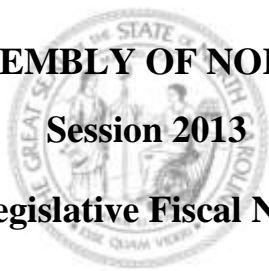


GENERAL ASSEMBLY OF NORTH CAROLINA



Session 2013

Legislative Fiscal Note

BILL NUMBER: House Bill 144 (First Edition)

SHORT TITLE: Homeschool Education Income Tax Credit.

SPONSOR(S): Representatives Pittman, Ford, Malone, and Schaffer

FISCAL IMPACT					
(\$ in millions)					
<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> No Estimate Available					
State Impact	FY 2013-14	FY 2014-15	FY 2015-16	FY 2016-17	FY 2017-18
General Fund Revenues:	(96.9)	(175.5)	(187.6)	(197.7)	(208.4)
General Fund Expenditures:	0.0	0.0	0.0	0.0	0.0
State Positions:	0.0	0.0	0.0	0.0	0.0
NET STATE IMPACT	(\$96.9)	(\$175.5)	(\$187.6)	(\$197.7)	(\$208.4)

PRINCIPAL DEPARTMENT(S) & PROGRAM(S) AFFECTED:
Department of Revenue

EFFECTIVE DATE: July 1, 2013, effective for taxable year 2013, and applies to semesters for which the credit is claimed beginning July 1, 2013.

TECHNICAL CONSIDERATIONS:
None

BILL SUMMARY:

The Homeschool Education Income Tax Credit would create a new tax credit for taxpayers with dependent children who are home schooled.

The value of the tax credit is up to \$1,250 per semester (\$2,500 per year). The credit is not refundable, but unused portions of the tax credit can be carried forward for the succeeding three years.

In order to be eligible for the tax credit, the taxpayer must have a dependent child (as defined under section 151(c) of the Code) who is enrolled in a home school for more than 70 days in a semester.

Taxpayers lose their eligibility if the dependent child:

- Spends any time enrolled in a public school;
- Takes at least 12 hours of credit in a postsecondary educational institution;
- Is 22 years or older during the entire semester; or
- Graduates from high school prior to the end of the semester.

The Department of Revenue will be required to report to the Revenue Laws Study Committee and the Joint Legislative Education Oversight Committee on the administration of this bill. The report is due by October 1, 2015, and shall include information on the credits taken and any concerns about the implementation of the program.

ASSUMPTIONS AND METHODOLOGY:

The fiscal impact of this bill is driven by two factors:

1. The number of home-schooled students; and
2. The size of the tax credit.

This analysis assumes that there will be 88,604 home-schooled students in FY 2013-14, and that this number will grow at an annual rate of 5.4% over the proceeding five years. According to the most recent data from the North Carolina Department of Administration's Division of Nonpublic Education, there were 79,693 home-schooled students in FY 2011-12. The number of home-schooled students has grown at an average annual rate of 5.4% per year over the past decade. Applying the 5.4% annual growth rate to the number of students in FY 2011-12, one would anticipate 88,604 home-schooled students in FY 13-14, the first year of this analysis.

This analysis assumes that the average tax credit realized is \$1,094 in FY 2013-14, increasing to \$1,879 in FY 2014-15, and increasing further to \$1,906 in subsequent years.

Because the tax credit applies to semesters for which the credit is claimed beginning on or after July 1, 2013, the maximum FY 2013-14 tax credit would be \$1,250. However, an examination of tax returns with at least one dependent child and with adjusted gross income between \$30,000 and \$500,000 indicates that approximately 25% of tax filers have State tax liability between \$0 and \$1,250.¹ Of the 25% of filers with a State liability below \$1,250, the median liability is approximately \$625. As a result, this analysis assumes the average tax credit in FY 2013-14 will equal \$1,094 ($75\% * \$1,250 + 25\% * \625).

For FY 2014-15, the average tax credit is \$1,879. While the bill would permit a tax credit of up to \$2,500 in FY 2014-15, approximately half of filers have a State tax liability of \$2,500 or more. That is, for FY 2014-15, it is assumed that 50% of eligible filers would receive a tax credit of \$2,500, while the remaining 50% would receive a tax credit averaging \$1,250 (the approximate median liability for those with less than a \$2,500 State tax liability). This provides us with an average tax credit for FY 2014-15 of \$1,875 ($50\% * \$2,500 + 50\% * 1,250$). However, a certain number of filers whose children are no longer generating the tax credit that they realized in FY 2013-14 will carry-over the unused portion of their tax credits. Assuming that there's a 10% turnover rate in students qualifying for the tax credit, 2.5% of those who had claimed the credit the prior year (10% turnover rate times the 25% of filers who did not realize the entire \$1,250 in FY 2013-14) would be carrying-over an average of \$156. This adds approximately \$4 to the average tax credit claimed in subsequent years ($\$156 * 2.5\%$), leaving us with an average tax credit size of \$1,879 for FY 2014-15.

¹ Derived using the Fiscal Research Division's North Carolina Individual Income Tax Model. Data from the National Center for Educational Statistics' *Digest of Educational Statistics 2011*, table 40, indicates that the incomes of families with home schooled students do not differ significantly from families of traditional public school students.

In subsequent years, the average tax credit increases to \$1,906. Turnover would lead to 5% of previous year filers (10% turnover rate times the 50% of filers who did not realize the entire \$2,500 in the previous year) carrying over an average of \$625. This adds approximately \$31 to the average tax credit claimed in subsequent years ($\$625 * 5\%$), leaving us with an average tax credit size of \$1,906 for subsequent years.

Utilizing the above assumptions on student growth and average tax credit realized allows for a projection of estimated program costs:

	2013-14	2014-15	2015-16	2016-17	2017-18
Number of Home Schooled Students	88,604	93,389	98,432	103,747	109,349
Average Tax Credit Size	\$1,094	\$1,879	\$1,906	\$1,906	\$1,906
Change in Revenues	(\$96,932,776)	(\$175,477,209)	(\$187,610,632)	(\$197,741,606)	(\$208,419,653)

It is important to note that the tax credit proposed by this bill will likely affect the number of parents choosing to home school their children. Unfortunately, there are no studies indicating how home school enrollments would be predicted to increase in the face of a tax credit. It is likely, however, that this bill will create incentives for students who are currently enrolled in private schools to instead enroll in a home school. For each such student, there would be additional costs to the State, equal to the average tax credit size (\$1,906). On the other hand, students who would otherwise have been enrolled in a traditional public school might decide enroll in a home school as a result of this bill. For each of these students, the State would save approximately \$2,922 -- the difference between the average State appropriation per student (\$4,828) and the average tax credit amount (\$1,906). Unfortunately, the lack of available data prevents any reasonable estimate as to which effect would prevail, and the extent to which it would impact home school enrollment.

SOURCES OF DATA:

- Fiscal Research Division’s North Carolina Individual Income Tax Model
- North Carolina Department of Administration’s Division of Nonpublic Education
- National Center for Educational Statistics, *Digest of Education Statistics: 2011*. Table 40. May 2012, as found at: http://nces.ed.gov/programs/digest/d11/tables/dt11_040.asp.

TECHNICAL CONSIDERATIONS: None

FISCAL RESEARCH DIVISION: (919) 733-4910

PREPARED BY: Kristopher Nordstrom

APPROVED BY: Mark Trogon, Director
Fiscal Research Division

DATE: February 26, 2013



Signed Copy Located in the NCGA Principal Clerk's Offices