



SENATE BILL 818: Increase the Zero Tax Bracket.

2016-2017 General Assembly

Committee:	Senate Finance	Date:	May 18, 2016
Introduced by:	Sens. Rucho, Rabon, Tillman	Prepared by:	Cindy Avrette
Analysis of:	First Edition		Committee Co-Counsel

SUMMARY: *Senate Bill 818 would increase the standard deduction by approximately 12.5%, effective for taxable years beginning on or after January 1, 2016.*

AMENDMENT: The amendment would phase-in the increase of the standard deduction amounts over two years. The amendment would also allow the Department of Revenue to forego revising and republishing the withholding tables for the current taxable year.

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 taxable income. 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. A taxpayer's whose State taxable income is equal to or less than the standard deduction amount does not owe any State income taxes.

BILL ANALYSIS: Senate Bill 818 would increase the standard deduction amounts by approximately 12.5%. The amendment would spread this increase over two years. Specifically, the standard deduction amounts would be increased as follows under the bill, as amended:

Filing Status	2015	2016	2017
Married, filing jointly	\$15,000	\$16,500	\$17,500
Head of Household	\$12,400	\$13,200	\$14,000
Single	\$7,750	\$8,250	\$8,750
Married, filing separately	\$7,750	\$8,250	\$8,750

EFFECTIVE DATE: Section 1 of the act becomes effective for taxable years beginning on or after January 1, 2016; Section 2 of the act becomes effective for taxable years beginning on or after January 1, 2017; the remainder of the act is effective when it becomes law.

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BACKGROUND: The personal income tax laws were substantially changed, beginning with the 2014 taxable year. The three-tiered rate bracket ranging from 6% to 7.75% was changed to a flat rate of 5.8% for taxable year 2014. The rate was further reduced to 5.75% for the 2015 and 2016 taxable years, and the rate will be reduced to 5.499%, for taxable years beginning on or after January 1, 2017. The 2013 legislation also increased the standard deduction amount for MFJ taxpayers from \$6,000 to \$15,000, for the 2014 and 2015 taxable years; and further increased it last session from \$15,000 to \$15,500, for taxable years beginning on or after January 1, 2016. In addition to lowering the rate and increasing the standard deduction amounts, the 2013 legislation eliminated many of the personal income tax exemptions, deductions, and credits, beginning with the 2014 taxable year.

House Bill 1030, the 2016 Appropriations Act, on the House calendar for debate today, would phase-in the same percentage increase of the standard deduction amounts over four years, beginning with taxable year 2017: \$16,000 in 2017, \$16,500 in 2018, \$17,000 in 2019, and \$17,500 in 2020 and thereafter (MFJ).