2015-2016 General Assembly

HOUSE BILL 97: 2015 Appropriations Act, Sec. 32.16: Individual Income Tax Changes

Committee:
Introduced by:
Analysis of: Sec. 32.16 of S.L. 2015-241
Date:
Prepared by: Trina Griffin, Staff Attorney

SUMMARY: Section 32.16 of S.L. 2015-241 makes the following individual income tax changes:

- ***Reduces the tax rate to 5.499% in 2017 from the current rate of 5.75%.***
- ***Increases standard deduction from $15,000 to $15,500 (for married filing jointly), effective for taxable years beginning on or after January 1, 2016.***
- ***Allows unlimited medical deductions on Schedule A retroactive to January 1, 2015, to the extent a taxpayer can take the deduction at the federal level.***

CURRENT LAW & BILL ANALYSIS:

INCREASE STANDARD DEDUCTION

BILL ANALYSIS: Beginning with the 2016 taxable year, subsection (a) of Section 32.16 increases the standard deduction from $15,000 to $15,500 for married filing jointly taxpayers and from $7,500 to $7,750 for single taxpayers.

BACKGROUND: 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.

ALLOW MEDICAL EXPENSE DEDUCTION

BILL ANALYSIS: Subsection (b) of Section 32.16 allows itemizers to deduct the amount allowed as a deduction for medical and dental expenses under section 213 of the Internal Revenue Code for that taxable year. This provision is effective for taxable years beginning on or after January 1, 2015.

BACKGROUND: In 2013, North Carolina tax law was changed[1] and medical and dental expenses were no longer allowable income tax deductions on North Carolina individual income tax returns beginning with the 2014 taxable year.

Under federal law, section 213 of the Internal Revenue Code allows as a deduction the expenses paid during the taxable year, not compensated for by insurance or otherwise, for medical care of the taxpayer, his or her spouse, or a dependent (as defined), to the extent the expenses exceed a specified percent of

[1] S.L. 2013-316.

adjusted gross income. For taxpayers under age 65, the percentage is 10%; for taxpayers age 65 or over, the percentage is 7.5% through the end of tax year 2016.

Medical expenses are defined to include "costs of diagnosis, cure, mitigation, treatment, or prevention of disease, and the costs for treatments affecting any part or function of the body." Medical expenses also include premiums for insurance that covers expenses of medical care, transportation to get medical care, amounts paid for qualified long-term care services and limited amounts paid for a qualified long-term care insurance contract.

REDUCE INCOME TAX RATE

BILL ANALYSIS: Subsection (c) of Section 32.16 reduces the individual income tax rate from 5.75% to 5.499%, beginning with the 2017 taxable year. In 2013, the General Assembly replaced the individual marginal tax brackets with a flat rate, beginning with the 2014 tax year. The rate is 5.8% for the 2014 tax year, 5.75% for the 2015 and 2016 tax year, and, under this legislation, 5.499% beginning with the 2017 tax year.

WITHHOLDING TABLE MODIFICATION

BILL ANALYSIS: Section 32.16A modifies the provision for the withholding tables used in determining the amount to be withheld from wages. It requires the Department of Revenue to ensure that the withholding allowances approximate, as nearly as possible, the amount of the employee's income tax liability for that year based on the income tax rate plus one-tenth of one percent (0.1%) as well as the additions an employee is required to make and any deductions or credits to which the employee may be entitled. This provision is effective for taxable years beginning on or after January 1, 2016.