



# HOUSE FINANCE COMMITTEE BRIEFING

February 23, 2023

Presented by NCGA Finance Team

# PRESENTATION OVERVIEW

Introduction to the  
Finance Committee

Overview of General  
Fund Revenues

- Personal Income Tax
- Corporate Income & Franchise Tax
- Sales Tax

Local Revenues

Consensus Forecast

# INTRODUCTION TO THE FINANCE COMMITTEE

Trina Griffin  
Legislative  
Analysis Division

# FINANCE COMMITTEE STAFF

## LEGISLATIVE ANALYSIS DIVISION

Trina Griffin  
Greg Roney  
Nick Giddings  
Melissa Zbikowski

## FISCAL RESEARCH DIVISION

Jonathan Tart  
Emma Turner  
Brent Lucas  
Bryan Allard

## BILL DRAFTING DIVISION

Brett Berne

# BILLS THAT MUST BE REFERRED TO FINANCE

## HOUSE RULE 38

- Raises revenue
- Reduces revenue
- Levies a tax
- Authorizes levy of tax, assessment, or fee
- Authorizes issuance of bonds



## SENATE RULE 42

- Imposes or raises fees or other revenues payable to the State, agencies, licensing boards, or any of its subdivisions
- Levies taxes
- In any manner affects taxing power of State or its subdivisions
- Provides for bond issues

## BILLS NOT REQUIRED TO BE REFERRED TO FINANCE

- Civil penalties, criminal fines, forfeitures
- Relating to fees charged by a nongovernmental entity



# OCCUPANCY TAX SUBCOMMITTEE

- In existence for almost 30 years
- **2023-2024**
- Largely tracks NC Travel & Tourism Coalition policy on occupancy tax
- Key components of guidelines include:
  - **Rate** – 6% max combined county and city rate
  - **Use** – 2/3 promotion; 1/3 tourist-related expenditures
  - **Administration** – Tourism Development Authority



# ANNEXATION/DEANNEXATION SUBCOMMITTEE

- Established in 2013
- Subcommittees Members
  - Rep. Ross, Chair
  - Rep. Setzer
  - Rep. Tyson
  - Rep. Wainwright
  - Rep. Winslow
  - Rep. Wray
- Historically allowed under “Guidelines” for one of the following reasons:
  - Agreement of interested parties
  - Error correction
  - Changed circumstances





# RESOURCES

NCGA Website

[Committee website](#)

[Summaries of Substantive Legislation](#)

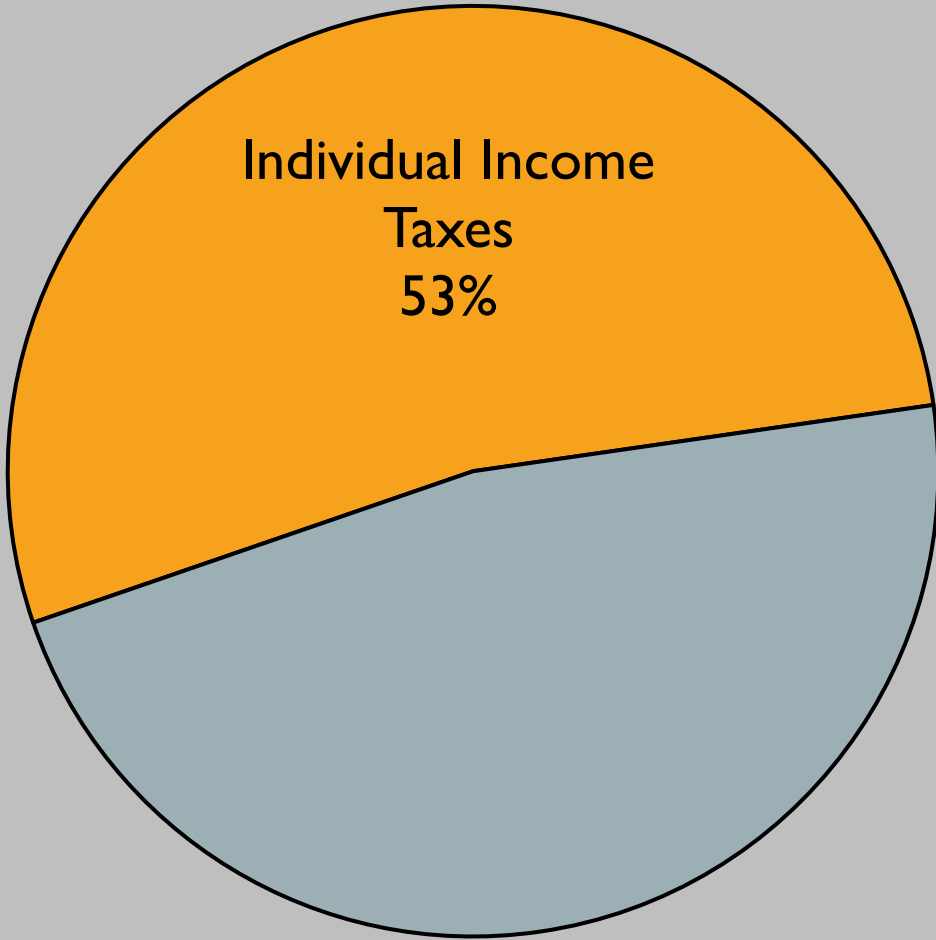
[Fiscal Research website](#)

The screenshot shows the homepage of the North Carolina General Assembly. At the top left is the state seal. The main header reads "NORTH CAROLINA GENERAL ASSEMBLY" with a search bar for bills and a dropdown for the "2023-2024 Session". A navigation menu includes links for HOUSE, SENATE, AUDIO, CALENDARS, COMMITTEES, GOV OPS, BILLS & LAWS, DIVISIONS, REDISTRICTING, and ABOUT. Below the header, there is a "NEWS & INFORMATION" section with links to "North Carolina COVID-19 Information and Resources" and "Virtual Tour of the Legislative Building". To the right, there are two large images of the legislative chambers, labeled "HOUSE" and "SENATE".

# PERSONAL INCOME TAX

Greg Roney  
Legislative  
Analysis Division

GENERAL FUND REVENUE  
SOURCE:  
  
INDIVIDUAL INCOME TAX  
FY 21-22



Total Revenue: \$17.6 Billion

Source: North Carolina General Assembly Fiscal Research Division

# TAX CALCULATION

- Individuals pay each calendar year
  - Tax Rate: 4.99% Flat Rate in 2022 (declining to 3.99% by 2027)
  - Tax Base: Federal AGI (Pickup)
  - Tax Calculation
    - Standard (MFJ \$25,500) v. Itemized Deductions (Interest, Property Tax, Charitable, Medical)
    - NC Modifications
- Tax “Expenditures”



PIT RATE  
CHANGES

NC Constitution  
Maximum 7%

2013 6% to 7.75%

2014 5.8%

2015 5.75%

2017 5.499%

2019 5.25%

2022 4.99%

2023 4.75%

2024 4.6%

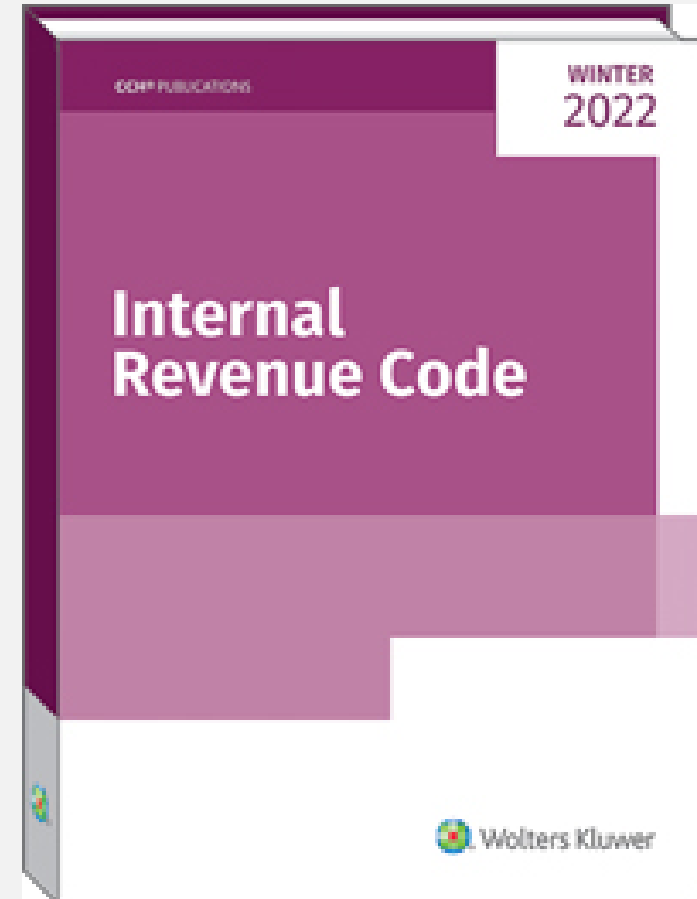
2025 4.5%

2026 4.25%

2027 3.99%

# INTERNAL REVENUE CODE (IRC) UPDATE

- NC law references the federal Internal Revenue Code (IRC) to determine adjusted gross income (AGI) by referencing a version of the IRC by date.
- Annual IRC update legislation allows the General Assembly to review federal legislation to determine if NC law will conform or decouple from federal law changes.
- NC law currently references the IRC enacted as of April 1, 2021.



# STATE TAX EXEMPTIONS

SSI Benefits

**(NEW)** Military Pension Income (20 years served or medically retired, includes certain survivor benefit)

Interest on US obligations

Income from an Indian tribe

Interest on NC and local government obligations

Interest on obligations of a nonprofit educational institution chartered in NC

Government retirement income received by employees vested in retirement system by August 12, 1989 (Bailey)

# STANDARD VS. ITEMIZED DEDUCTION

## STANDARD DEDUCTION

2022 and after:

- Married filing jointly: \$25,500
- Married filing separately: \$12,750
- Head of Household: \$19,125
- Single: \$12,750



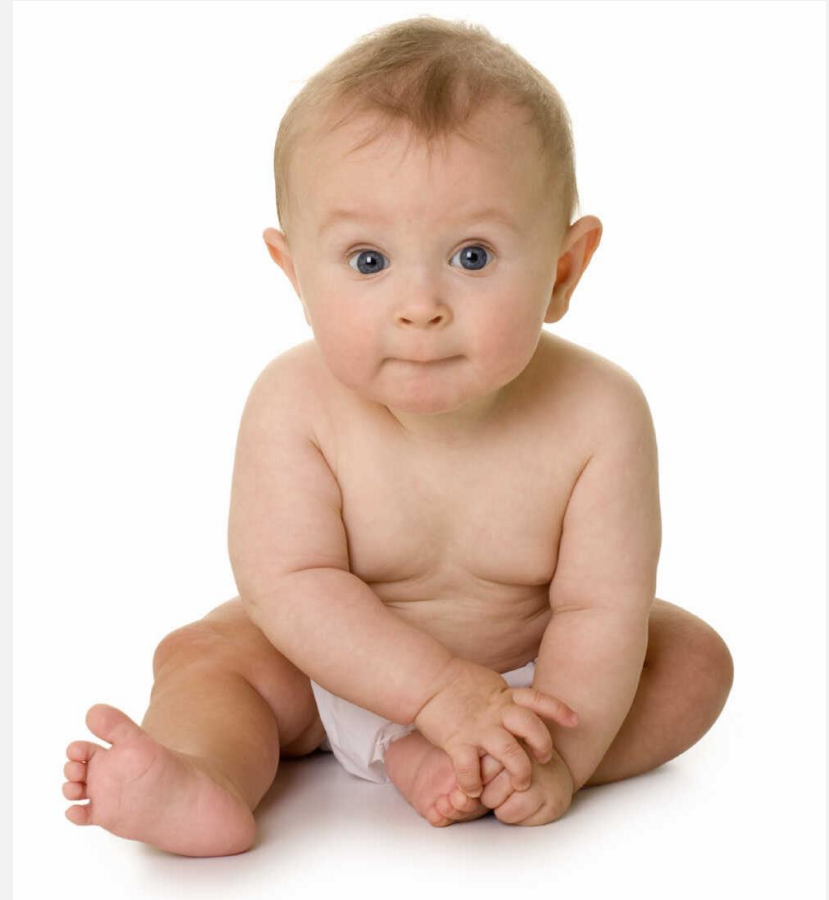
## ITEMIZED DEDUCTIONS

- **Charitable Contributions**
  - Federal rules apply
- **Medical and Dental Expenses**
  - Federal rules apply
  - 7.5% floor
- **Capped at \$20,000**
  - Home mortgage interest
  - Property taxes paid on real estate



## CHILD DEDUCTION

- Additional NC deduction for children if:
  - Meet federal rules for child tax credit
  - Allowed for each child
  - Maximum value: \$3,000 per child
  - Completely phased out at
    - MFJ: \$140,000



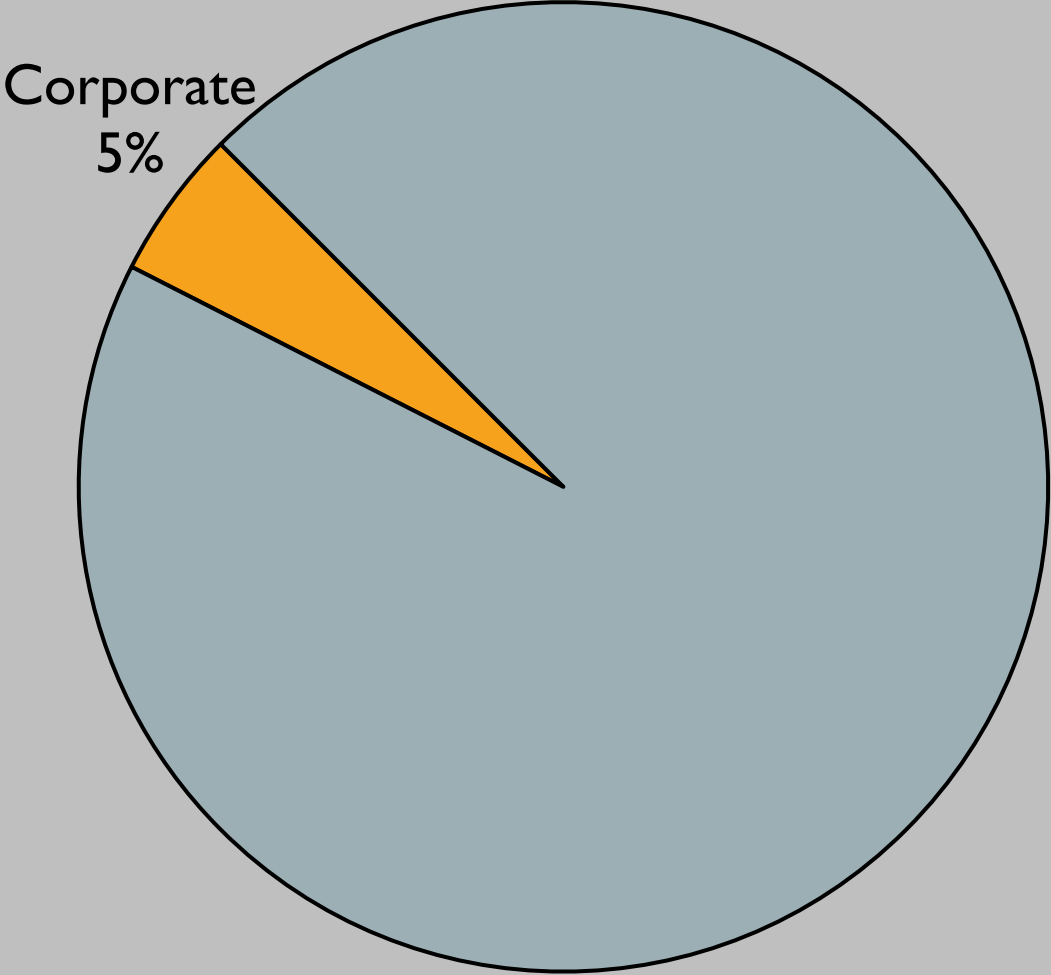
# TAX EXPENDITURES

- Standard Deduction in Excess of 50% of 2019 Federal
- SSI in Excess of Federal Limit
- Charitable Deduction
- Child Deduction
- Mortgage Interest Deduction
- Medical and Dental Deduction
- Property Tax Deduction
- **(NEW)** Military Pension Income
- Bailey Retirees (required by court order)

# CORPORATE INCOME TAX

Jonathan Tart  
Fiscal Research  
Division

GENERAL FUND REVENUE  
SOURCE:  
  
CORPORATE INCOME TAX  
FY 2021-22

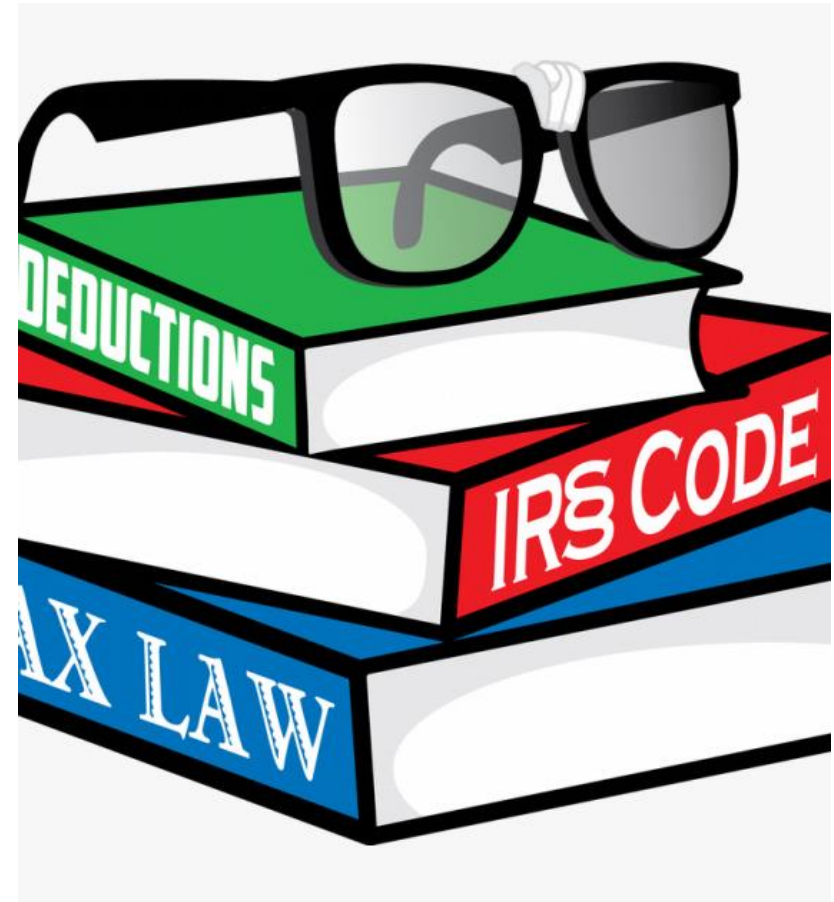


Total Revenue: \$1.6 Billion

Source: North Carolina General Assembly Fiscal Research Division

## WHO PAYS CORPORATE INCOME TAXES?

- About 85,000 returns filed, but 2/3 don't pay tax.
- Corporations with NC taxable income of over \$1 million pay about 90% of the total corporate income tax revenue, but they make up less than 3% of the corporations filing returns.
- Most of corporate income tax collections come from 500 – 1,000 large companies.



CIT RATE  
CHANGES

2013 6.9%

2014 6.0%

2015 5.0%

2016 4.0%

2017 3.0%

2019 2.5%

2025 2.25%

2026 2.0%

2028 1.0%

2030 Repealed

## COMPUTING NC TAXABLE INCOME

Start	Start with federal taxable income
Adjust	Adjust for differences in federal and state law (like personal income tax with IRC update)
Apportion	Apportion income to NC if corporation does business in multiple states
Apply	Apply 2.5% tax rate



## APPORTIONMENT

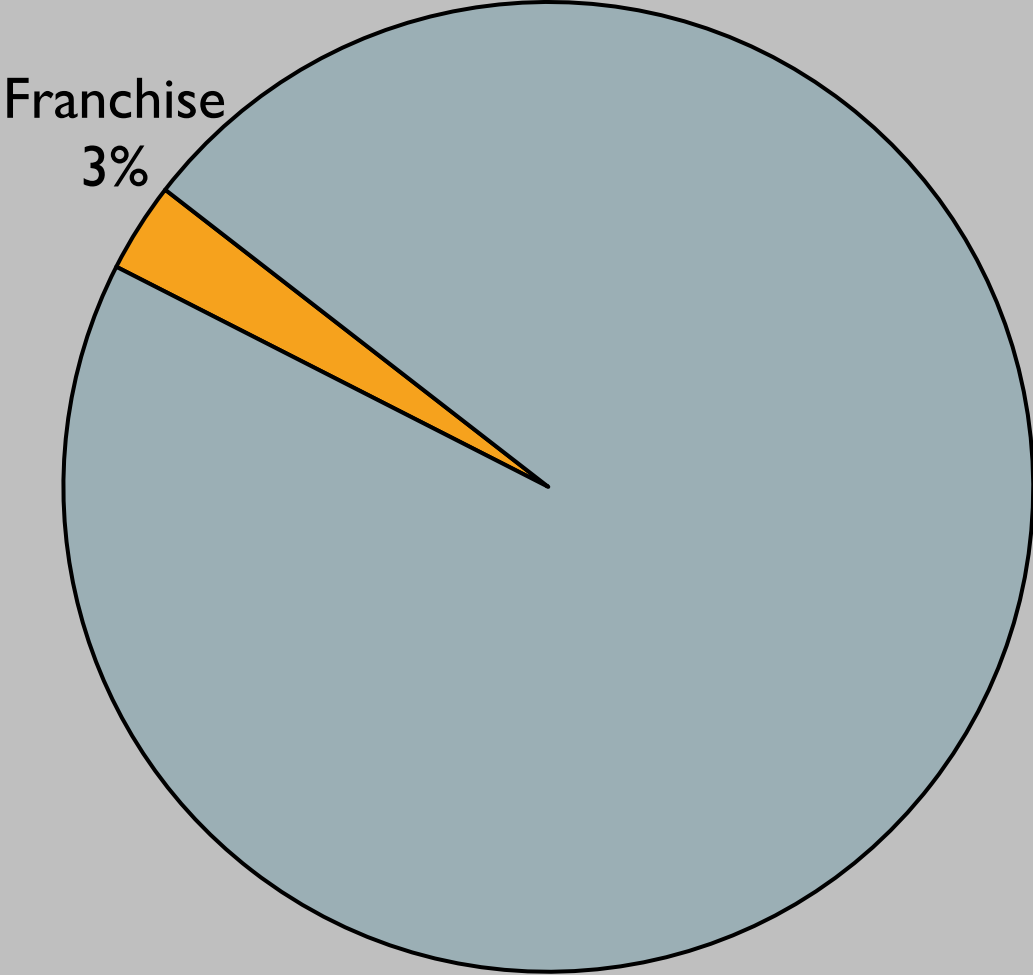
- When a corporation operates in multiple states, the income is apportioned to NC for tax purposes
- Apportionment is based on the company's NC market-share
- Example: If 2% of a multistate company's revenue is derived from NC, 2% of its income is subject to NC tax at a 2.5% tax rate



# FRANCHISE TAX

Jonathan Tart  
Fiscal Research  
Division

GENERAL FUND REVENUE  
SOURCE:  
  
FRANCHISE TAX  
FY 2021-22



Total Revenue: \$888.3 Million

Source: North Carolina General Assembly Fiscal Research Division

## WHO PAYS FRANCHISE TAXES?

- Approximately 265,000 franchise tax returns are filed each year but most of franchise tax revenue comes from 500-1000 large companies
- C corporation filers: about 85,000
- S corporation filers: about 180,000



## FRANCHISE TAX BASE

### CURRENT LAW

The tax base is the company's net worth apportioned to NC using the apportionment percentage determined for income tax

### FOR 2021 TAX RETURNS AND YEARS PRIOR

The tax base could not be less than:

- Book value of NC real and tangible personal property, less outstanding debt created to acquire or improve the real property
- 55% of the appraised value of NC real and tangible personal property

## FRANCHISE TAX RATE

Tax rate is generally 0.15% (\$1.50 per \$1,000)

Minimum tax is \$200

S corporations have a maximum tax of \$200 on the first \$1 million of the tax base

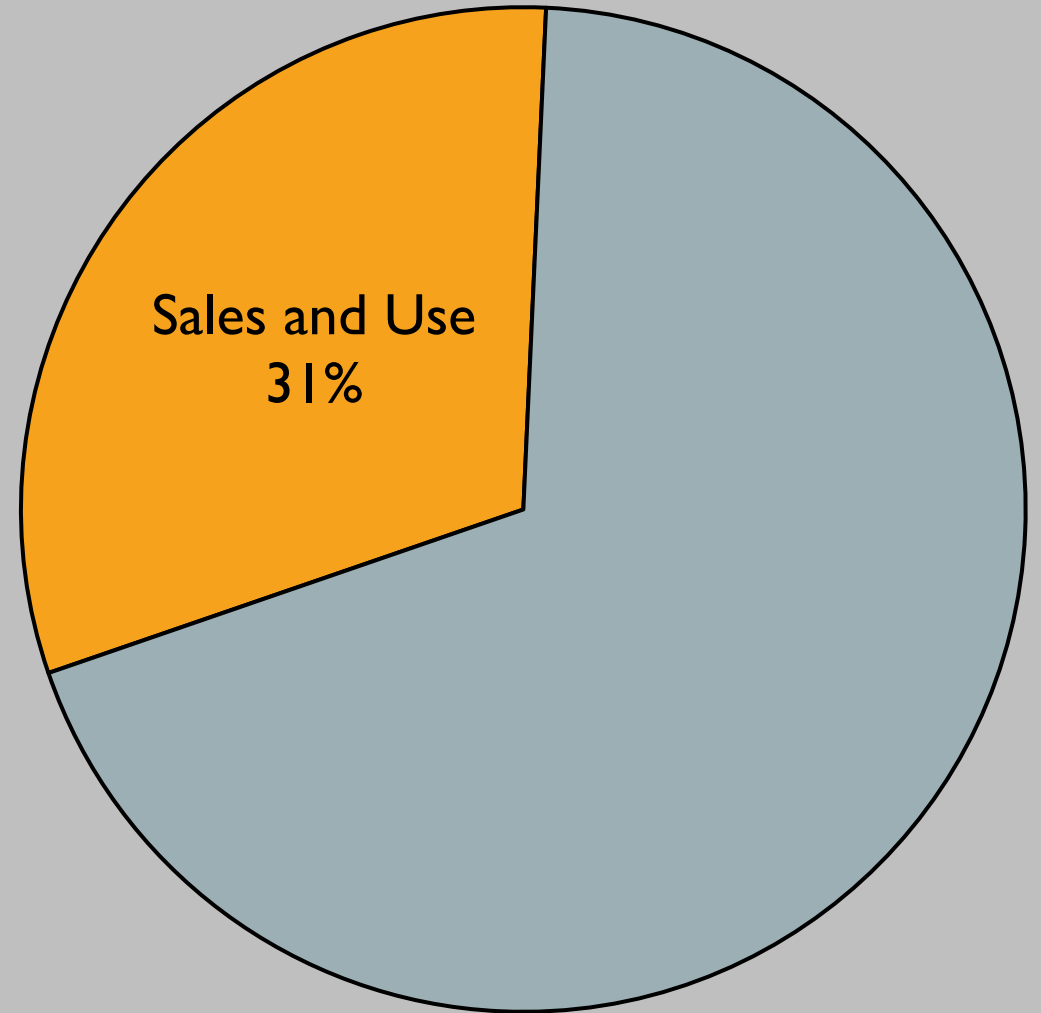
Maximum tax on holding companies is \$150,000

# SALES TAX

Trina Griffin  
Legislative  
Analysis Division

**GENERAL FUND REVENUE  
SOURCE:**

**SALES AND USE TAXES  
FY 2021-22**



**Total Revenue: \$10.2 Billion**

Source: North Carolina General Assembly Fiscal Research Division

# STATE RATES

## State General Rate

- 4.75%
- Items that are subject to State sales and use tax are also subject to the local sales and use tax. Local rates vary.

## Preferential Rates


- Boats, 3% with \$1,500 cap
- Aircraft, general rate capped at \$2,500
- Modular and manufactured homes, jet engines – not subject to local sales tax

## Combined General Rate

- 7%
- Spirituous Liquor
- Telecommunications
- Video Programming
- Electricity & Piped Natural Gas
- Aviation Gasoline & Jet Fuel



# SALES TAX BASE



**Tangible personal property**

- All taxed unless exempt
- No State tax on groceries



**Digital property**

- Tax applies to:
  - Audio works
  - Audiovisual works
  - Additional digital goods
- No tax on information services or educational services



**Some services**

- Electricity & piped natural gas
- Telecommunications
- Video programming
- Dry cleaning, laundering, linen rental
- Repair, maintenance, and installation services




**Accommodations**

- Also subject to local occupancy tax



**Exempt**

- Does not apply to:
  - Participatory activities, cultural museums, educational seminars, and similar transactions
  - Certain nonprofit events



**Prepaid Meal Plans**

- Offered by an institution of higher education
- Billed or paid for in advance



**Service Contracts**

- Does not apply to:
  - Motor vehicle service contracts
  - Property management contracts

## INTERNET SALES

- **Post-Wayfair** - Economic nexus standard
  - Gross sales in excess of \$100,000;  
OR
  - 200 or more separate transactions
- **Marketplace facilitator law** – Shifts collection responsibility from seller to facilitator
  - Lists or otherwise makes available marketplace seller's items through a marketplace owned or operated by the facilitator; AND
  - Collects the sales price or makes payment processing available



amazon



Etsy







# STREAMLINED SALES TAX AGREEMENT

- Voluntary effort by more than 40 states
- Creates a national simplified process for charging, collecting, and remitting sales tax.
- Was a key factor in Wayfair decision
- NC became a full member in 2005 (there are 23 full member states)
- Major items include uniform definitions, one rate of tax, standardization of state and local tax bases, and consistent sourcing rules



 Streamlined Sales Tax™  
Governing Board, Inc.

# LOCAL SALES TAX RATES AND DISTRIBUTIONS

Article	Rate	Purpose	Distribution	Levied By
1 <sup>st</sup> 1 cent Art. 39		Any lawful purpose	Point of collection; shared with cities	100 counties
1 <sup>st</sup> ½ cent Art. 40		70% - general 30% - school capital	Per capita; shared with cities	100 counties
2 <sup>nd</sup> ½ cent Art. 42		40% - general 60% - school capital	Point of collection; shared with cities	100 counties
¼ cent Art. 46		Any lawful purpose	Point of collection – <i>only distributed to counties.</i>	47 counties
½ cent or ¼ cent Art. 43	 or 	Public transportation	Per capita - Among county and cities in county that operate a public transportation system	4 counties

## SALES TAX RATES ACROSS THE COUNTIES

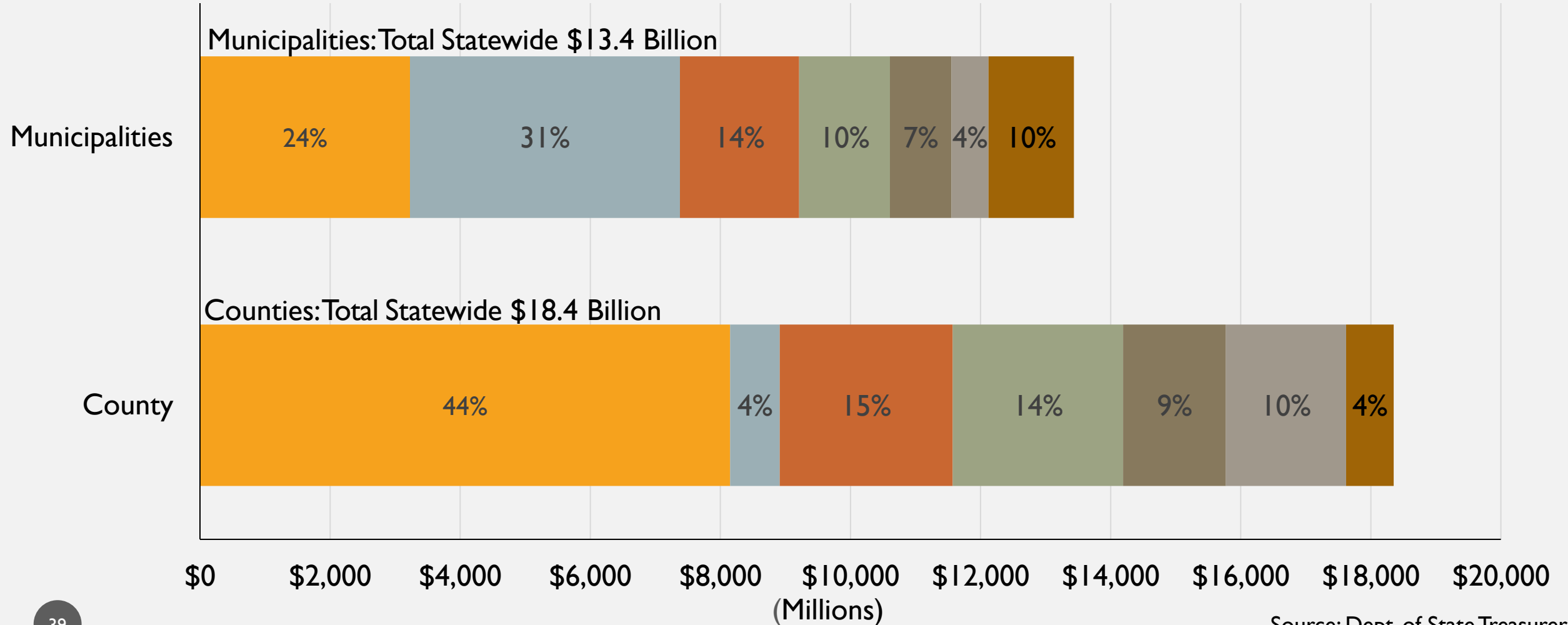
Counties	State	+	Local	=	Total
<u>51 Counties Levy Articles 39, 40, &amp; 42:</u> Alamance; Avery; Beaufort; Bladen; Brunswick; Burke; Caldwell; Camden; Carteret; Caswell; Chowan; Cleveland; Columbus; Craven; Currituck; Dare; Davie; Franklin; Gates; Granville; Guilford; Henderson; Hoke; Hyde; Iredell; Johnston; Lenoir; Macon; McDowell; Mitchell; Nash; Northampton; Pamlico; Pender Perquimans; Person; Polk; Richmond; Scotland; Stokes; Transylvania; Tyrrell ; Union; Vance; Warren; Washington; Watauga; Wayne; Wilson; Yadkin; Yancey.	4.75%	+	2.0%	=	6.75%
<u>45 Counties Levy Articles 39, 40, 42, &amp; 46:</u> Alexander; Alleghany; Anson; Ashe; Bertie; Buncombe; Cabarrus; Catawba; Chatham; Cherokee; Clay; Cumberland; Davidson; Duplin; Edgecombe; Forsyth; Gaston; Graham; Greene; Halifax; Harnett; Haywood; Hertford; Jackson; Jones; Lee; Lincoln; Madison; Martin; Montgomery; Moore; New Hanover; Onslow; Pasquotank; Pitt; Randolph; Robeson; Rockingham; Rowan; Rutherford; Sampson; Stanly; Surry; Swain; Wilkes.	4.75%	+	2.25%	=	7.0%
<u>2 Counties Levy Articles 39, 40, 42, &amp; 43:</u> Mecklenburg and Wake	4.75%	+	2.5%	=	7.25%
<u>2 Counties Levy Articles 39, 40, 42, 43, &amp; 46:</u> Durham and Orange	4.75%	+	2.75%	=	7.50%

# LOCAL REVENUES

Nick Giddings  
Legislative  
Analysis Division

# LOCAL REVENUE SOURCES, FY 2020-21

■ Property Taxes 
 ■ Utilities (Munic.) / Other Taxes (Counties) 
 ■ Intergovernmental 
 ■ Sales Tax 
 ■ Sales & Services 
 ■ Debt Proceeds 
 ■ Other Miscellaneous



Source: Dept. of State Treasurer

# PROPERTY TAX BASICS

- Most stable local revenue source.
- Classes of property must be taxed uniformly.
- Only the General Assembly has authority to exempt classes of property from taxation.
- Each county and municipality determines the property tax rate annually in budget ordinance.





# TYPES OF PROPERTY

## REAL PROPERTY

- Examples: land and buildings.
- Real property must be revalued at least every 8 years, however, many do so more frequently.
- Most common – 4 and 8-year revaluation cycles.

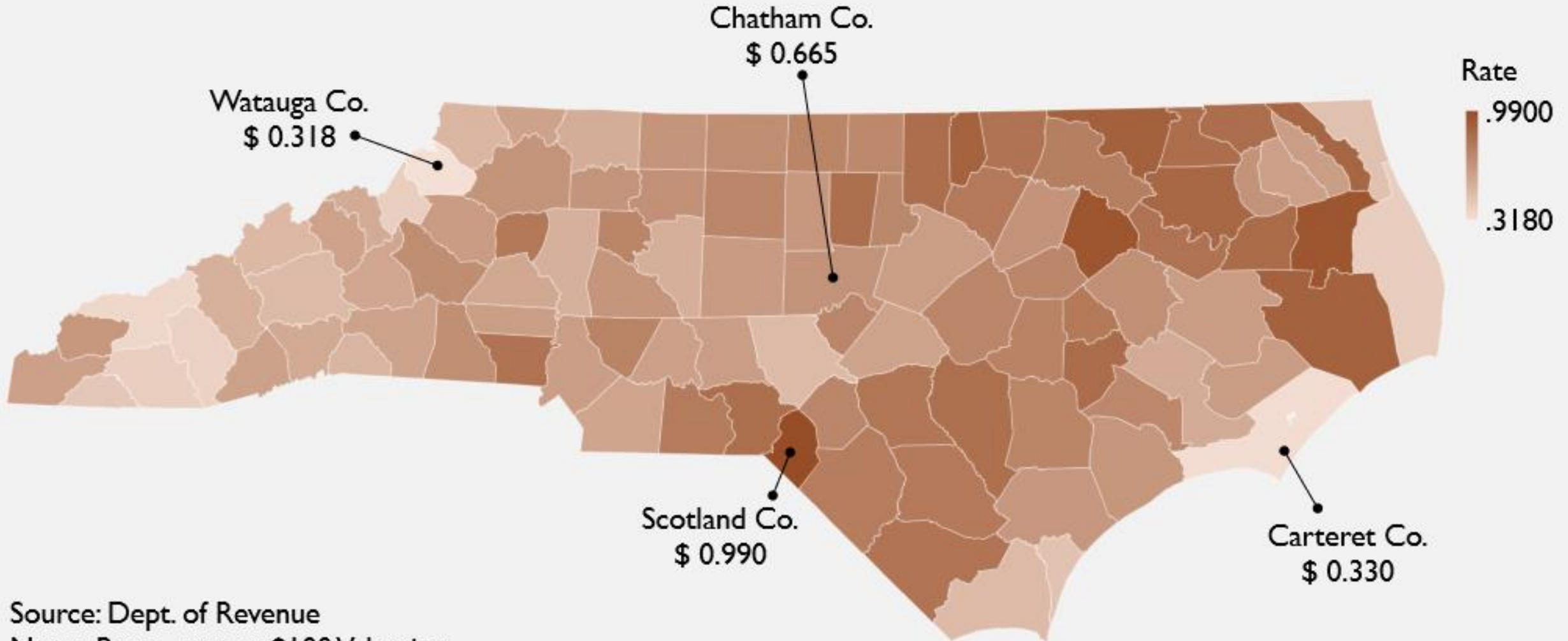


## PERSONAL PROPERTY

- Examples: boats, aircrafts, business personal property, motor vehicles.
- Appraised annually.
- Must be listed during annual listing period (January 1 – January 31).
- The assessment and collection of property taxes on registered motor vehicles are governed under different rules than other personal property.



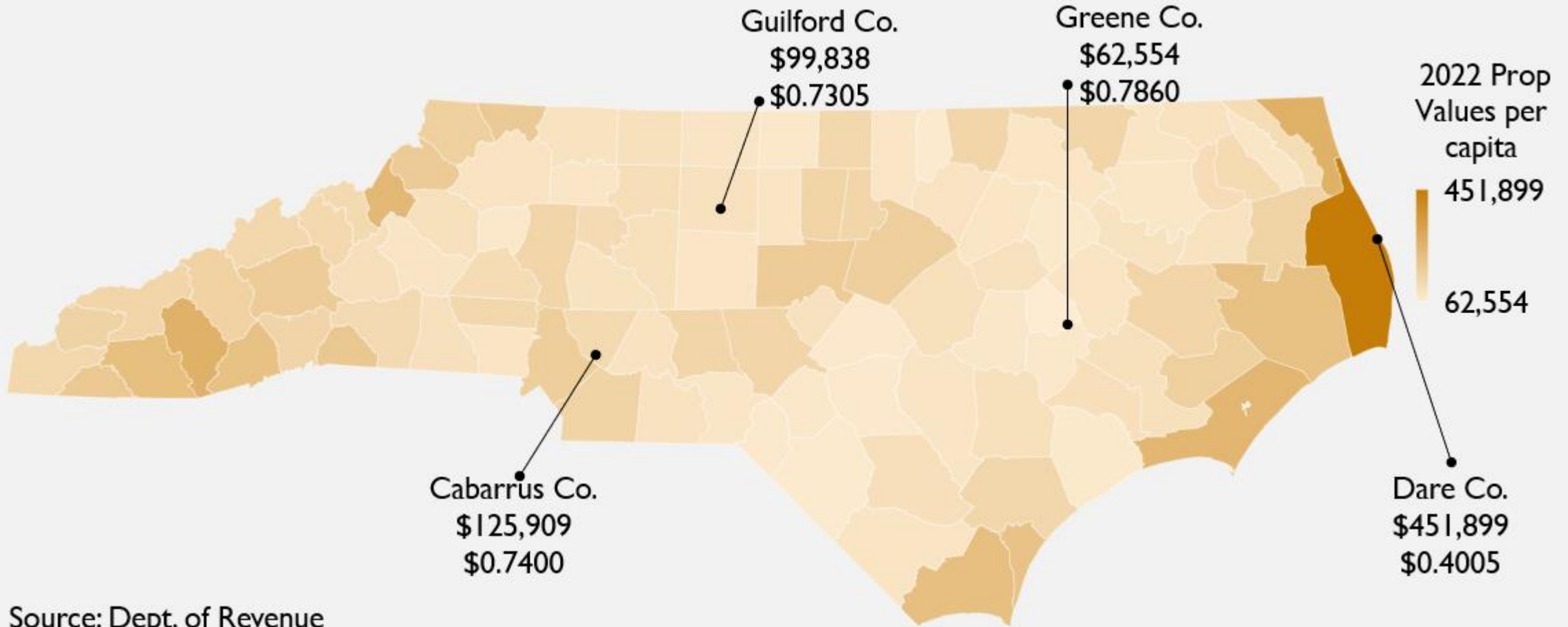
# COUNTY PROPERTY TAX RATES, FY 2022-23



Source: Dept. of Revenue

Note: Rates are per \$100 Valuation

# PROPERTY TAX BASE PER CAPITA



Source: Dept. of Revenue

# IMPORTANT PROPERTY TAX DATES

Value, ownership, situs & taxability of real and personal property are determined.

**1 Jan. 2023**

Taxes become due

**1 Sep. 2023**

Begin new interest rate (3/4% each month) on delinquent taxes.

**1 Feb. 2024**

**1 July 2023**

Deadline for adoption of new budget and setting property tax rate.

**6 Jan. 2024**

Unpaid taxes become delinquent, 2% interest accrues, and enforced collections may begin.

## RESIDENTIAL PROPERTY TAX EXCLUSIONS (HOMESTEAD EXCLUSIONS)

### Elderly and Disabled

- Aged 65 and over or totally and permanently disabled
- Income ceiling (\$33,800 for 2023)
- Exclusion of \$25,000 or 50% of appraised value, whichever is greater.

### Circuit Breaker

- Aged 65 and over or totally and permanently disabled
- Income ceiling (\$50,700 for 2023)
- Deferral of taxes above 4% or 5% of income.

### Disabled Veteran

- Total and permanent service-connected disability
- \$45,000 of appraised value excluded

# REGISTERED MOTOR VEHICLES

- Applies to registered motor vehicles.
  - Cars, trucks, vans, motorcycles, and trailers with valid registrations and license plates.
- Registered motor vehicles appraised annually.
- Combined billing of annual vehicle registration fees and property taxes.
- Registration of most motor vehicles is staggered throughout the year so that different due dates and delinquency dates apply for different taxpayers.
- NCDMV bills and collects property tax payments, then remits to local government.
- Both registration fee and property tax must be paid to renew registration.



## REVENUE AUTHORIZED BY LOCAL ACT

### Occupancy Taxes

- Levied on occupancy of rental accommodations.
- Rate ranges from 3%-6%.
- House Finance Guidelines require at least 2/3 of proceeds be used for promotion of travel and tourism.
- The remainder can be used for tourism-related expenses.

### Meals Taxes

- Levied on prepared food and beverages.
- Rate is typically 1%
- Proceeds are generally used for tourism-related expenditures.

# CONSENSUS FORECAST

Emma Turner, Ph.D.  
Fiscal Research  
Division



# Outline

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- Consensus Forecast Process
- Overview of General Fund Forecast
- General Fund Revenue By Source
- Current Year Forecast Revision
- Biennium Outlook

# Consensus Revenue Forecast Process

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- Fiscal Research and the Office of State Budget and Management develop independent forecasts
- Prior to release of Governor's biennial budget (in odd-numbered years), the Consensus Forecast group meets to develop a consensus revenue forecast for the upcoming biennium.
- Forecast General Fund and Transportation Funds revenues

# Forecast Revisions – Long Session

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- In early May of odd-numbered years, after April receipts have been recorded, the legislature and/or the Governor can request a revised consensus forecast
- General Fund forecast is often revised due to April “surprise” from individual and corporate income tax payments
- An additional revision to the General Fund forecast after June’s collections may be requested
- Any revenue changes enacted during the Long Session are incorporated into a “session-adjusted” forecast

# Forecast Revisions – Short Session

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- In even-numbered years, there is a revision to both forecasts for the second year of the biennium. The revised forecasts usually take place in early May after April's receipts are tabulated.
- Depending on the budget process, additional revisions to the General Fund forecast may be requested

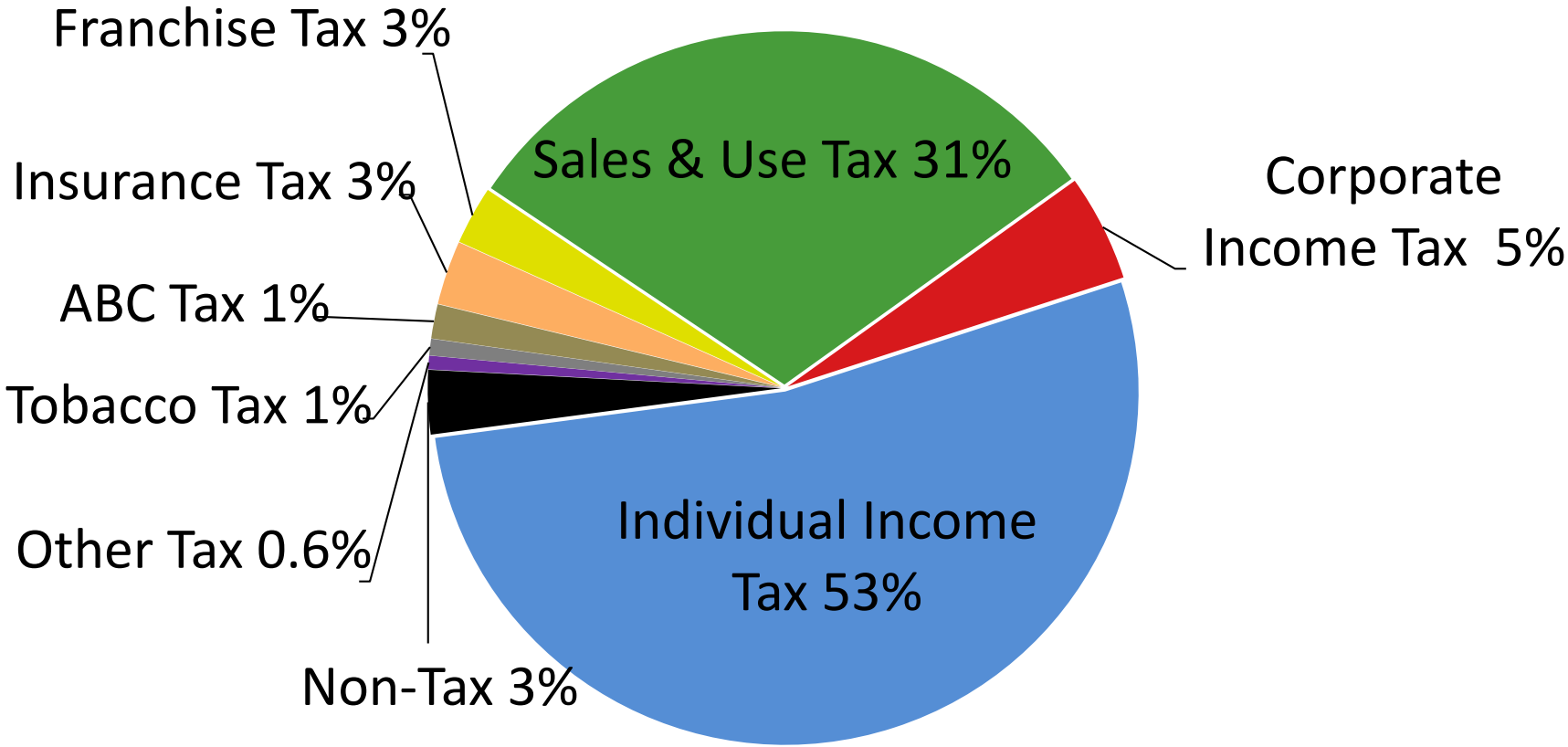
# General Fund Forecast Summary

## February 2023 Consensus Revenue Forecast

<b>Fiscal Year</b>	<b>Revenue (\$s in millions)</b>	<b>Year/Year Change (\$s in millions)</b>	<b>Year/Year % Change</b>
2022-23*	\$33,760.2	+\$551.5	+1.7%
2023-24	\$33,706.4	-\$53.8	-0.2%
2024-25	\$33,648.3	-\$58.1	-0.2%

\* Current year forecast is \$3,250.3 million above certified revenue (over collections).

# State General Fund Revenue by Source



Actual FY 2021-22 Revenue: \$33.2 Billion

# Current Fiscal Year Forecast

Source	FY 2022-23 Revised	Change from Certified	% Change from Certified
Individual Income	\$16,747.9	\$1,277.0	8.3%
Sales and Use	\$10,787.3	\$603.9	5.9%
Corporate Income & Franchise	\$2,534.7	\$688.3	37.3%
All Other Taxes	\$2,123.2	\$64.1	3.1%
<b>Total Tax Revenue</b>	<b>\$32,193.1</b>	<b>\$2,633.3</b>	<b>8.9%</b>
Total Non-Tax Revenue	\$1,567.1	\$617.0	64.9%
<b>Total General Fund Revenue</b>	<b>\$33,760.2</b>	<b>\$3,250.3</b>	<b>10.7%</b>

# Reasons for Forecast Revisions

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- Changes to the Economic Outlook
  - Year-to-Date Collections
  - Expected Changes to Timing of Collections
  - Impact of Statutory Changes
- 
- Changes to the current fiscal year forecast may change the revenue base and flow through to the next year.

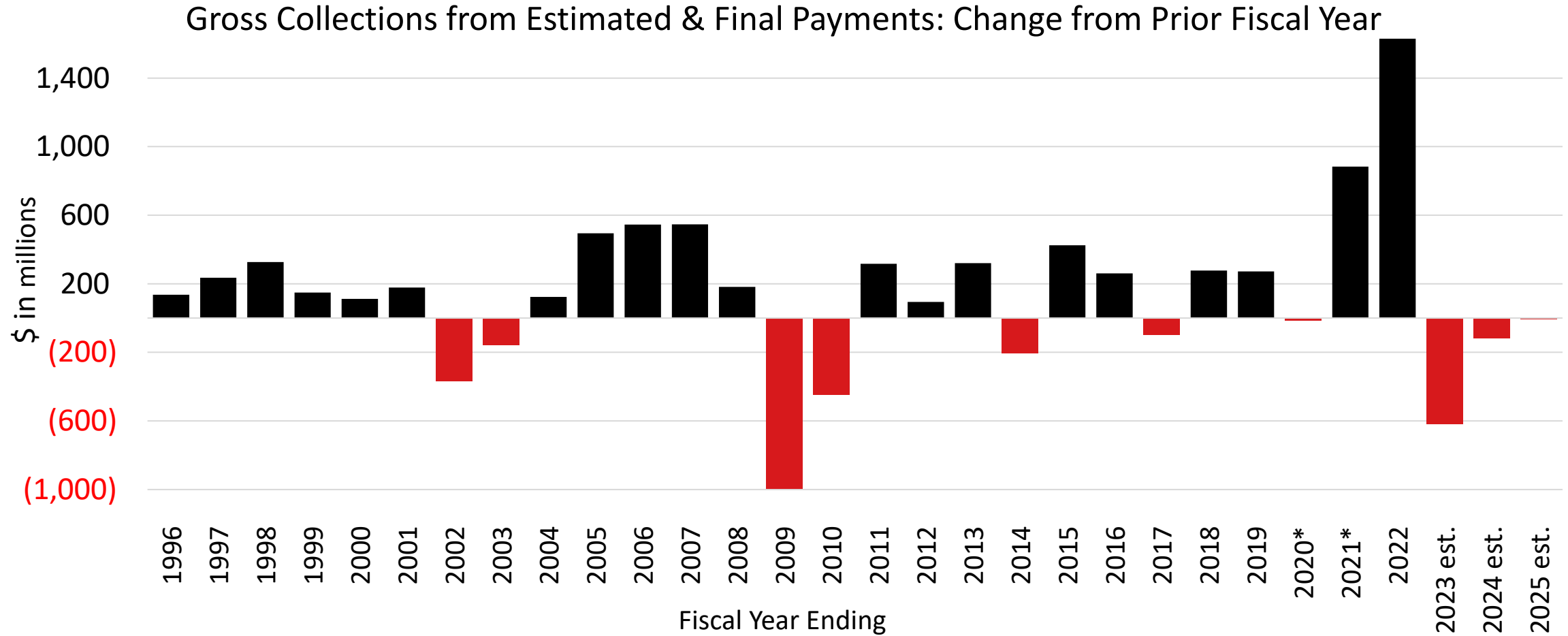


# Changes to Economic Outlook

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# Individual Income Tax Volatility



\*Figures for FY 2019-20 and FY 2020-21 have been adjusted to account for estimated shift due to deadline extensions

# Major Tax Changes – Tax Year 2022

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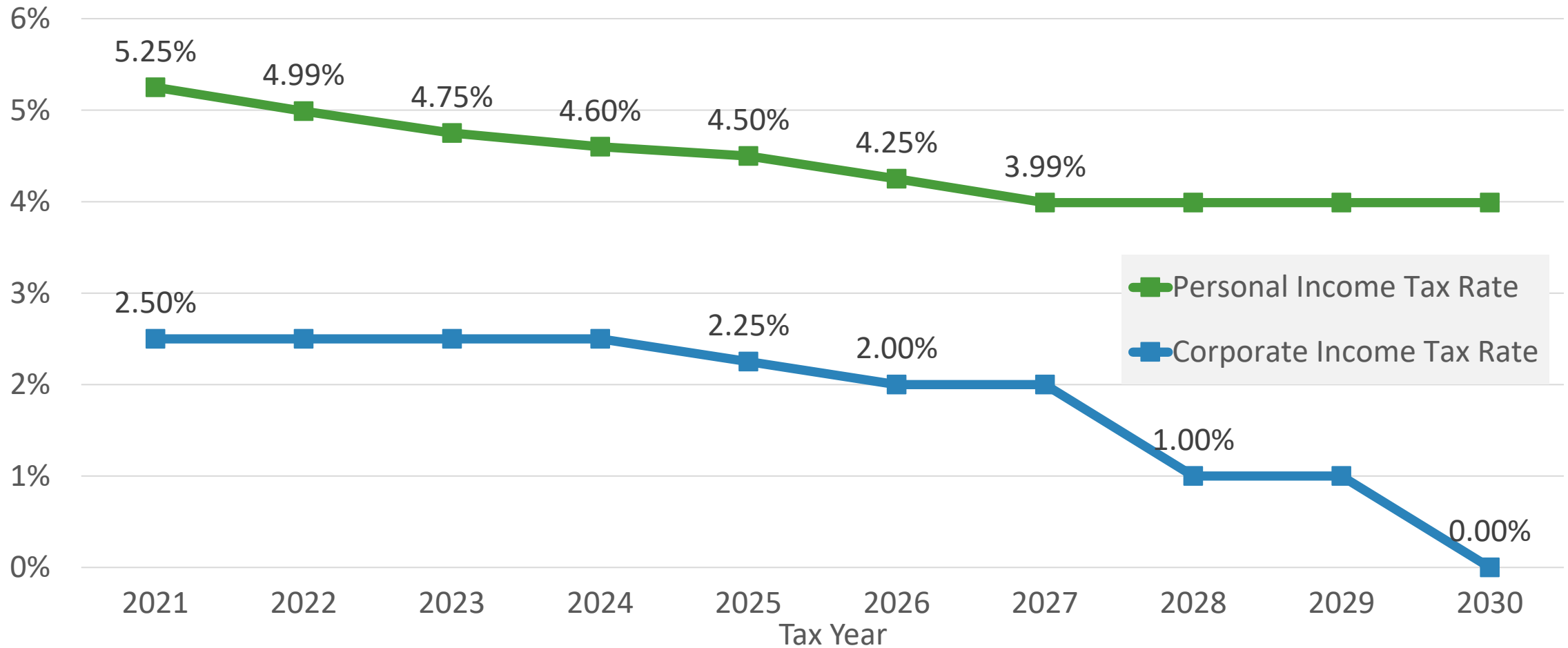
## □ Personal Income Tax

- Increase standard deduction, child deduction, and medical deduction
- Allow pass-through businesses to pay tax at entity level

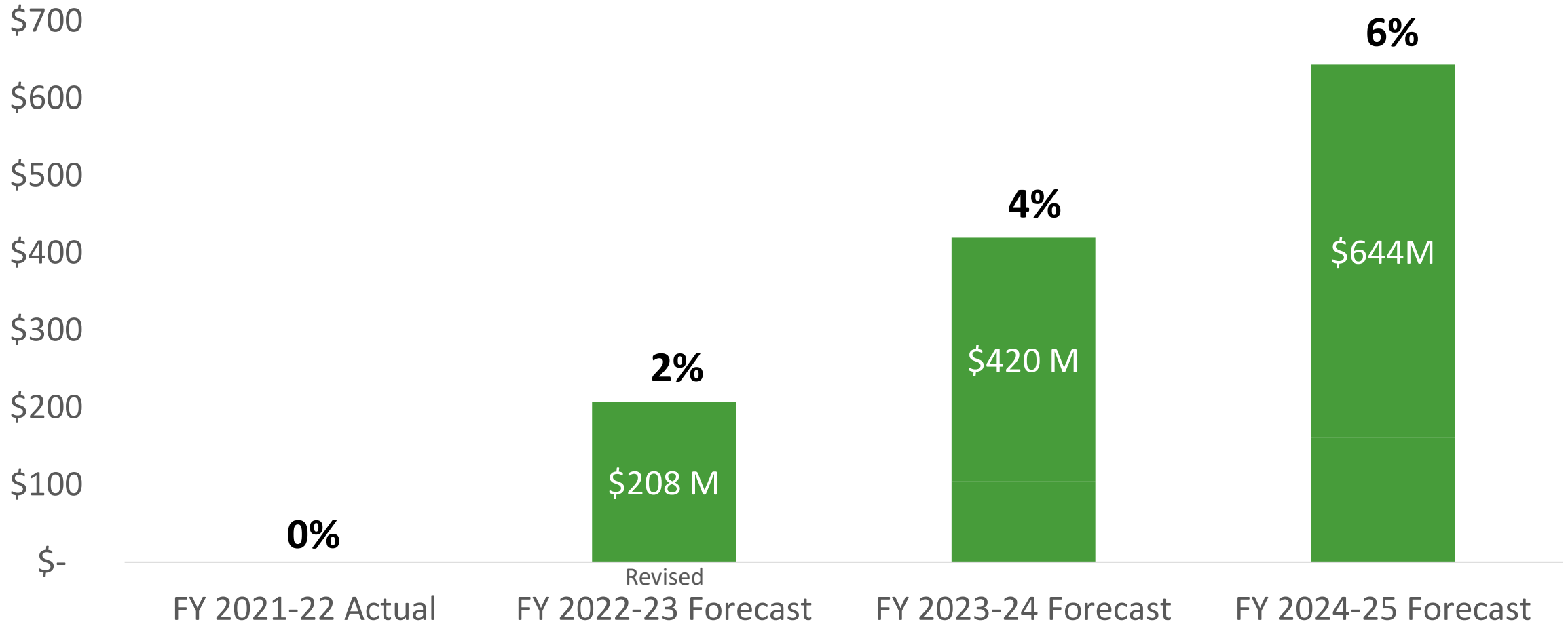
## □ Franchise Tax

- Eliminate two property bases, keeping only the net worth base

# Declining Income Tax Rates



# Increasing Transfer of Sales Tax Revenue Out of GF



# Current Fiscal Year Forecast

<b>Source</b>	<b>FY 2022-23 Revised</b>	<b>Change from Prior Year</b>	<b>% <i>Change from Prior Year</i></b>
Individual Income	\$16,747.9	-\$819.7	-4.7%
Sales and Use	\$10,787.3	\$586.6	5.8%
Corporate Income & Franchise	\$2,534.7	\$20.6	0.8%
All Other Taxes	\$2,123.2	\$170.6	8.7%
<b>Total Tax Revenue</b>	<b>\$32,193.1</b>	<b>-\$41.9</b>	<b>-0.1%</b>
Total Non-Tax Revenue	\$1,567.1	\$593.4	60.9%
<b>Total General Fund Revenue</b>	<b>\$33,760.2</b>	<b>\$551.5</b>	<b>1.7%</b>

# Upcoming Biennium Economic Outlook: “Slowcession”

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# Upcoming Biennium Forecast

<b>Source</b>	<b>FY 2023-24 Forecast</b>	<b>Y/Y % Change</b>	<b>FY 2024-25 Forecast</b>	<b>Y/Y % Change</b>
Individual Income	\$16,610.1	-0.8%	\$16,818.0	1.3%
Sales and Use	\$10,664.6	-1.1%	\$10,690.7	0.2%
Corporate Income & Franchise	\$2,407.2	-5.0%	\$2,372.1	-1.5%
All Other Taxes	\$2,265.0	6.7%	\$2,292.0	1.2%
<b>Total Tax Revenue</b>	<b>\$31,946.9</b>	<b>-0.8%</b>	<b>\$32,172.8</b>	<b>0.7%</b>
Total Non-Tax Revenue	\$1,759.5	12.3%	\$1,475.5	-16.1%
<b>Total General Fund Revenue</b>	<b>\$33,706.4</b>	<b>-0.2%</b>	<b>\$33,648.3</b>	<b>-0.2%</b>



# General Fund Summary

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- The revised GF forecast for the current fiscal year (FY 2022-23) expects \$3.25 billion in over collections relative to certified revenue.
- Next fiscal year, revenue is expected to decline by 0.2%, due to slow economic growth and tax cuts.
- In the last year of the biennium, revenue is expected to be 0.3% lower than the current fiscal year (-0.2% growth year-over-year).
- High probability of “April Surprise” – which may be negative or positive
  - Revised forecast expected in May

QUESTIONS?