

NORTH CAROLINA GENERAL ASSEMBLY

LEGISLATIVE FISCAL NOTE

BILL NUMBER: H.B. 320 (1st Edition)

SHORT TITLE: IRC Update

SPONSOR(S): Rep. McComas

FISCAL IMPACT					
	Yes (X)	No ()	No Estimate Available ()		
	<u>FY 2003-04</u>	<u>FY 2004-05</u>	<u>FY 2005-06</u>	<u>FY 2006-07</u>	<u>FY 2007-08</u>
REVENUES					
General Fund					Gain of < \$30,000 each year
EXPENDITURES					
PRINCIPAL DEPARTMENT(S) & PROGRAM(S) AFFECTED: Department of Revenue					
EFFECTIVE DATE: This act is effective when it becomes law.					

BILL SUMMARY: This bill updates the statutory reference to the Internal Revenue Code used in defining and determining certain state income tax provisions. The referenced date is changed from May 1, 2002 to January 1, 2003.

BACKGROUND: Ordained ministers, rabbis, and cantors do not pay income tax on housing allowances received as part of their compensation for ministerial duties. However, the housing allowance is subject to Social Security and Medicare taxes under the Self-Employment Contributions Act. To remain tax free, the housing allowance must be used to pay rent, to make a down payment on a house, to pay mortgage installments, or to pay utilities, interest, tax, and house repair expenses. The church or local congregation must designate the part of the minister's compensation that is a housing allowance. This designation of the allowance amount must be made in advance of any payments.

The housing allowance is also given to ministers working as teachers or administrators for a parochial school, college, or theological seminary, to retired ministers if furnished in recognition of past services, and to traveling evangelists to maintain a permanent home. Ordained ministers that work as executives of nonreligious organizations are generally barred from using the allowance. Non-ordained church officers such as minister of music and minister of education do not qualify for a housing allowance.

ASSUMPTIONS AND METHODOLOGY: The effect of this bill is to conform to a change approved by Congress on May 20, 2002 in the Clergy Housing Allowance Act of 2002 (PL 107-181). This law clarified that the clergy housing allowance is excluded from income tax to the extent that it does not exceed the fair market value of the housing unit. For those that had been claiming housing allowances greater than the fair market value for their property, their taxable income will increase in 2003. The Bureau of Labor Statistics in the US Department of Labor reports 450 clergy in North Carolina making an average salary of \$36,640 and 100 directors of religious activities and education making an average salary of \$27,910. However, there is no data on housing allowances claimed by North Carolina clergy.

The Congressional Joint Committee on Taxation estimated that clergy nationwide would pay an additional \$1 million in federal income tax each year beginning in 2004 due to the law change. The amount of additional tax would increase to \$2 million in 2006, \$3 million in 2007, and \$4 million in 2008. Since North Carolina taxable income is based on the federal taxable income, North Carolina will gain a small amount of revenue from this change. State income tax collections divided by national tax collections equals approximately .723%. Using this percentage times the national estimate for the tax change equals the following North Carolina General Fund revenue increase:

FY 2003-04	\$7,230
FY 2004-05	\$7,230
FY 2005-06	\$14,460
FY 2006-07	\$21,690
FY 2007-08	\$28,920

SOURCES OF DATA: Congressional Joint Committee on Taxation; Bureau of Labor Statistics

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