



# HOUSE BILL 1030: 2016 Appropriations Act, Sec. 38.1: Increase Zero Tax Bracket

2015-2016 General Assembly

<b>Committee:</b>		<b>Date:</b>	July 27, 2016
<b>Introduced by:</b>		<b>Prepared by:</b>	Trina Griffin Staff Attorney
<b>Analysis of:</b>	Sec. 38.1 of S.L. 2016-94		

**OVERVIEW:** *Sec. 38.1 of S.L. 2016-94 increases the standard deduction by \$2,000 over two years, beginning in 2016:*

- \$1,000 to \$16,500 (married, filing jointly) for tax year 2016.
- \$1,000 to \$17,500 (married, filing jointly) for tax year 2017, and subsequent years.

*This section became effective July 1, 2016.*

**CURRENT LAW:** Most taxpayers have a choice of either taking a standard deduction or itemizing their deductions and will choose the method that gives them the lower tax. The standard deduction is a dollar amount that reduces taxable income and eliminates the need to itemize actual deductions, such as medical expenses, charitable contributions, and taxes, on Schedule A. Approximately 65-70% of North Carolina taxpayers take the standard deduction.

**BACKGROUND:** The Tax Simplification and Reduction Act<sup>1</sup> made significant changes to the individual income tax law for tax years beginning on or after January 1, 2014. It replaced the individual marginal tax brackets with a flat rate under which all taxpayers are taxed at a lower rate and granted a higher standard deduction. It eliminated the personal exemption, capped the itemized deduction for mortgage interest expenses paid and property taxes paid, and repealed numerous deductions and credits. However, it retained the deduction for Social Security income and enhanced the child credit. In 2015, the law was further amended to allow for unlimited medical deductions to the extent a taxpayer can take the deduction at the federal level.

Prior to tax year 2014, the North Carolina standard deduction for most people was \$3,000, \$6,000, or \$4,400, depending on the taxpayer's filing status. For tax year 2014, the standard deduction increased to \$7,500, \$15,000, or \$12,000, depending on the taxpayer's filing status. In 2015, the General Assembly increased the standard deduction from \$15,000 to \$15,500 for married filing jointly taxpayers and corresponding increments for taxpayers of other filing statuses.

**BILL ANALYSIS:** Section 38.1 of the act further increases the standard deduction by \$2,000 for married filing jointly taxpayers, in \$1,000 increments, beginning with the 2016 tax year. Corresponding increments are made for taxpayers of all filing statuses as well.

Filing Status	2016	2017 and subsequent years
Married, filing jointly	\$16,500	\$17,500

<sup>1</sup> S.L. 2013-316,

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Head of Household	\$13,200	\$14,000
Single	\$8,250	\$8,750
Married, filing separately	\$8,250	\$8,750