

2020 FINANCE LAW CHANGES

See full summary documents for additional detail

H77 - DOT 2020-2021 FY Budget/Governance. (SL 2020-91)

S.L. 2020-91 adjusts the North Carolina Department of Transportation's FY 2020/2021 Certified Budget, and implements various financial governance provisions, including changes to the North Carolina Board of Transportation.

- Parts 1 through 4 of the act make various changes and clarifications to the Department's FY 2020/2021 budget.
 - Sections 4.2 and 4.6 relate to Motor Fuel Tax changes, and these provisions and their effective dates are summarized separately.
- Part 5 makes various changes to laws that relate to the governance, reporting requirements, and financial management of the Department.
- Parts 6 and 7 contain miscellaneous and technical provisions of this act.

The act became effective July 1, 2020, except for Section 4.9, which became effective June 15, 2020, and Section 5.1, which became effective July 31, 2020.

H77 - DOT 2020-2021 FY Budget/Governance.

Sec. 4.2: Motor Fuel Excise Tax Floor . (SL 2020-91)

Section 4.2 of S.L. 2020-91 sets a temporary floor on the motor fuel excise tax rate such that the 2021 rate cannot be lower than the current rate of 36.1¢ per gallon. Effective July 1, 2020, this change is expected to increase revenue by \$20.2 million in FY 2020-21 and \$33.4 million in FY 2021-22.

This section became effective July 1, 2020.

H77 - DOT 2020-2021 FY Budget/Governance.

Sec. 4.6: Modify Fuel Tax Distribution. (SL 2020-91)

Section 4.6 of S.L. 2020-91 modifies the current 71%/29% distribution of motor fuel tax revenue to the Highway Fund and the Highway Trust Fund as follows:

- Effective July 1, 2020, 81% to the Highway Fund and 19% to the Highway Trust Fund.
- Effective July 1, 2021, 80% to the Highway Fund and 20% to the Highway Trust Fund.
- Effective July 1, 2022, 75% to the Highway Fund and 25% to the Highway Trust Fund.

This section became effective July 1, 2020.

H308 - Regulatory Reform Act of 2020.

Sec. 1A: Establish a Maximum Fee for the Authorized On-Site Wastewater Evaluator Program. (SL 2020-74)

Section 1A of S.L. 2020-74 authorizes the North Carolina On-Site Wastewater Contractors and Inspectors Certification Board to establish an application fee for an authorized on-site wastewater evaluator in an amount not to exceed \$300.

This section became effective July 1, 2020.

H1023 - Coronavirus Relief Fund/Additions & Revisions.

Sec. 1.1(e) Revisions to S.L. 2020-4. (SL 2020-80)

Section 1.1(e) of S.L. 2020-80 creates multiple sections in S.L. 2020-4. Please see S.L. 2020-4 for these summaries.

H1043 - 2020 COVID-19 Recovery Act.

Sec. 3.3(75a): Lost Wage Assistance Program. (SL 2020-4)

Section 3.3(75a) of S.L. 2020-4, as enacted by Sec. 1.2 of S.L. 2020-97, provides that up to \$50 million of the CARES Act funds may be used to fulfill the State's match obligation for the FEMA-approved \$300/beneficiary grant funding for the Lost Wage Assistance program. Portions not used for this purpose will be used for continuity of operation needs across State government, in accordance with Section 3.3(3) of S.L. 2020-4. If this provision's allocation is insufficient for the state match requirement, OSBM may meet the requirement with funds allocated under Section 3.3(3) of S.L. 2020-4.

This provision became effective when it became law, on September 4, 2020.

H1043 - 2020 COVID-19 Recovery Act.

Sec. 4.2B: Job Retention Grants. (SL 2020-4)

Sec. 4.2B of S.L. 2020-4, as enacted by Sec. 1.1(e) of S.L. 2020-80, and amended by Sec. 1.5(a) of S.L. 2020-97, appropriates additional money from the Coronavirus Relief Fund to the Office of State Budget and Management (OSBM) and allocates \$15 million to be used to establish a Job Retention Grant program.

This section became effective July 1, 2020.

H1079 - Various Sales Tax Changes. (SL 2020-6)

S.L. 2020-6 has three parts consisting of various sales and use tax changes:

- Part I of the act provides relief to auctioneers and estate sale companies in light of recent law changes. The expansion of the sales tax exemption for the purchase of certain animals by qualifying farmers contained in this Part becomes effective July 1, 2020. The remainder of this Part became effective June 5, 2020.
- Part II of the act expands the scope of the sales and use tax exemption for equipment purchased by a large fulfillment facility. This provision becomes effective July 1, 2020, and applies to sales occurring on or after that date.
- Part III of the act makes the following changes with respect to the sales tax on digital property:
 - Clarifies that the provision of an "educational service" by certain institutions, regardless of whether all or a portion of the instruction is delivered through an online class, whether live or recorded, is not a taxable event.
 - Exempts sales of digital audio works and digital audiovisual works that qualify as an educational expense when purchased by the operator of a homeschool.
 - Exempts sales of digital audio works and digital audiovisual works that consist of nontaxable service content when the transfer occurs contemporaneously with the provision of the nontaxable service in real-time.

This Part is effective retroactively to October 1, 2019, and applies to sales occurring on or after that date.

H1080 - Revenue Laws Recommendations. (SL 2020-58)

Session Law 2020-58 makes the following changes:

- Updates the reference to the Internal Revenue Code from January 1, 2019 to May 1, 2020.
 - It conforms to the exclusion from gross income of any amount of indebtedness forgiven on a loan covered under the Paycheck Protection Program.
 - It conforms to the reduction of the threshold amount for the medical expense deduction from 10% to 7.5% for 2019 and 2020 and transfers \$36 million from the Medicaid Transformation Reserve to the General Fund to finance this tax reduction.
- Sets and codifies the insurance regulatory charge used to fund the Department of Insurance at 6.5%. The charge generated \$47.2M in FY2018-19.
- Extends JDIG from January 1, 2021 to January 1, 2030.
- Extends the Natural Gas Economic Development Infrastructure Cost Recovery program from July 1, 2021 to July 1, 2026.
- Makes various other tax law changes recommended by the Department of Revenue and approved by the Revenue Laws Study Committee.

See full summary for effective dates.

H1105 - Coronavirus Relief Act 3.0.

Sec. 1.3: Extra Credit Grant Program. (SL 2020-97)

This provision allocates \$440,541,000 of the federal funds in the Coronavirus Relief Fund to provide a grant of \$335 to eligible families to assist with virtual schooling and child-care costs

during the COVID- 19 pandemic. The grant is available to families that resided in the State for all of 2019 and reported they had at least one child eligible for the federal child tax credit in 2019. 1.2 million families, with almost 2 million children, are expected to qualify for the grant. The provision also provides a State income tax deduction for the 2020 taxable year equal to the grant amount received.

Section 1.1(c) and Section 1.3 of this act became effective when the act was signed into law on September 4, 2020. Section 1.4 of this act is effective for taxable years beginning on or after January 1, 2020, and expires for taxable years beginning on or after January 1, 2021.

H1105 - Coronavirus Relief Act 3.0.

Sec. 1.5: Job Retention Grant Program. (SL 2020-97)

This provision does the following:

- Allocates an additional \$45.5 million of the federal funds in the Coronavirus Relief Fund to the Job Retention Grant program created by S.L. 2020-80.
- Corrects a statutory reference that will enable 501(c)(6) entities to be eligible for a grant under this program.
- Provides that if any funds remain available after the first round of grants, a second round of grants will be made available solely for a business or nonprofit that employs 20 or fewer employees.

H1105 - Coronavirus Relief Act 3.0.

Sec. 1.6A: Increased Benefit Amount. (SL 2020-97)

This provision allocates \$87 million of the federal CARES act funds to provide individuals receiving State unemployment assistance an increased benefit amount of \$50/week. The increased benefit amount is payable for weeks beginning on or after September 5, 2020. It expires immediately following the week that fully expends the \$87 million or the week beginning December 26th, whichever occurs first.

This provision became effective when it was signed into law, September 4, 2020.

S704 - COVID-19 Recovery Act .

Sec. 1.1: Waive Accrual of Interest on Deferred Payment of Corporate Income and Franchise Tax and Individual Income Tax and Extend Certain Tax Related Deadlines. (SL 2020-3)

Section 1.1 of S.L. 2020-3 waives the accrual of interest on individual income tax and corporate income and franchise tax returns due on or before April 15, 2020, from April 15 until July 15. The relief applies to partnership and estate and trust tax returns, as well as estimated tax payments for 2020 due on or before April 15, 2020. It also extends certain tax-related deadlines.

CURRENT LAW AND BACKGROUND: The Department of Revenue is statutorily required to waive the penalty for late filing and payment of taxes for any period in which the time for filing a federal return or report or for paying a federal tax is extended because of a presidentially declared

disaster. The Department does not have the statutory authority to waive the accrual of interest. In the wake of past disasters, although the late filing and payment penalties have been waived, the accrual of interest has not.

On March 13, 2020, the POTUS declared a national emergency concerning the COVID-19 outbreak under the Robert T. Stafford Disaster Relief and Emergency Assistance Act. As part of that declaration, he instructed Secretary Mnuchin to provide relief from tax deadlines. On March 20, 2020, the United States

Department of Treasury and the Internal Revenue Service announced that the time for filing federal income tax returns, as well as estimated tax payments for tax year 2020 that are due on April 15, 2020, was extended to July 15, 2020. The announcement stated penalties and interest will begin to accrue on any unpaid balances as of July 16, 2020.

On April 9, 2020, the IRS extended the following tax deadlines:

- The time for filing estimated tax payments due on or before June 15 to July 15.
- The time to request a refund of 2016 tax overpayments extended to July 15.
- The time to file certain petitions and requests for review due to be performed on or after April 1, 2020, and before July 15, 2020, extended to July 15.

On March 10, 2020, the Governor signed Executive Order 116 declaring a state of emergency in response to COVID-19. On March 17, the Department of Revenue announced penalty relief for taxpayers. On March 21, in response to the federal action, the Department announced it would extend the April 15 tax filing deadline to July 15 for individual income tax and corporate income and franchise taxes to mirror the announced deadline change from the IRS. The Department will not assess late action penalties if the returns are filed and payments made on or before July 15.

On March 31, 2020, the Department expanded penalty relief for failure to obtain a license, file a return, or pay tax that is due on March 15, 2020, through July 15, 2020, if the corresponding license is obtained, return is filed, or tax is paid on or before July 15, 2020. The tax relief applies to the following tax types:

- Withholding tax
- Sales and use tax
- Scrap tire disposal tax, white goods disposal tax, solid waste disposal tax, and dry-cleaning solvent tax
- Motor vehicle lease and subscription tax
- 911 service charge for prepaid telecommunications tax
- Primary forest product tax
- Freight car line companies
- Excise tax on alcohol, tobacco products, installment paper dealers
- Privilege tax
- Excise tax on motor carrier, motor fuel, alternative fuel and inspection tax

BILL ANALYSIS: Subsection 1.1(a) waives the accrual of interest from April 15, 2020, through July 15, 2020, on an underpayment of tax imposed on a franchise, corporate income, or individual income tax return, including a partnership and estate and trust tax return, due from April 15, 2020, through July 15, 2020. The relief from accrual of interest would also include estimated tax payments due

on or before April 15, 2020; that would apply to the first and second quarter estimated taxes. The act does not waive the accrual of interest on the tax payment extension of the other tax types.

Subsections 1.1(b) and 1.1(c) extend certain tax-related deadlines in the same manner as the IRS extended certain federal tax-related deadlines in its notice published on April 9th:

- Subsection 1.1(b) gives taxpayers until July 15, 2020, to request an overpayment of individual income taxes and corporate income and franchise taxes for which the statute of limitations to seek a refund expires on or after April 15, 2020, and before July 15, 2020. Under the general statute of limitations in G.S. 105-241.6, the time for requesting an overpayment of a tax due on or before April 15, 2017, would be April 15, 2020. This subsection provides an exception to the general rule by allowing a taxpayer to make the request on or before July 15, 2020.
- Section 1.1(c) gives taxpayers additional time to meet certain administrative and judicial action dates if those dates for action are due to be performed on or after April 1, 2020, and before July 15, 2020. Those actions include requests for a Departmental review of a proposed denial of a refund or a proposed assessment of tax, a petition for a contested case hearing at the Office of Administrative Hearings when a taxpayer disagrees with a notice of final determination issued by the Department, and a petition seeking judicial review of a party aggrieved by the final decision in a contested case. The actions are considered timely if filed on or before July 15, 2020.

S704 - COVID-19 Recovery Act .

Sec. 1.2: Flexibility to Administer Unemployment Compensation and SUTA Tax Credit. (SL 2020-3)

Section 1.2 of S.L. 2020-3 authorizes unemployment insurance benefits (UI) for employees affected by the coronavirus emergency due to the employer temporarily ceasing operations or reducing hours or the employee being diagnosed with coronavirus or being quarantined by a health care provider or government official.

Section 1.2 of the act also grants employers a credit equal to the employer's first quarter UI tax due, effectively eliminating UI tax for the first quarter of 2020.

Section 1.2 of the act became effective May 4, 2020; applies retroactively beginning March 10, 2020; and expires on the earlier of: the rescission of Executive Order No. 116, Declaration of a State of Emergency to Coordinate Response and Protective Actions to Prevent the Spread of COVID 19 or December 31, 2020.

S704 - COVID-19 Recovery Act .

Sec. 1.4: UI Oversight Committee Recommendations. (SL 2020-3)

Section 1.4 of S.L. 2020-3 enacts three of the four recommendations of the Joint Legislative Oversight Committee on Unemployment Insurance:

- Allows an employer to file a UI claim for an employee (i.e., attached claim) for unemployment

due directly to a disaster covered by a federal disaster declaration.

- Clarifies that liens for UI taxes have the same priority as other State tax liens.
- Makes the Joint Legislative Oversight Committee on Unemployment Insurance a permanent statutory study committee.

This section became effective when the act became law, May 4, 2020.

S704 - COVID-19 Recovery Act .

Sec. 1.3: Unemployment Insurance Oversight Committee Recommendations. (SL 2020-3)

Section 1.3 of S.L. 2020-3 enacts one of the four recommendations of the Joint Legislative Oversight Committee on Unemployment Insurance. It allows an unemployment insurance (UI) claimant to satisfy a work search contact by attending a reemployment activity offered by a local career center.

The section became effective July 1, 2020.

S808 - Medicaid Funding Act. (SL 2020-88)

Session Law 2020-88 appropriates funds for the Dorothea Dix campus relocation project and NC FAST; appropriates Coronavirus Relief Funds for early childhood initiatives, behavioral health and crisis services, and COVID-19 testing, contract tracing, and trends tracking and analysis; appropriates funds for the Medicaid program and Medicaid transformation; and makes changes related to Medicaid transformation implementation.

Except where provided otherwise, this act is effective July 2, 2020. See full summary for details.