

# 2017 FINANCE LAW CHANGES

See full summary documents for additional detail

## **H59 - Revenue Laws Technical Changes. (SL 2017-39)**

S.L. 2017-39 makes technical changes to the Revenue Laws as recommended by the Department of Revenue.

The section of the act pertaining to tax credits for constructing a railroad intermodal facility became effective June 21, 2017 and applies to taxable years beginning on or after January 1, 2017. The remainder of this act became effective June 21, 2017.

## **H158 - Special Assessments/Critical Infrastructure. (SL 2017-40)**

S.L. 2017-40 does two things:

- It authorizes a county or city to contract with a private party to construct a project on behalf of the county or city, and to reimburse the private party for costs incurred by the private party related to the project from the imposition of special assessments on the benefited property owners. The county or city would not be obligated to reimburse the private party any amount in excess of assessment revenues actually collected, less the entity's related administrative expenses.
- It clarifies who may be entitled to the proceeds of a performance guarantee issued by a developer to a county or city to assure successful completion of required improvements by the developer under a subdivision control ordinance.

This act became effective June 21, 2017, and applies to assessments made on or after that date.

## **H434 - Coins/Currency/Bullion Sales Tax Exemption. (SL 2017-181)**

S.L. 2017-181 exempts from sales and use tax the sales of rare coins, paper currency, and precious metal bullion. This act became effective July 1, 2017, and applies to sales made on or after that date.

## **H548 - Equalize Treatment of Wastewater Products. (SL 2017-139)**

S.L. 2017-139 exempts from sales and use tax wastewater dispersal products approved by the Department of Health and Human Services to equalize treatment among the various suppliers of these products. The act became effective July 1, 2017, and applies to sales made on or after that date.

## **S257 - Appropriations Act of 2017.**

### **Sec. 10A.4: Personal Education Savings Account Program. (SL 2017-57)**

S.L. 2017-57, Sec. 10A.4 establishes the North Carolina Personal Education Savings Account Program (PESA). A PESA is a bank account provided to a parent for the purpose of holding scholarship funds awarded by the State Education Assistance Authority (SEAA) for an eligible student to be used for certain qualifying education expenses. To be eligible for the scholarship, a student must reside in North Carolina, have not yet received a high school diploma and meet all three of the following requirements:

- Meet one of the following criteria:
- Was a full time student (i) assigned to and attending a public school pursuant to State law or (ii) enrolled in a Department of Defense Elementary and Secondary School located in North Carolina, during the previous semester.
- Received scholarship funds for a PESA during the previous school year.
- Is entering either kindergarten or the first grade.
- Is a child in foster care.
- Is a child whose adoption decree was entered not more than one year prior to submission of the scholarship application.
- Is a child whose parent or legal guardian is on full time duty status in the active uniformed service of the United States.
- Is a child enrolled part time in a public school and part time in a nonpublic school that exclusively provides services for children with disabilities.
- Has not enrolled in a postsecondary institution in a matriculated status eligible for enrollment for 12 hours of academic credit.
- Is a child with a disability.
- The SEAA must annually make applications available and select recipients for scholarships according to the following criteria:
- First priority must be given to eligible students who were awarded scholarship funds for a PESA during the previous school year if applications are made by March 1.
- After funds have been awarded to prior recipients, any remaining funds can be used to award scholarship funds for a PESA for all other eligible students.

The SEAA may verify information on any application for the award of a PESA, and household members of applicants must authorize access information needed for verification efforts held by other State agencies.

Scholarships will be awarded each year for up to \$9,000 per eligible student, deposited in quarterly installments, subject to execution of a parental agreement. Funds will be accessible to the parent on a debit card with the prepaid funds loaded on the card, and parents will be required to submit quarterly expense reports. Parents of a PESA recipient must complete an annual written agreement to use at least a portion of the scholarship to provide an education to the eligible student in, at a minimum, the subjects of English language arts, mathematics, social studies, and science. The parent must also agree to release the local education agency the student is eligible to attend of all obligations to educate the student while the student is receiving the PESA. PESA funds do not constitute taxable income to the parent, legal guardian, or legal custodian of an eligible student or to the eligible student.

Students who receive the PESA are also to receive an Opportunity Scholarship. Students who receive the PESA and an Opportunity Scholarship are also eligible to receive a Students with Disabilities Scholarship if the student has one or more of the following disabilities:

- Autism.
- Developmental disability.
- Hearing impairment.
- Moderate or severe intellectual disability.
- Multiple, permanent orthopedic impairments.
- Visual impairment.

A student's continuing eligibility for the scholarship must be assessed every three years by either the local education agency or a licensed psychologist with a school psychology focus or a psychiatrist.

PESA funds may only be used for the following qualifying education expenses of the eligible student:

- Tuition and fees for a nonpublic school that meets certain requirements.
- Textbooks required by a nonpublic school.
- Tutoring and teaching services provided by an individual or facility accredited by a State, regional, or national accrediting organization.
- Curricula.
- Fees for nationally standardized norm referenced achievement tests, advanced placement tests, or nationally recognized college entrance exams.
- Fees charged to the account holder for the management of the PESA.
- Fees for services provided by a public school, including individual classes and extracurricular programs.
- Premiums charged to the account holder for any insurance or surety bonds required by the SEAA.
- Educational therapies from a licensed or accredited practitioner or provider.
- Educational technology defined by the SEAA as approved for use.
- Student transportation, pursuant to a contract with an entity that regularly provides student transportation, to and from (i) a provider of education or related services or (ii) an education activity.

PESA funds may not be used for any of the following purposes:

- Computer hardware or other technological devices not defined by the Authority as educational technology approved for use.
- Consumable educational supplies, including paper, pen, or markers.
- Tuition and fees at an institution of higher education or a private postsecondary institution.
- Tuition and fees for a home school.

The SEAA is responsible for administration of the PESA program, including providing notifications to various State agencies, establishing rules and regulations for the administration of the program, including a lottery process for the selection of recipients within the criteria if necessary, contracting in the SEAA's discretion with a private financial management firm or institution to manage PESAs, and conducting annual audits of PESAs.

The SEAA must report annually by September 1 to the Joint Legislative Education Oversight Committee on the following:

- Total number, grade level, race, ethnicity, and sex of eligible students receiving scholarship funds.
- Total amount of scholarship funding awarded.

- Number of students previously enrolled in public schools in the prior semester by the previously attended local education agency.
- Nonpublic schools in which scholarship recipients are enrolled, including numbers of scholarship recipients at each nonpublic school.
- The number of substantiated cases of fraud by recipients and the number of parents or students removed from the program for noncompliance with the provisions of this Article.

EFFECTIVE DATE: This section became effective July 1, 2017. The PESA program applies beginning with the 2018-2019 school year. Changes to laws related to income tax are effective for taxable years beginning on or after January 1, 2018.

## **S257 - Appropriations Act of 2017.**

### **Part 38: Finance Provisions. (SL 2017-57)**

Part 38 of S.L. 2017-94 contains the following finance provisions:

#### Individual Income Tax

- Lowers the personal income tax rate from 5.499% to 5.25%, effective for taxable years beginning in 2019.
- Increases the standard deduction to \$20,000 for married filing jointly taxpayers and to \$10,000 for single filers, effective for taxable years beginning in 2019.
- Changes the standard deduction for head of household filers to an amount that is 75% of the amount for married filing jointly taxpayers, effective for taxable years beginning in 2019.
- Changes the child credit to a tiered child deduction, effective for taxable years beginning in 2018.

#### Corporate Income Tax

- Reduces the corporate income tax rate from 3% to 2.5% rate, effective for taxable years beginning in 2019.

#### Franchise Tax

- Reduces the franchise tax rate for S corporations by applying a flat \$200 on the first \$1 million of the calculated base, applicable to the calculation of franchise tax reported on the 2018 and later corporate income tax returns.

#### Sales Tax

- Exempts from sales tax distribution equipment, and accessories, attachments, or repair parts for distribution equipment, sold to a large fulfillment facility, effective July 1, 2017.
- Repeals the 1%/\$80 privilege tax applicable to mill machinery and certain other manufacturing and industrial equipment and establishes a sales tax exemption for this equipment, effective July 1, 2018. It also directs the Revenue Laws Study Committee to study this area of law to provide more guidance to taxpayers and the Department of Revenue about what constitutes "mill machinery," how to define "manufacturing," and how to incorporate the body of Departmental administrative law in this area into the statutes.

- Exempts from sales tax repair or replacement parts for a ready mix concrete mill, regardless of whether the mill is freestanding or affixed to a motor vehicle, effective July 1, 2018.
- Provides a sales tax refund for building materials, supplies, and equipment sold to a business that receives a JDIG award prior to June 30, 2019, for a "transformative project," which is a project that requires an investment of \$4 billion in private funds and creates at least 5,000 eligible positions.

#### Renewable Energy Tax Credit

- Allows certain biomass resource-related projects to claim the renewable energy tax credit if it had a certain minimum level of completion prior to January 1, 2016, and it was placed in service prior to May 5, 2017.

#### **S326 - Clarify HUT & Improve Vehicle Titling Process.**

##### **Sec. 1: Clarify HUT. (SL 2017-69)**

Section 1 of S.L. 2017-69 clarifies that the highway use tax applies to out-of-state vehicles when they are first titled in this State, effective June 28, 2017.

#### **S391 - Ferry Transportation Authority. (SL 2017-120)**

S.L. 2017-120 authorizes the creation of a Ferry Transportation Authority to operate a ferry system in the area of a tidal river, and adjoining estuaries, in the vicinity of a municipality that is only accessible by water.

This act became effective July 18, 2017.

#### **S468 - QZAB Use Modification. (SL 2017-187)**

S.L. 2017-187 makes modifications to the conditions for the award of Qualified Zone Academy Bonds (QZABs) by providing that the conditions established by the State Board of Education (SBE) for the uses of a QZAB allocation must be for one of the purposes permitted by federal law, and that the QZAB funds must be prioritized so that those funds are first used in Tier 1 counties determined to have greater economic distress and for schools where 75% or more of the school's students are eligible to receive free or reduced lunch under the federal lunch program.

Effective July 1, 2017, the act also authorizes award of grant funds from the Needs Based Public School Capital Fund for projects when a pre-development agreement for an operational lease was entered into on or before June 30, 2017.

Except as otherwise provided, this act became effective July 25, 2017, and applies to bond proceeds used on or after that date.

## **S615 - North Carolina Farm Act of 2017. (SL 2017-108)**

S.L. 2017-108 made various changes to laws governing agricultural matters, including provisions involving the following:

- Agriculture and forestry awareness study commission studies
- Expand facilities exempt from EMC rule
- Present use-value change
- Abandoned livestock amendments
- Authority of the Department of Agriculture and Consumer Services to adopt and administer forest practice guidelines for purposes of the sedimentation pollution control act
- Assent to mutual aid provisions of the Great Plains Wildland Protection Compact
- Clarify activities incident to the farm and agritourism
- Eliminate county authority to adopt zoning regulations governing swine farms
- Allow food compliance inspectors to drive state vehicles without state tags and bumper stickers
- Meat and poultry technical corrections
- Modernize forest ranger statutes
- Allow emergency workers to receive worker's compensation when responding to non-fire emergencies
- Create exception from conservation benefit analysis for certain easements
- Exempt farm trucks that stay in State from having a USDOT identification number
- Exempt closure of hog lagoons from requiring the use of a professional engineer
- Exempt farm vehicles engaged in intrastate commerce from certain federal motor carrier safety regulations
- Authorize wine sales at farmers markets
- Allow extension of conditional exemption from sales and use tax for certain farmers
- Amend conditions that may be applied to agreements for the purchase of agricultural products

## **S628 - Various Changes to the Revenue Laws. (SL 2017-204)**

S.L. 2017-204 makes various substantive, technical, clarifying, and administrative changes to the revenue laws. This act has various effective dates. Please see the full summary for more detail.

CURRENT LAW, BILL ANALYSIS, AND EFFECTIVE DATE: