

**NORTH CAROLINA GENERAL ASSEMBLY**

**LEGISLATIVE FISCAL NOTE**

**BILL NUMBER:** House Bill 20 (First Edition)

**SHORT TITLE:** Increase Non-itemizer Charity Credit

**SPONSOR(S):** Representative William E. McMahan

<b>FISCAL IMPACT</b>					
	<b>Yes (X)</b>	<b>No ( )</b>	<b>No Estimate Available ( )</b>		
	<b>(\$ Millions)</b>				
	<b><u>FY 1997-98</u></b>	<b><u>FY 1998-99</u></b>	<b><u>FY 1999-00</u></b>	<b><u>FY 2000-01</u></b>	<b><u>FY 2001-02</u></b>
<b>REVENUES</b>					
General Fund		--	(7.6)	(7.7)	(7.8)
<b>PRINCIPAL DEPARTMENT(S) &amp; PROGRAM(S) AFFECTED:</b> Department of Revenue					
<b>EFFECTIVE DATE:</b> Effective for taxable years beginning on or after January 1,1998					

**BILL SUMMARY:** The act increases the income tax credit for charitable contributions by non-itemizers from 2.75% to 7%. The credit is allowed for those contributions that exceed 2% of the taxpayer's adjusted gross income.

**ASSUMPTIONS AND METHODOLOGY:**The non-itemizer charitable contribution tax credit of 2.75% went into effect on January 1 of this year. The estimated cost of the 2.75% credit is approximately \$5 million a year. If this credit were increased to 7%, the annual cost would be approximately \$12.6 million each year. The net fiscal impact of the 7% proposal is shown below. A 1% growth factor is assumed for this tax credit and is based on the actual growth in the number of individual income tax returns filed from 1989 to 1993. The increased credit would not affect the budget until FY 98-99, because taxpayers will not file returns for Tax Year 1998 until the spring of 1999.

	(\$ Millions)				
	<u>1997-98</u>	<u>1998-99</u>	<u>1999-00</u>	<u>2000-01</u>	<u>2001-02</u>
2.75% credit	(4.9)	(5.0)	(5.1)	(5.1)	
7% credit (1-1-98)	--	(12.6)	(12.7)	(12.9)	(13.0)
<b>Additional General Fund Loss</b>		<b>(7.6)</b>	<b>(7.7)</b>	<b>(7.7)</b>	<b>(7.8)</b>

These estimates are based on charitable giving rates for non-itemizers provided by the Independent Sector, a non-profit coalition of over 800 corporate, foundation and voluntary organization members. The number of non-itemizers in North Carolina is based on estimates from the Department of Revenue's personal income tax model.

It should be noted that the above estimates are based on current giving behavior. If the credit is successful in increasing charitable giving, then the credit will produce additional losses for the General Fund. For every 5% increase in charitable giving, an additional \$2 million in State revenues will be lost.

**FISCAL RESEARCH DIVISION  
733-4910**

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