



NORTH CAROLINA GENERAL ASSEMBLY

2025 Session

Legislative Fiscal Note

Short Title: Caring for Our Caregivers Act.
Bill Number: Senate Bill 712 (First Edition)
Sponsor(s): Sen. Sophia Chitlik and Sen. Woodson Bradley

SUMMARY TABLE

FISCAL IMPACT OF S.B. 712, V.1 (\$ in millions)

	<u>FY 2025-26</u>	<u>FY 2026-27</u>	<u>FY 2027-28</u>	<u>FY 2028-29</u>	<u>FY 2029-30</u>
State Impact					
General Fund Revenue	165.0	165.0	165.0	165.0	165.0
Less Expenditures	165.0	165.0	165.0	165.0	165.0
General Fund Impact	Likely Insignificant Budget Cost - Refer to Fiscal Analysis section				

NET STATE IMPACT	Likely Insignificant Budget Cost - Refer to Fiscal Analysis section
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TECHNICAL CONSIDERATIONS: See Technical Considerations Section

FISCAL IMPACT SUMMARY

Senate Bill (S.B.) 712 would provide \$165 million to subsidize child care services for qualifying caregiving workers. This bill also authorizes a personal income tax deduction for wages and salaries earned in specified caregiving roles, reducing General Fund tax revenue by an estimated \$400 to \$550 million annually. The recurring \$165 million in expenditures coupled with the future reductions in revenue is estimated to be approximately offset by additional personal income tax collections generated by increasing the tax rate by 0.8% on income earned above certain thresholds. The bill would increase the tax rate applied to this income from 4.25% to 5.05% in 2025. Taxable income above \$1,000,000 for those filing married filing jointly, \$800,000 for head of household filers, \$600,000 for single filers, and \$500,000 for those filing married filing separately would be taxed at a 5.05% tax rate.

Due to the higher tax bracket, the bill is estimated to have an approximately neutral fiscal impact. However, the actual fiscal impact may vary significantly due to multiple factors discussed in the Fiscal Analysis and summarized in the Technical Considerations sections of the fiscal note.



FISCAL ANALYSIS

Personal Income Tax (PIT) Deductions for Caregivers

FRD used data from a variety of public sources to estimate the number of workers employed in caregiving occupations and their average salaries earned. With these estimates FRD calculated the forgone revenue attributable to a PIT deduction for income earned in these occupations by multiplying the number of workers by their average salary and the applicable tax rate. Adjustments were made to account for a taxpayer's filing status, the standard deduction, and expected growth in employment and wages. The table below displays estimates for the number of caregiving workers, their estimated taxable income, and the forgone revenue attributable to the caregiver PIT deduction by year.

Table 1: Estimated Caregiving Workers, Taxable Income Earned, and Forgone Revenue by Year, \$ in Billions

Year	Estimated Caregiving Workers	Estimated Taxable Income Earned	Estimated Forgone Revenue
2025	291,000	\$10.5 to \$12.5	\$0.43 to \$0.55
2026	293,000	\$11.5 to \$13.5	\$0.43 to \$0.54
2027	296,000	\$12.0 to \$14.0	\$0.40 to \$0.49
2028	298,000	\$13.0 to \$15.0	\$0.44 to \$0.53
2029	301,000	\$13.5 to \$15.5	\$0.47 to \$0.55

Due to the confidential and unique circumstances that may influence a taxpayer's filing status and credit or deduction eligibility, this analysis made certain assumptions for all taxpayers. Additionally, it is possible taxpayers who are not represented in the data used may qualify or attempt to take the income tax deduction. Broader economic conditions that influence the number of workers in caregiving occupations or impact the salaries earned by these workers may also impact the amount of pay deductible by S.B. 712. Ultimately, the assumptions applied for taxpayer characteristics, and the number of workers and the amount of pay earned may differ from actuality, resulting in a fiscal impact that differs from the provided estimates.

PIT Deduction for Public School Employees

FRD used reported data on salaries and position counts from the North Carolina Department of Public Instruction (NCDPI) to estimate the amount of income that would be deductible by public school employees. The NCDPI Budgetary Highlight Report lists the average base salary for workers who are not teachers. The average base salary represents the average pay that is State funded. It is possible that additional funding from local governments, non-profits, or other organizations may supplement the pay earned by workers in many of these positions. However, the magnitude of additional pay earned in these roles not sourced from State funds is unknown. Therefore, this analysis does not account for pay earned beyond the average base salary for these workers and assumes the reported base salary is earned by all public-school workers who are not teachers.

For teachers, the reported average teacher pay includes supplemental pay earned beyond their base salary. This analysis assumes these reported average salaries are representative of the salaries earned by all public-school teachers across North Carolina. While salary data on charter school employees is unavailable, FRD assumed the salaries reported by NCDPI for similar positions are representative of the salaries earned by charter school employees.

FRD multiplied the number of workers by the average salary to calculate the estimates shown in the table below. The number of workers and average salaries are expected to increase relative to Moody's projections for growth in North Carolina's total labor force and Moody's estimates for wage growth.

Table 2: Estimated Public School Workers and Taxable Income Earned by Year, \$ in Billions

Year	Estimated Public School Workers	Estimated Taxable Income Earned
2025	185,000	\$7.0 to \$8.0
2026	186,000	\$7.5 to \$8.5
2027	187,000	\$8.0 to \$9.0
2028	189,000	\$8.5 to \$9.5
2029	190,000	\$9.0 to \$10.0

Using the estimated worker counts and average salaries estimated in Table 2, FRD assumes the distribution of filing statuses would mirror the historical distribution for all Statewide filers. For instance, FRD estimates approximately 14% of taxpayers file head of household. Therefore, FRD assumes 14% of public-school workers would file head of household. Additionally, FRD assumed each taxpayer takes the standard deduction, and they take no other deductions or credits. In this analysis, FRD applied a standard deduction equal to \$12,750 for all taxpayers except head of household taxpayers who receive a standard deduction of \$19,125. While married filing joint filers may take a \$25,500 standard deduction, only half of this was deducted in this analysis, because FRD cannot determine the extent to which additional spousal income may be included in a taxpayer's tax return. These deductions reduced the estimated wages subject to tax.

To estimate the forgone PIT revenue with the deductions in S.B. 712, FRD multiplied the estimated amount of taxable income earned by the tax rate for that year: 4.25% in 2025, 3.99% in 2026, and 3.49% in 2027 and after. The table below shows the estimated forgone revenue attributable to an income tax deduction for public school workers by year.

Table 3: Estimated Forgone Revenue attributable to an Income Tax Deduction for Public School Workers by Year, \$ in Millions

Year	Estimated Forgone Revenue
2025	\$300 to \$340
2026	\$300 to \$340
2027	\$280 to \$320
2028	\$300 to \$330
2029	\$320 to \$350

FRD did not account for any additional deductions or credits due to the variety of circumstances that may influence eligibility. Other credits or deductions would reduce a taxpayer's liability, possibly reducing the estimated fiscal impact of the income tax deduction. Future distributions of taxpayer filing statuses may vary as well, resulting in an unknown impact on the estimates provided.



PIT Deduction for Other Caregiving Occupations

Using a variety of datasets, FRD estimated the number of workers employed in occupations outside of public schools and their average salaries. FRD assumes each worker earns the average salary for their occupation. The estimates in Table 3 below were calculated by multiplying the number of caregiving workers outside of public schools by the average income for their occupation. The number of workers and average salaries earned are expected to increase relative to Moody's projections for growth in North Carolina's total labor force and Moody's estimates for wage growth.

Table 4: Estimated Caregiving Workers Outside of Public Schools and Taxable Income Earned by Year, \$ in Billions

Year	Estimated Caregiving Workers Outside of Public Schools	Estimated Taxable Income Earned
2025	107,000	\$3.5 to \$4.5
2026	108,000	\$4.0 to \$5.0
2027	108,000	\$4.0 to \$5.0
2028	109,000	\$4.5 to \$5.5
2029	110,000	\$4.5 to \$5.5

Using the estimated worker counts and average salaries estimated in Table 3, FRD assumes the distribution of filing statuses would mirror the distribution for all Statewide filers. Furthermore, FRD assumes each taxpayer takes the standard deduction, takes no other deductions that reduce their taxable income, and takes no tax credits. To estimate the forgone PIT revenue with the deductions in S.B. 712, FRD multiplied the estimated taxable income earned by the number of caregiving workers in the above table by the tax rate for that year: 4.25% in 2025, 3.99% in 2026, and 3.49% in 2027 and after. The table below shows the estimated forgone revenue attributable to an income tax deduction for caregiving workers employed outside of public schools by year.

Table 5: Estimated Forgone Revenue attributable to an Income Tax Deduction for Public School Workers by Year, \$ in Millions

Year	Estimated Forgone Revenue
2025	\$150 to \$210
2026	\$140 to \$200
2027	\$130 to \$190
2028	\$140 to \$200
2029	\$150 to \$210

Personal Income Tax Rate Increase

S.B. 712 creates an additional tax bracket with a 5.05% tax rate for 2025. Taxable income above \$1,000,000 for married filing jointly taxpayers, \$800,000 for head of household taxpayers, \$600,000 for single taxpayers, and \$500,000 for married filing separately taxpayers would be taxed at a 5.05% tax rate. The tax rate for the higher tax bracket, beginning with 2025, is 0.8% higher than the tax rate under current law for that year. The tax rate for 2026 is 3.99%, and the forecasted tax rate for 2027 is

3.49%. Scheduled tax rate reductions for future years are uncertain because they are contingent on net General Fund revenue collections exceeding specified thresholds. Additional reductions to the tax rate may result in the fiscal impact of S.B. 712 differing from the estimates provided.

Table 6: S.B. 712 Proposed Tax Rates

Tax Year	Lower Tax Bracket	Higher Tax Bracket
2025	4.25%	5.05%
2026	3.99%	4.79%
2027	3.49%*	4.29%*
2028	3.49%*	4.29%*
2029	3.49%*	4.29%*

*The February 2025 Consensus Revenue Forecast indicates a revenue trigger will be met, resulting in the personal income tax rate falling from 3.99% in 2026 to 3.49% in 2027. Future rate reductions are possible in the event another revenue trigger is met.

FRD used Internal Revenue Service Statistics on Income to estimate the amount of North Carolina income that would be subject to the higher tax rate in 2025. Additionally, FRD used Congressional Budget Office data to account for historical growth in income for the taxpayers subject to the higher tax rate as proposed by S.B. 712. FRD assumes the impacted taxpayer's filing statuses will mirror the historical distribution of filing statuses across all State filers. For example, with roughly 46% of all taxpayers filing single, FRD assumes 46% of impacted taxpayers will file single. FRD estimated the average income earned by each taxpayer affected by the higher tax bracket.

FRD then multiplied, by 0.8%, the amount of income expected to be earned by each filer in each filing status, subject to the 5.05% rate. This 0.8% represents the difference between what is estimated to be collected under S.B. 712 and what is estimated to be collected absent a change in tax policy. FRD estimates, in FY 2025-26, between \$600 and \$700 million in additional revenue would be collected from taxpayers paying in the higher tax bracket proposed.

Subsidized Child Care

FRD used data from a variety of public sources to estimate the number of workers employed in caregiving occupations. The existing Child Care Subsidy program at the Division of Child Development and Early Education (DCDEE) at the North Carolina Department of Health and Human Services (NCDHHS) served as a proxy in several ways to estimate the appropriations needed. First, the share of currently eligible families who were either receiving subsidized child care services or were on a waitlist for a voucher as of December 2024. This was used as a proxy for the share of eligible workers that would opt to receive subsidized child care services through S.B. 712. Second, the average monthly subsidy paid in December 2024 through the existing Child Care Subsidy program was \$681. This was used as the average expected monthly subsidy paid in calculating the total appropriations needed. The \$165 million appropriation included in S.B. 712 would support, at current reimbursement rate levels, subsidized child care for approximately 20,200 children.

TECHNICAL CONSIDERATIONS

The analysis of fiscal neutrality for SB 712 carries significant estimating risk due to many uncertain variables and variables that will fluctuate in the future. Some of these variables include the number of people eligible for the income tax deduction and the amount of pay eligible to be deducted, imprecise data impacting the amount of tax revenue that will be generated by the higher tax bracket based on taxpayer filing status, future personal income tax rates, and changes in the economy.

DATA SOURCES

2025 NCDPI Highlights of the North Carolina Public School Budget, U.S. BLS Occupational Employment and Wage Statistics, NCDPI Statistical Profile, Moody's Analytics, North Carolina Department of Revenue Statistical Abstract of North Carolina Taxes, Consensus Revenue Forecast, IRS Statistics of Income, Congressional Budget Office, NCDHHS

LEGISLATIVE FISCAL NOTE – PURPOSE AND LIMITATIONS

This document is an official fiscal analysis prepared pursuant to Chapter 120 of the General Statutes and rules adopted by the Senate and House of Representatives. The estimates in this analysis are based on the data, assumptions, and methodology described in the Fiscal Analysis section of this document. This document only addresses sections of the bill that have projected direct fiscal impacts on State or local governments and does not address sections that have no projected fiscal impacts.

CONTACT INFORMATION

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