

**NORTH CAROLINA GENERAL ASSEMBLY**

**LEGISLATIVE FISCAL NOTE**

**BILL NUMBER:** HB 942 (First Edition)

**SHORT TITLE:** Deduct Elementary/Secondary Tuition

**SPONSOR(S):** Rep. Starnes

| <b>FISCAL IMPACT</b>  |  |  |                                  |                          |                          |
|---|--|--|----------------------------------|--------------------------|--------------------------|
|   | <b>Yes (X)</b>   | <b>No ( )</b>                            | <b>No Estimate Available ( )</b> |                          |                          |
|   | <b>(\$Millions)</b>  |  |                                  |                          |                          |
|   | <b><u>FY 1997-98</u></b>   | <b><u>FY 1998-99</u></b>                 | <b><u>FY 1999-00</u></b>         | <b><u>FY 2000-01</u></b> | <b><u>FY 2001-02</u></b> |
| <b>REVENUES</b>   |  |  |                                  |                          |                          |
| General Fund  |  | (\$17.10)                                | (\$17.95)                        | (\$18.86)                | (\$19.85)                |
| <b>EXPENDITURES</b>   |  |  |                                  |                          |                          |
| General Fund  |  | (Administrative cost not yet determined) |                                  |                          |                          |
| <b>PRINCIPAL DEPARTMENT(S) &amp;<br/>PROGRAM(S) AFFECTED:</b> | Department of Revenue  |  |                                  |                          |                          |
| <b>EFFECTIVE DATE:</b>  | Effective for taxable years beginning on or after January 1, 1998. |  |                                  |                          |                          |

**BILL SUMMARY:** The bill allows taxpayers to reduce their taxable income by the amount of tuition paid to elementary and secondary educational institutions for the taxpayers' dependents.

**ASSUMPTIONS AND METHODOLOGY:** There are an estimated 74,000 students in private elementary and secondary institutions this fiscal year (FY 1996-97). It is anticipated that private school enrollment will grow 2% a year over the next five years. To determine the average cost of tuition at private schools, the following associations or institutions were surveyed by phone:

- I. N. C. Christian School Association (representing 200 schools) = average tuition is \$2,200/yr.
- II. Catholic Diocese in Charlotte = average elementary tuition is \$2,000/yr. and average secondary tuition is \$3,300/yr.
- III. N. C. Association of Independent Schools (representing 55 schools) =

average tuition for first grade is \$5,543/yr  
 average tuition for sixth grade is \$6,006/yr  
 average tuition for twelfth grade is \$7,003/yr

Based on the information above, this fiscal note assumes the average tuition for North Carolina private schools in FY 1996-97 is \$3,000. It is anticipated that tuition costs will grow by the general inflation rate that is identical to that used in the General Fund Model. (2.9% in FY 1997-98 up to 3.2% in FY 2001-02)

Total tuition eligible for the tax deduction each year is shown in the chart below. This note assumes that the individuals taking advantage of this credit are paying individual income tax at the 7% rate. An individual's taxable income will be reduced by the amount of tuition paid. For example, a taxpayer paying \$3,000 in tuition will reduce his/her income by \$3,000 and avoid paying 7% tax on that amount. This is a savings of \$210 to the taxpayer and a loss of \$210 to the General Fund. In FY 1998-99, the tuition for 76,990 private school students will be \$244.3 million. At a 7% tax rate, taxpayers will receive a \$17.1 million tax break and the General Fund will lose a like amount in revenue. Since the tax deduction is in effect beginning January 1, 1998, the first impact of the bill will be in FY 1998-99 when taxpayers file their returns in the spring of 1999.

|               | <u>1996-97</u> | <u>1997-98</u> | <u>1998-99</u> | <u>1999-00</u> | <u>2000-01</u> | <u>2001-02</u> |
|---------------|----------------|----------------|----------------|----------------|----------------|----------------|
| Enrollment    | 74,000         | 75,480         | 76,990         | 78,529         | 80,100         | 81,702         |
| Growth        |                | 2%             | 2%             | 2%             | 2%             | 2%             |
| Tuition       | \$ 3,000       | \$ 3,087       | \$ 3,173       | \$ 3,265       | \$ 3,363       | \$ 3,471       |
| Inflation     |                | 2.9%           | 2.8%           | 2.9%           | 3%             | 3.2%           |
| Total Tuition | \$222,000,000  | \$233,006,760  | \$244,321,568  | \$256,435,032  | \$269,410,644  | \$283,592,421  |
| 7% income tax | \$ 15,540,000  | \$ 16,310,473  | \$ 17,102,510  | \$ 17,950,452  | \$ 18,858,745  | \$ 19,851,469  |

**FISCAL RESEARCH DIVISION  
 733-4910**

**PREPARED BY:** Richard Bostic  
**APPROVED BY:** Tom Covington  
**DATE:** April 23, 1997



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