

NORTH CAROLINA GENERAL ASSEMBLY

LEGISLATIVE FISCAL NOTE

BILL NUMBER: House Bill 847 (First Edition)

SHORT TITLE: Firefighter/Rescue Squad Tax Deduction.

SPONSOR(S): Representative Hilton, et al.

FISCAL IMPACT					
	Yes (X)	No ()	No Estimate Available ()		
	(\$million)				
	<u>FY 2004-05</u>	<u>FY 2005-06</u>	<u>FY 2006-07</u>	<u>FY 2007-08</u>	<u>FY 2008-09</u>
REVENUES					
General Fund	(13.3)	(13.6)	(13.9)	(14.2)	(14.5)
PRINCIPAL DEPARTMENT(S) & PROGRAM(S) AFFECTED: Department of Revenue					
EFFECTIVE DATE: The act is effective for taxable years beginning on or after January 1, 2003.					

BILL SUMMARY:

This act provides a \$3,000 income tax deduction for firefighters and rescue squad workers that attend at least 36 hours of drills/training and meetings during the taxable year.

ASSUMPTIONS AND METHODOLOGY:

According to data from the Firemen's and Rescue Squad Workers' Pension Fund, there are 44,083 active firefighters and 21,294 active rescue squad members in North Carolina in 2004. These fire and rescue personnel meet the 36 hour training and meeting requirements of the bill. Since 1999, the number of firefighters has grown 1.37% a year and the number of rescue squad members has grown 3.53% a year. These growth rates are applied to the 2004 enrollment to project future fire and rescue squad membership (see below).

	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
Firefighters	44,083	44,687	45,299	45,920	46,549
Rescue Squad	21,294	22,046	22,824	23,630	24,464
HB 847 Eligible	65,377	66,733	68,123	69,549	71,013

Based on the chart above, there are 65,377 individuals eligible for the \$3,000 tax deduction in the 2004 tax year. The tax deduction will reduce taxable income for this group by \$196.1 million. The Tax Research Division of the Department of Revenue has computed the average tax rate paid on taxable income in tax year 2001 (the most recent year available) to be 6.8%. Applying the 6.8% average state income tax rate to this taxable income yields a \$13.3 million savings to taxpayers and a corresponding General Fund revenue loss of \$13.3 million. Since the \$3,000 deduction equates to a tax reduction of only \$204 per person, it is assumed that taxpayers will take the deduction on their final returns and not adjust their monthly withholding or quarterly estimated payments. Thus the revenue loss for the 2004 tax year will be realized in FY 2004-05 when taxpayers file their returns in the January-April 15, 2005 period. Given the lack of salary data on paid and volunteer firefighters and rescue squad workers, this fiscal note assumes the \$3,000 deduction will be fully utilized by each eligible taxpayer.

	<u>FY 04-05</u>	<u>FY 05-06</u>	<u>FY 06-07</u>	<u>FY 07-08</u>	<u>FY 08-09</u>
HB 847 Eligible	65,377	66,733	68,123	69,549	71,013
Deduction	\$3,000	\$3,000	\$3,000	\$3,000	\$3,000
Income Deducted	\$196,131,000	\$200,197,846	\$204,369,116	\$208,647,961	\$213,037,635
Avg Tax Rate (2001)	6.8%	6.8%	6.8%	6.8%	6.8%
Gen. Fund Loss	\$13,336,908	\$13,613,454	\$13,897,100	\$14,188,061	\$14,486,559

SOURCES OF DATA: Department of State Treasurer - Firemen's and Rescue Squad Workers' Pension Fund

TECHNICAL CONSIDERATIONS: The effective date of January 1, 2003, will need to be changed to January 1, 2004, or following years. Taxpayers have already filed tax year 2003 returns. [This note assumes a January 1, 2004 effective date.]

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DATE: May 5, 2004



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