< 9,999)	19,335	5,669	4,468	(1,201)	0.97	0.65	(0.32)	50	34	(17)	-33.0%
9,999 < 19,999	13,318	10,895	11,111	116	4.57	3.34	(1.23)	343	251	(92)	-26.9%
19,999 < 29,999	16,338	15,042	15,702	660	14.46	12.65	(1.81)	885	774	(111)	-12.5%
29,999 < 39,999	17,627	16,639	17,416	777	24.55	22.75	(1.80)	1,393	1,291	(102)	-7.3%
39,999 < 49,999	9,349	8,804	9,238	434	16.74	16.50	(0.24)	1,791	1,755	(26)	-1.4%
49,999 < 59,999	5,605	5,345	5,638	183	12.95	12.73	(0.22)	2,310	2,271	(39)	-1.7%
59,999 < 69,999	3,662	3,520	3,662	132	10.43	11.37	0.94	2,848	3,105	257	9.0%
69,999 < 79,999	2,124	2,018	2,114	96	7.12	7.89	0.77	3,352	3,715	363	10.8%
79,999 < 89,999	2,372	2,305	2,372	67	9.81	10.64	1.03	4,051	4,486	434	10.7%
89,999 < 199,999	3,389	3,316	3,374	58	22.33	23.02	0.69	6,599	6,783	204	3.1%
199,999 < 499,999	857	848	853	7	13.13	12.74	(0.39)	15,321	14,666	(455)	-3.0%
499,999 < 999,999	87	87	87	0	3.24	3.12	(0.12)	37,241	35,862	(1,379)	-3.7%
999,999 < Infinity	206	184	206	22	70.00	81.12	11.12	339,806	383,786	53,981	15.9%
TOTAL	94,269	74,770	76,151	1,381	210.10	218.52	8.42	2,810	2,970	60	2.1%

HEAD OF HOUSEHOLD

Federal AGI ¹	Total Returns	Current - Returns with Tax Due	Proposal - Returns with Tax Due	Change in Returns with Tax Due	Current - Revenue (\$Millions)	Proposal - Revenue (\$Millions)	Change - Revenue (\$Millions)	Current - Average Tax Due	Proposal - Average Tax Due	Change - Average Tax Due	Percent Change
Infinity (< 9,999)	126,869	6,247	4,081	(2,166)	0.49	0.25	(0.24)	4	2	(2)	-49.0%
9,999 < 19,999	185,034	108,928	49,576	(59,352)	26.37	8.26	(18.11)	143	45	(98)	-68.7%
19,999 < 29,999	284,792	223,962	205,070	(18,892)	145.67	91.21	(54.46)	620	388	(232)	-37.4%
29,999 < 39,999	185,115	180,758	181,041	283	207.32	156.56	(50.76)	1,120	846	(274)	-24.5%
39,999 < 49,999	46,308	45,253	46,005	752	76.87	68.82	(8.05)	1,660	1,486	(174)	-10.5%
49,999 < 59,999	22,789	22,440	22,704	264	51.29	47.06	(4.23)	2,251	2,065	(186)	-8.2%
59,999 < 69,999	13,439	13,194	13,383	189	37.29	34.91	(2.38)	2,775	2,598	(177)	-6.4%
69,999 < 79,999	6,216	6,124	6,183	69	20.40	19.48	(0.92)	3,282	3,134	(148)	-4.5%
79,999 < 89,999	5,878	5,825	5,870	45	24.57	22.72	(1.85)	4,180	3,865	(315)	-7.5%
89,999 < 199,999	4,458	4,412	4,451	39	28.58	28.95	1.37	6,414	6,721	307	4.8%
199,999 < 499,999	801	790	801	11	13.09	12.47	(0.62)	16,342	15,568	(774)	-4.7%
499,999 < 999,999	131	128	131	3	5.99	5.24	(0.75)	48,725	40,000	(8,725)	-17.9%
999,999 < Infinity	73	73	73	0	12.82	11.26	(1.56)	175,616	154,247	(21,370)	-12.2%
TOTAL	831,601	616,134	539,359	(76,775)	650.75	508.19	(142.56)	1,053	942	(111)	-10.5%

** The distribution tables are based on the BearingPoint Tax Model. The distributions do not reflect the additional adjustments, based on the most recent data from the Department of Revenue, necessary to estimate the total fiscal impact. **

2nd Proposed Committee Substitute for SB 394
S394-CSRbx-20, May 30, 2013
Changes from 1st Committee Substitute Distributed on April 3, 2013

Individual Income Tax Changes

- Changes effective date of repeal of the \$50K business deduction from 2015 tax year to 2013
- Redesigns tax to further reduce flat rate from 6.0 to 5.95%
- Preserves the full exemption for social security income
- Replaces zero bracket with household deduction and modified personal exemptions
- Replaces child credit with increased personal exemption
- Caps charitable contributions credit at \$300 instead of \$600
- Replaces "personal expense" credit with personal exemptions
- Provides a sales tax credit of \$25 for MFJ with AGI < \$50K
- Provides a housing expense deduction based in part on the federal mortgage interest deduction

Business Tax Changes

- Further reduces corporate income tax rate from 6.0 to 5.95%
- Changes increased sales factor weighting from 75% to 70% (current law is 50%) (Done to balance revenue)
- Replaces net economic loss (NEL) with modified net operating loss (NOL) deduction (no carryback but otherwise conforms to federal NOL)
- Eliminates franchise (business privilege) tax exemption for insurance companies

Sales Tax Changes

- Keeps farming facilities sales tax exemption as in current law (1st PCS repealed the exemptions)
- Preserves 2% food tax in local base
- Eliminates local government sales tax refunds in lieu of State taking 1% of the 2% food tax
- Preserves current distribution to locals of electricity taxes through formulas
- Exempts jet fuel for passenger air carriers
- Anticipates Congressional enactment of Main Street Fairness Act
- Preserves the sales tax holidays

State/Local Distribution Changes

- Preserves Medicaid hold-harmless to extent required to cover losses (bring to zero) rather than provide \$500K (1st PCS eliminates Medicaid hold-harmless)
- Distributes to cities 10% of the current county portion of the deed stamp tax

Reserves

- Accelerates repayment of the State's debt to the federal Unemployment Trust Fund by making a \$325 payment in FY 2013-14 and a \$350 payment in FY 2014-15 and makes the effective date of the benefit changes made in the 2013 legislation the same as the effective date of the unemployment tax changes (January 1, 2014)