

Subcommittee Recommendations

Recommendations of the Income Tax Subcommittee

- (1). Reduce the top marginal individual income tax rate to a rate that is competitive with other southeastern states.
- (2). Broaden the individual income tax base to federal adjusted gross income with minimal deductions and exemptions.
- (3). Reduce the number of individual income taxpayers by eliminating the filing requirement of those with immaterial taxable income and who pay an insignificant amount of income tax.
- (4). Reduce the corporate income tax rate to a rate that is competitive with other southeastern states.
- (5). Broaden the corporate income tax base by enacting a combined reporting regime for related entities.
- (6). Conduct a comprehensive review of the corporate franchise tax in conjunction with recommendation number 5 in order to alleviate any possible compliance burdens as a result of two corporate tax reporting systems.
- (7). Repeal the estate and gift taxes.
- (8). Reduce North Carolina's reliance on the individual income tax

Recommendations of the Sales and Excise Tax Subcommittee

- (1). Broaden the sales tax base to include services in a revenue neutral manner and lower the sales tax rate.
- (2). North Carolina should eliminate differential rates in the sales tax as well as sales tax exemptions (including the food exemption). Some mechanism should be provided to relieve lower income households from any additional tax burden.
- (3). Move all excise taxes to an ad-valorem basis.
- (4). Include privilege taxes as sales/use taxes or eliminate them.

Recommendations of the Local Tax Subcommittee

- (1) Give local governments greater flexibility with respect to how they raise revenue to fund the services they provide. A menu of taxes and fees should be available to local governments and should be consistent across the state. The menu should include but not be limited to: options for sales taxes, real estate transfer fees, impact fees and vehicle use fees.
- (2). The State should provide greater flexibility for the use of local tax revenue by lifting some mandates that earmark revenues.
- (3). Sales taxes should be broadened to include services (same as Sales and Excise Tax Subcommittee Recommendation #1)
- (4). Local governments should be given options to provide property tax deferrals for elderly or fixed income residents and to revalue property using annual indexing.

Recommendations of the Program Responsibilities Subcommittee

- (1). The State should assume responsibility for the county share of Medicaid and have access to funding sources whose growth is sufficient to pay for the expected growth in Medicaid expenditures.
- (2). The State should develop and implement wellness programs in order to control the long-term costs of Medicaid and consider other options such as Medicaid HMOs, “fees” for smoking, expanding pay for performance programs and linking benchmark care standards (to be developed by the Governor’s office) to reimbursement rates.
- (3). The State should take over funding responsibilities for local election personnel or shift authority for local election personnel to local governments.
- (4). Revenue options available to counties should be expanded (same as Local Tax Subcommittee Recommendation # 1).

Recommendations of the Infrastructure Responsibilities and Funding Subcommittee

The Subcommittee recommended that certain general principles should be followed including that the State of North Carolina and local governments should use debt conservatively and follow the State's debt affordability guidelines, that any shift from local governments to state government (and vice versa) for funding responsibility must include a swap of revenue authority, and that public infrastructure should be financed by those who benefit most directly from the capital investment.

- (1). The General Assembly and relevant state agencies include DENR, DOT and DPI should identify ways to be more efficient and to prioritize needs.
- (2). Local governments should be given additional options to finance and support local infrastructure. Options should include a local option deed stamp tax and higher motor vehicle license taxes (basically the same as Local Tax Subcommittee Recommendation # 1 and Program Responsibilities Subcommittee Recommendations #4).
- (3). Where appropriate, tolls roads and public/private partnerships may be used to finance transportation projects and increase the speed of completion. Proxies for the use of roads and highways such as the gas tax and highway use tax should remain the prevailing source of revenues for these purposes.
- (4). Local governments should be given flexibility to use Powell Bill funds to fund projects on state roads.
- (5). The State should issue bonds to replace the 1998 Clean Water Bonds
- (6). Local governments should assess user rates to cover both capital and operational costs of providing water and sewer infrastructure.
- (7). The State should consider increasing the sales tax on vehicles and weight-based registration fees.
- (8). The State should consider reducing reliance on the gas tax and providing alternative proxies to road use that would lead to additional resources for transportation infrastructure.