

NORTH CAROLINA GENERAL ASSEMBLY

LEGISLATIVE FISCAL NOTE

BILL NUMBER: HB 1596 (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 2002-03</u>	<u>FY 2003-04</u>	<u>FY 2004-05</u>	<u>FY 2005-06</u>	<u>FY 2006-07</u>
REVENUES					
General Fund	(\$14.1)	(\$14.2)	(\$14.3)	(\$14.4)	(\$14.5)
EXPENDITURES					
PRINCIPAL DEPARTMENT(S) & PROGRAM(S) AFFECTED: Department of Revenue; Department of State Treasurer					
EFFECTIVE DATE: This act is effective for taxable years beginning on or after January 1, 2002.					

BILL SUMMARY: This bill adds an individual income tax deduction of \$3,000 for eligible firefighters and rescue squad workers who meet annual training requirements.

ASSUMPTIONS AND METHODOLOGY: The proposed tax deduction is available to firemen and rescue squad workers who attend 36 hours of training and meetings during the taxable year. This standard is currently used to qualify these professions for the North Carolina Firemen's and Rescue Squad Workers' Pension Fund. The Executive Director of the North Carolina State Firemen's Association reports that approximately 45,000 members of the Association meet the annual training requirement and will qualify for the deduction. This is less than the 48,186 firemen that qualify for a death benefit through the Department of State Treasurer, because that number includes retirees or those not meeting the 36-hour requirement. The Firemen's Association does not anticipate growth in this number in the next few years. The Secretary-Treasurer of the North Carolina Association of Rescue and Emergency Medical Services, Inc. reports that 22,000 rescue squad workers meet the training standard and will qualify for the tax deduction. He expects this number to grow by 500 each year over the next five years.

Based on the information provided by the two associations, there are approximately 67,000 taxpayers that will qualify for the tax deduction in tax year 2002. Since no information is available on the income of all qualifying firemen and rescue squad workers, this fiscal note

assumes they have a taxable income in the 7% state tax bracket (\$12,750 to \$60,000 for a single filer and \$21,250 to \$100,000 for married filing jointly). At \$3,000 per taxpayer, the 67,000 eligible fire and rescue personnel will have \$201 million deducted from their taxable income when they file their 2002 returns in the spring of 2003. (This fiscal note does not assume any adjustment in withholding or in quarterly estimated payments.) Assuming this deduction in the 7% tax bracket means a \$14.07 million tax benefit to these taxpayers in 2003 and a corresponding \$14.07 million General Fund revenue loss in FY 2002-03 (see chart below). In other words, this \$3,000 deduction is worth \$210 for a taxpayer in the 7% tax bracket. The General Fund loss will increase in the next five years due to the growth in the number of rescue squad workers.

Tax Year	2002	2003	2004	2005	2006
Fiscal Year	<u>FY 2002-03</u>	<u>FY 2003-04</u>	<u>FY 2004-05</u>	<u>FY 2005-06</u>	<u>FY 2006-07</u>
# Firemen	45,000	45,000	45,000	45,000	45,000
# Rescue squad workers	<u>22,000</u>	<u>22,500</u>	<u>23,000</u>	<u>23,500</u>	<u>24,000</u>
	67,000	67,500	68,000	68,500	69,000
Deduction	\$3,000	\$3,000	\$3,000	\$3,000	\$3,000
Total Income Deducted	(\$201,000,000)	(\$202,500,000)	(\$204,000,000)	(\$205,500,000)	(\$207,000,000)
7% income tax bracket	(\$14,070,000)	(\$14,175,000)	(\$14,280,000)	(\$14,385,000)	(\$14,490,000)

SOURCES OF DATA: North Carolina State Firemen’s Association; North Carolina Association of Rescue and Emergency Medical Services, Inc.; Department of State Treasurer Retirement Systems Division

TECHNICAL CONSIDERATIONS: This bill should reference the definition of eligible firemen found in GS 58-86-25 and eligible rescue squad worker found in GS 58-86-30.

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DATE: July 30, 2002



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