

NORTH CAROLINA GENERAL ASSEMBLY

LEGISLATIVE FISCAL NOTE

BILL NUMBER: Senate Bill 804 (First Edition)

SHORT TITLE: Teacher Tax Credit

SPONSOR(S): Senators Forrester, Carpenter, Cunningham, Garwood and Hoyle

FISCAL IMPACT					
	Yes (X)	No ()	No Estimate Available ()		
	(\$ million)				
	<u>FY 2001-02</u>	<u>FY 2002-03</u>	<u>FY 2003-04</u>	<u>FY 2004-05</u>	<u>FY 2005-06</u>
REVENUES					
General Fund	(\$26.7)	(\$26.9)	(\$27.1)	(\$27.3)	(\$27.6)
EXPENDITURES					
PRINCIPAL DEPARTMENT(S) & PROGRAM(S) AFFECTED: Department of Revenue					
EFFECTIVE DATE: This act is effective for taxable years beginning on or after January 1, 2001.					

BILL SUMMARY: This act creates an individual income tax credit for public school teachers. The credit is \$250 per year for a taxpayer with at least 5 but less than 10 years of service as a public school teacher. A \$500 credit is awarded to taxpayers with 10 or more years of service as a public school teacher. The credit cannot exceed 50% of the tax owed by the taxpayer, but any unused portion of the credit can be carried forward five years.

ASSUMPTIONS AND METHODOLOGY: Approximately 98.3% of the 83,453 public school teachers in North Carolina are employed in the state's 117 school districts. The remaining 1.7% of the state's public school teachers are employed by state agencies, the University of North Carolina, and the federal government. The Department of Health and Human Services employs 481 teachers at its three residential schools for the deaf, one residential school for the blind, and 12 facilities in the Division of Mental Health, Substance Abuse and Developmental Disabilities. The Department of Correction, Division of Prisons employs 55 public school teachers at 6 correctional units. The Department of Juvenile Justice and Delinquency Prevention employs 139 public school teachers at its five youth academies. The University of North Carolina employs 81 public school teachers at the

School of the Arts in Winston-Salem and the School of Science and Math in Durham. There are approximately 650 public school teachers at federal facilities in the state.

The chart below shows the tax credit eligibility of current public school teachers in North Carolina based on their years of teaching experience. Except for the federal school employees, the teaching experience information was provided by the agencies. The federal school breakdown uses the same percentage of teaching experience as the state public schools.

Years of Public School Experience	Proposed Credit Amount	UNC					
		Public Schools	State Agencies	Schools of Art and Science & Math	Federal Schools	Total Eligible Teachers	Total Credits
0 to 4	\$0	22,535	130	12	179	22,856	\$0
5 to 9	\$250	14,178	118	7	112	14,415	\$3,603,831
10+	\$500	45,334	427	62	359	46,182	\$23,091,075
		82,047	675	81	650	83,453	\$26,694,905

Using a base salary of \$30,060 for a public school teacher with five years of experience, this fiscal note assumes each eligible teacher will be able to take the tax credit in the taxable year without a carry forward. This fiscal note assumes that the teachers will not adjust their income tax withholding upon passage of this bill, but will claim the credit when completing their 2001 tax returns in the spring of 2002. Thus the first fiscal impact of \$26.7 million will be in FY 2001-02.

The number of teachers in North Carolina with teaching experience between 5 and 10 years grew 5.6% a year between FY 1996-97 and FY 2000-01. (Department of Public Instruction data). This fiscal note assumes a 5.6% growth rate for teachers in the state with 5 to 10 years experience and eligible for the \$250 credit. (see chart below) This group will grow from 14,415 in 2001 to 17,925 in 2005. The growth rate for teachers with more than 10 years experience has actually declined .2% a year over the last five years. This fiscal note will assume a flat growth rate for this group receiving the \$500 credit.

Years of Public School Experience	Proposed Credit Amount	FY 01-02 Eligible Teachers	FY 01-02 Total Credits	FY 02-03 Total Credits	FY 03-04 Total Credits	FY 04-05 Total Credits	FY 05-06 Total Credits
0 to 4	\$0	22,856	\$0	\$0	\$0	\$0	\$0
5 to 9	\$250	14,415	\$3,603,750	\$3,805,560	\$4,018,671	\$4,243,717	\$4,481,365
10+	\$500	46,182	\$23,091,000	\$23,091,000	\$23,091,000	\$23,091,000	\$23,091,000
		83,453	\$26,694,750	\$26,896,560	\$27,109,671	\$27,334,717	\$27,572,365

TECHNICAL CONSIDERATIONS:

FISCAL RESEARCH DIVISION 733-4910

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DATE: June 26, 2001



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