

February 26, 2001

**H 231. EQUALIZE SALES TAX ON SOFTWARE. TO TREAT SALES OF COMPUTER SOFTWARE EQUALLY FOR SALES AND USE TAX PURPOSES REGARDLESS OF THE METHOD OF DELIVERY.** Under current law, tangible personal property is subject to sales and use taxes. The current definition of tangible personal property in GS 105-164.3(20) includes only computer software delivered on a storage medium, such as a disk. Bill amends definition to include computer software delivered electronically. Effective July 1, 2001.

**Intro. by Allen, Jarrell, Luebke, Tucker.**

Ref. to Science & Technology
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GS 105
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August 23, 2001

**H 231. EDUCATION REVENUE ACT.** Intro. 2/26/01. House committee substitute makes the following changes to 1st edition. Changes title to read *AN ACT TO (1) ELIMINATE THE MARRIAGE TAX PENALTY FOR THE STANDARD DEDUCTION, (2) INCREASE THE TAX CREDIT FOR CHILDREN FROM \$60 TO \$100 PER CHILD, (3) PROVIDE A STABLE SOURCE OF REVENUE FOR LOCAL GOVERNMENTS BY AUTHORIZING A LOCAL OPTION, HALF-CENT SALES TAX, (4) REPEAL THE LOCAL TAX REIMBURSEMENTS PAID ANNUALLY TO LOCAL GOVERNMENTS, (5) PROVIDE A HOLD HARMLESS PAYMENT FOR THOSE COUNTIES AND MUNICIPALITIES WHOSE ESTIMATED GAIN FROM THE NEW SALES TAX WOULD BE LESS THAN 105% OF THEIR REPEALED REIMBURSEMENT AMOUNT, (6) INCREASE THE STATE SALES TAX BY ONE-HALF CENT FOR THREE YEARS, (7) CREATE A STATE-EARNED INCOME TAX CREDIT, (8) ADD A NEW TAX BRACKET WITH AN ADDITIONAL ¼% ON NET TAXABLE INCOME ABOVE \$200,000 FOR THREE YEARS, (9) EQUALIZE TAXATION OF HEALTH MAINTENANCE ORGANIZATIONS AND MEDICAL SERVICE CORPORATIONS AT 1% OF GROSS PREMIUMS, (10) APPLY THE SAME SALES TAX RATE TO SPIRITUOUS LIQUOR THAT APPLIES TO OTHER ALCOHOLIC BEVERAGES, (11) ELIMINATE THE SPECIAL TAX BREAK FOR LUXURY VEHICLES, (12) EXEMPT VOLUNTEER FIRE AND RESCUE VEHICLES FROM HIGHWAY USE TAX, (13) EXEMPT CERTAIN ITEMS PURCHASED DURING A SPECIFIC PERIOD FROM THE SALES AND USE TAX, AND (14) ELIMINATE OTHER TAX LOOPHOLES.*

Amends GS 105-134.6 to phase in an increase in the standard deduction for married people. For tax years beginning on or after Jan. 1, 2002, the deduction for married filing jointly is increased from \$5,000 to \$5,500 and for those filing separately, from \$2,500 to \$2,750. For tax years beginning Jan. 1, 2003, those deductions are increased to \$6,000 and \$3,000 respectively.

Amends GS 105-151.24 to phase in an increase in the tax credit for each dependent child from \$60 to \$75 in tax years beginning on or after Jan. 1, 2002, and to \$100 for tax years beginning on or after Jan. 1, 2003.

Authorizes an additional ½ cent local sales and use tax, which counties may levy if approved by a majority of those voting in a special election, or by resolution following a public hearing if the question of whether to levy the tax has not been defeated in a special election within two years. Tax proceeds are distributed one-half on a point-of-origin basis and one-half on a per capita basis, and then allocated between the county and its municipalities using the same formula by which current local sales taxes are allocated in each county. Repeals the statutes that provide for reimbursements to local governments for previously repealed inventory and intangibles taxes. Enacts new GS 105-521 setting up a mechanism to "hold harmless" the local governments in the event that the tax revenue from the new ½ cent tax is less than the amount that would have been reimbursed under the repealed provisions, in which case the Secretary of Revenue must pay the difference to the local government.

Increases the state sales tax from 4% to 4.5% effective Dec. 1, 2001, for three years (expiring on Oct. 1, 2004). Exempts from the increased tax construction materials purchased for contracts made or awarded, or contained in a bid made before the effective date of the levy if the materials would otherwise have been subject to the tax.

Adds new GS 105-151.29 creating state earned income tax credit of 10% of the amount of credit an individual qualifies for under section 32 of the Internal Revenue Code; provides for reduced credit for nonresidents and part-year residents according to formula in current GS 105-

134.5 (defining taxable income of such individuals). Provides for refund if credit exceeds tax imposed; also provides that in computing tax against which multiple credits are allowed, nonrefundable credits are subtracted before refundable credits. Encourages Dept. of Revenue to notify eligible taxpayers of new credit and how to obtain it. Effective for taxable years beginning on or after Jan. 1, 2001.

Amends GS 105-304.2(a) to create new tax bracket, with tax rate of 8% (.25% higher than current highest rate), for married individuals filing a joint return and for surviving spouses with an income over \$200,000; for heads of households with an income over \$160,000; for unmarried individuals with an income over \$120,000; and for married individuals who do not file a joint return with an income over \$100,000. Effective for taxable years beginning on or after Jan. 1, 2001, and expires for taxable years beginning on or after Jan. 1, 2004.

Amends GS 105-228.5 to impose a 1% gross premiums tax on HMO's and, as with Article 65 corporations, insurers, and self-insurers that pay a gross premiums tax, to exempt HMO's from franchise or income taxes; provides that tax on HMO is based on gross premiums from business done in NC during previous calendar year. Increases gross premiums tax on Article 65 corporations from .5% to 1%. Excludes from calculation of gross premiums subject to tax Federal Employees Health Benefits Plan premiums and Medicaid or Medicare premiums to extent federal law prohibits their taxation. Amends GS 58-6-25(a) to provide that the charge levied under that section for Article 65 corporations and HMO's is calculated as if the companies were paying tax at the rate in GS 105-228.5(d)(2) for insurers (was, as if the companies were insurers providing health insurance). Effective for taxable years beginning Jan. 2, 2002.

Repeals GS 105-164.13(37), which exempts spirituous liquor from retail sales and use tax, and amends GS 105-164.4(a), to impose a 6% sales tax on spirituous liquor, effective Oct. 1, 2001. Amends GS 105-187.3(a) to delete the \$1,500 cap on the 3% highway use tax on non-commercial vehicles. Exempts from the highway use tax certain vehicles (fire trucks, emergency vehicles, and other specified vehicles) transferred to volunteer fire departments and volunteer rescue squads that are not part of a unit of local government, have no more than two paid employees, and are exempt from state income tax under GS 105-130.11. These changes in the highway use tax are effective Oct. 1, 2001, and applicable to certificates of title issued on or after that date. Effective July 1, 2001, increases the amount of highway use taxes transferred from the Highway Trust Fund to the General Fund as follows: In 2001-2002, \$1,700,000; in 2002-2003, \$2,400,00; in each fiscal year thereafter, the sum transferred in the previous fiscal year plus or minus the percentage of the previous sum equal to the percentage by which tax collections increased or decreased. Effective Jan. 1, 2002, creates new GS 105-164.13C to exempt from sales and use tax certain items of tangible property sold between 12:01 A.M. on the first Friday of August and 11:59 P.M. the following Sunday. Items falling within this exemption include clothing, clothing accessories, footwear, and school supplies with a sales price of \$100.00 or less per item; and computers, printers, printer supplies, and educational computer software with a sales price of \$3,500 or less per item.

August 29, 2001

**H 231. EDUCATION REVENUE ACT.** Intro. 2/26/01. House committee substitute makes the following changes to 2nd edition. Changes title to *AN ACT TO (1) ELIMINATE THE MARRIAGE TAX PENALTY FOR THE STANDARD DEDUCTION, (2) INCREASE THE TAX CREDIT FOR CHILDREN FROM \$60 TO \$100 PER CHILD, (3) PROVIDE A STABLE SOURCE OF REVENUE FOR LOCAL GOVERNMENTS BY AUTHORIZING A LOCAL OPTION, HALF-CENT SALES TAX, (4) REPEAL THE LOCAL TAX REIMBURSEMENTS PAID ANNUALLY TO LOCAL GOVERNMENTS, (5) PROVIDE A HOLD HARMLESS PAYMENT FOR THOSE COUNTIES AND MUNICIPALITIES WHOSE ESTIMATED GAIN FROM THE NEW SALES TAX WOULD BE LESS THAN 105% OF THEIR REPEALED REIMBURSEMENT AMOUNT, (6) ADD A NEW TAX BRACKET WITH AN ADDITIONAL ½% ON NET TAXABLE INCOME ABOVE \$200,000 FOR THREE YEARS, (7) EQUALIZE TAXATION OF HEALTH MAINTENANCE ORGANIZATIONS AND MEDICAL SERVICE CORPORATIONS AT 1% OF GROSS PREMIUMS, (8) APPLY THE SAME SALES TAX RATE TO SPIRITUOUS LIQUOR THAT APPLIES TO OTHER ALCOHOLIC BEVERAGES, (9) ELIMINATE THE SPECIAL TAX BREAK FOR LUXURY VEHICLES, (10) EXEMPT VOLUNTEER FIRE AND RESCUE VEHICLES FROM HIGHWAY USE TAX, (11)*

*EXEMPT CERTAIN ITEMS PURCHASED DURING A SPECIFIC PERIOD FROM THE SALES AND USE TAX, AND (12) ELIMINATE OTHER TAX LOOPHOLES AND CREDITS* and makes the following additional changes: (1) deletes proposed ½% increase in statewide sales tax for 3 years; (2) deletes proposed state-earned income tax credit; (3) increases proposed maximum individual income tax rates from 8% to 8.25%; and changes effective date for proposed new 6% sales tax on spirituous liquor from Oct. 1, 2001, to Dec. 1, 2001.

August 30, 2001

**H 231. EDUCATION REVENUE ACT.** Intro. 2/26/01. House amendment makes the following changes to 3rd edition. Adds a new section to reduce the excise tax on liquor under GS 105-113.80(c) from 28% to 25%, effective Feb. 1, 2002.

September 18, 2001

**H 231. EDUCATION REVENUE ACT.** Intro. 2/26/01. Senate committee substitute makes the following changes to 4th edition. Changes title to *AN ACT TO (1) INCREASE THE STATE SALES TAX BY ONE-HALF CENT FROM OCTOBER 16, 2001, UNTIL JULY 1, 2003, (2) PROVIDE A STABLE SOURCE OF REVENUE FOR LOCAL GOVERNMENTS BY AUTHORIZING A LOCAL OPTION, HALF-CENT SALES TAX BEGINNING JULY 1, 2003, (3) REPEAL THE LOCAL TAX REIMBURSEMENTS PAID ANNUALLY TO LOCAL GOVERNMENTS, (4) PROVIDE A HOLD HARMLESS PAYMENT FOR THOSE COUNTIES AND MUNICIPALITIES WHOSE ESTIMATED GAIN FROM THE NEW SALES TAX WOULD BE LESS THAN 100% OF THEIR REPEALED REIMBURSEMENT AMOUNT, (5) EXEMPT CERTAIN ITEMS PURCHASED DURING A SPECIFIC PERIOD FROM THE SALES AND USE TAX, (6) EQUALIZE TAXATION OF SATELLITE TV AND CABLE TV, (7) ADD A NEW TAX BRACKET WITH AN ADDITIONAL ½% ON NET TAXABLE INCOME ABOUT \$200,000 FOR THREE YEARS, (8) ELIMINATE THE MARRIAGE TAX PENALTY FOR THE STANDARD DEDUCTION, (9) INCREASE THE TAX CREDIT FOR CHILDREN FROM \$60 TO \$100 PER CHILD, (10) ELIMINATE THE CHILDREN'S HEALTH INSURANCE TAX CREDIT, (11) EQUALIZE TAXATION OF HEALTH MAINTENANCE ORGANIZATIONS AND MEDICAL SERVICE CORPORATIONS AT 1% OF GROSS PREMIUMS, (12) APPLY THE SAME SALES TAX RATE TO SPIRITUOUS LIQUOR THAT APPLIES TO OTHER ALCOHOLIC BEVERAGES AND REDUCE THE EXCISE TAX ON SPIRITUOUS LIQUOR, (13) ELIMINATE THE SPECIAL TAX BREAK FOR LUXURY VEHICLES, (14) EXEMPT VOLUNTEER FIRE AND RESCUE VEHICLES FROM HIGHWAY USE TAX, AND (15) PROVIDE UNIFORM TAXATION OF TELECOMMUNICATIONS AT 6%.* (1) State sales tax. Amends GS 105-164.4(a) to increase the state sales tax from 4% to 4½% except for construction materials as specified in act. Tax increase is effective Oct. 16, 2001, and applies to sales made on or after that date; increase is repealed effective for sales made on or after July 1, 2003. (2) Local option one-half cent sales tax. Amends GS 105-517 to provide that new local option half-cent sales tax may not be effective before July 1, 2003. Deletes exception to procedures of GS 163-287 relating to procedures to be followed for election for new local option half-cent sales tax. Deletes from amendment to GS 105-520(b) provision that directs how Sec'y of Revenue must make per capita distribution when county has not collected taxes for a full quarter. Deletes different distributions for 2001-2002, 2002-2003, and subsequent distributions under harmless provision for local government. Instead amends GS 105-521 to provide method of distribution so that if amount a local government would receive is less than 100% of the local government's repealed reimbursement amount, Sec'y must pay local government the difference, but not less than \$100. Authorizes Sec'y to use one of two final projections to make calculation of that revenue; if lower projection is not used, Sec'y must explain why. (3) Sales tax holiday. Adds new GS 105-164.13C creating a sales and use tax holiday between 12:01 A.M. on the first Friday of August and 11:59 P.M. the following Sunday for listed items of tangible personal property including clothing, clothing accessories, footwear, and school supplies if sale price is \$100 or less per item and for computers and related equipment with a sales price of \$3,500 or less per item. Lists items not covered by tax exemption. Amends GS 105-467 accordingly. Effective Jan. 1, 2002, and applies to sales made on or after that date. (4) Taxation of Satellite TV. Amends GS 105-164.4(a) to provide that tax rate of 5% applies to gross receipts derived from providing direct-to-home satellite service as defined in act. Effective Jan. 1, 2002, and applies to sales made on or after that date. (5)

Children's Health Insurance Credit. Amends GS 105-151.27, to eliminate the Children's Health Insurance Credit, effective for taxable years beginning on or after Jan. 1, 2002. (6) Adds two new provisions that become effective only if H 571 (2001 General Assembly) (An Act to Simplify the Collection of Telecommunications Taxes) becomes law on or before Jan. 1, 2002. The first one amends GS 105-164.4(a)(4c) to raise from 4.5% (the rate set in H 571) to 6% the tax rate that applies to the gross receipts derived from providing telecommunications service. The second amends GS 105-164.44F(a) (which is added to the General Statutes by H 571 and which requires that a portion of the telecommunications service tax be distributed to cities) to change the distribution from 24.4% of the telecommunications tax (as provided in H 571) to 18.26%.

September 27, 2001

**H 231. BUDGET TECHNICAL CORRECTIONS.** Intro. 2/26/01. Senate committee substitute makes the following changes to 5th edition. Changes title to *AN ACT TO MAKE TECHNICAL CORRECTIONS TO THE APPROPRIATIONS ACT OF 2001*. Deletes original provisions. Amends SL 2001-414, Appropriations Act of 2001 in following ways. (1) Provides that funds appropriated for 2001-2002 to Child Residential Treatment Services Program in Social Service Block Grant to Dep't of Health and Human Services, Div'n of Mental, Health, Developmental Disabilities, and Substance Abuse Services, must be used for Comprehensive Treatment Services Program, along with other funds appropriated for Program. (2) Amends Sec. 15.6 to provide that UNC Board of Governors must (was, may) exempt North Carolina State University and UNC-Chapel Hill from electronic procurement system until May 1, 2003, if Board determines that each exemption is in the best interest of the respective constituent institutions. (3) Makes technical corrections to Act.

December 6, 2001

**H 231. BUDGET TECHNICAL CORRECTIONS.** Intro. 2/26/01. Conference report recommends the following changes to 6th edition to reconcile matters in controversy. Deletes the previous version and substitutes conference committee substitute, which differs from the previous version as follows. Except as otherwise noted, act is effective July 1, 2001.

Provides that net proceeds from sale of right-of-ways from Dep't of Juvenile Justice to Dep't of Transportation, in amount of \$172,050, shall be used to build a maintenance and storage facility at Dobbs Youth Development Center.

Amends SL 2001-424, sec. 25.16, by providing that DOC may reallocate unspent or unclaimed funds distributed to counties by the State-County Criminal Justice Partnership Program; deletes provision requiring reversion of \$1 million of unexpended cash balance of Program to General Fund at the close of FY 2002 and 2003.

Authorizes State Board of Community Colleges to adopt temporary rules clarifying specified administrative provisions relating to fees charged to students attending community colleges. Effective when act becomes law and expires six months thereafter.

Revises GS 143B-434(b) to make Sec'y of Revenue ex officio nonvoting member of Economic Development Board.

Amends GS 161-31(b) (payment of delinquent taxes on recording of deeds), as enacted by SL 2001-464, to add Carteret, Cleveland, Davidson, Gaston, Iredell, Martin, Person, Rockingham, Rowan, and Washington counties.

Revises GS 147-45 by deleting list of agencies entitled at state expense to specified number of copies of session laws and General Assembly journals. Provides instead that agencies receiving copies, and number of copies they receive, will be determined by Legislative Services Comm'n. Also provides that if agency is entitled to more than one copy, additional copies will be in electronic form unless agency requests additional hard copies from Sec'y of State by Aug. 1 of each year. Provides that for 2001, agency must make this request to the Sec'y of State within 30 days after act becomes law; also provides that state senators and representatives entitled to receive 2001 journal must submit request in writing to principal clerk of that chamber within same time period. Amends G.S. 120-34(a) to require Legislative Services Comm'n to publish executive orders of Governor in addition to laws and resolutions passed by General Assembly. Requires Legislative Research Comm'n to study and report to 2002 General Assembly on additional changes to distribution of such publications.

Appropriates from General Fund to DHHS, Division of Medical Assistance, \$246,762 for FY 2001-02 and \$400,000 for FY 2002-03 for optional circumcision procedures for newborns eligible for Medicaid.

Amends SL 2001-424, sec. 21.6, to provide that funds appropriated to DHHS to assist eligible individuals in obtaining prescription drugs through pharmaceutical company programs shall be at no cost (was, at no or nominal cost). Provides that development of system shall be jointly managed by Office of Research, Demonstrations and Rural Health Development, and Office of Pharmacy Services, Division of Public Health. Requires initial report by Jan. 1, 2002 (was, Dec. 1, 2001).

Provides that in accordance with G.S. 135-40.8(c3), as enacted by SL 2001-253, first \$15 of allowable charges not paid by Teachers' and State Employees' Comprehensive Major Medical Plan does not apply to cardiac rehabilitation benefits.

Revises GS 127A-116, effective Sept. 1, 2001, to direct Governor or designee to promulgate policies and regulations regarding leaves of absence for short periods of state or federal military duty or special emergency management services (was, state military duty only).

Changes effective date of SL 2001-424, sec. 32.24 (optional retirement program for community college system) to Jan. 1, 2003 (was, Jan. 1, 2002).

Directs Dep't of Crime Control and Public Safety to complete Phase 1 of floodplain mapping for Cape Fear River Basin by Dec. 30, 2002. Provides that if federal funds are insufficient to complete Phase 1, Dep't may use up to \$6 million from Reserve for Disaster Relief to complete Phase 1. Also provides that Dep't may use up to \$3 million from that Reserve to initiate Phase 2 of floodplain mapping for Catawba and Yakin River Basins.

Appropriates from General Fund to DHHS, Division of Public Health, \$460,000 for FY 2001-02 for Sickle Cell Syndrome Purchase of Medical Care.

Provides that \$50,000 in funds, appropriated to Dep't of Cultural Resources by SL 2001-424, sec. 11.1, shall be used to complete Information Technology Expansion Project and to aid in computerizing certain archival records in State Archives; deletes Information Resource Management Commission Project Certification for use of funds.

Revises G.S. 143-48.3(e), as enacted by SL 2001-424, sec. 15.6(b), to require UNC Board of Governors to exempt NC State and UNC-CH from e-procurement system; deletes provision requiring Board of Governors to determine whether exemption is in best interest of the respective constituent institutions. Also revises GS 143-49(8), as enacted by SL 2001-424, sec. 15.6(d), to provide that Sec'y of Administration shall consult with representative chosen by the local school administrative units before implementing procurement card program.

Amends GS 147-12 to specify that governor has power to enter into Class III Tribal-State gaming compacts. Adds GS 71A-8 providing that federally recognized Indian tribe may conduct games in accordance with specified laws. Effective Aug. 1, 1994, and applicable to compacts executed on or after that date.

Appropriates from General Fund to Dept. of Sec'y of State \$75,000 for FY 2001-02 to fund Advance Health Care Directive Registry. Changes effective date of provisions of SL 2001-455 establishing Registry from Jan. 1 to May 1, 2002.

Directs Legislative Research Comm'n to study and report to General Assembly in 2002 on sale of advertising for official mailings and publications of Division of Motor Vehicles. Prohibits Division from contracting for such advertising until authorized by General Assembly.

Amends G.S. 20-7(f) to allow Division of Motor Vehicles to issue or renew license for shorter than usual duration if applicant holds U.S. visa of limited duration. Effective when act becomes law.

Amends SL 2001-424, sec. 5.1, by providing that if DHHS determines that sufficient funds are not available within Work First Cash Assistance Program and Cash Assistance Reserve to provide cash assistance payments to all eligible families in FY 2001-02, DHHS may reduce allocations under TANF Block Grant for non-cash assistance programs and services.

Makes other technical changes.

January 9, 2002

**SL 2001-513 (H 231). BUDGET TECHNICAL CORRECTIONS. AN ACT TO MAKE TECHNICAL CORRECTIONS TO THE APPROPRIATIONS ACT OF 2001 AND FOR OTHER**

*PURPOSES.* Summarized in *Daily Bulletin* 9/27/01 and 12/6/01 . Enacted Jan. 4, 2002. Effective July 1, 2001, unless otherwise provided.