



HOUSE FINANCE COMMITTEE
BRIEFING

February 11, 2025
Presented by NCGA Finance Team

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Greg Roney
Legislative
Analysis Division

UNEMPLOYMENT
INSURANCE

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UNEMPLOYMENT INSURANCE (UI)
3 BUCKETS

Regular UI

- State pays 12 weeks of UI at 50% of a claimant's wage base
- Capped at \$350 per week
- Funded by employer contributions (UI taxes)

Executive Order (EO)

- Increased UI by adding \$250 bonus amount to 50% weekly wages
- Raised cap to \$600 per week

Disaster Unemployment Assistance (DUA)

- Completely Federally funded
- 14 additional weeks of UI in disaster affected counties

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BUCKET 1: STATE UI

- Federal-State Partnership
- All States have similar UI systems
- NC Division of Employment Security (DES) administration funded by a federal grant
- Funded by Employer Taxes
 - Employers pay varying rates (0.06% - 5.76%)
 - Rates adjusted by employer's UI account balance and UI Trust Fund balance
- Claimants Receive 50% of Wage Base Capped at \$350
- UI Trust Fund Held at US Treasury



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BUCKET 2: EXECUTIVE ORDER NO. 322

- Issued on October 16, 2024
- Increased UI benefits by adding \$250 bonus amount to 50% weekly wage benefit amount
- Raised cap to \$600 per week
- Section 3.1 of S.L. 2024-51 ends disaster 3/1/24



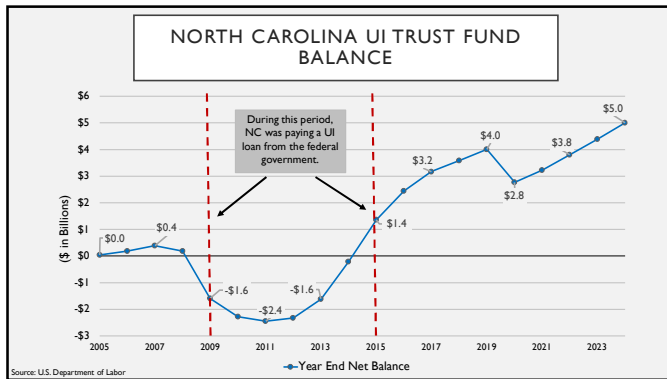
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BUCKET 3: DISASTER UNEMPLOYMENT ASSISTANCE (DUA)

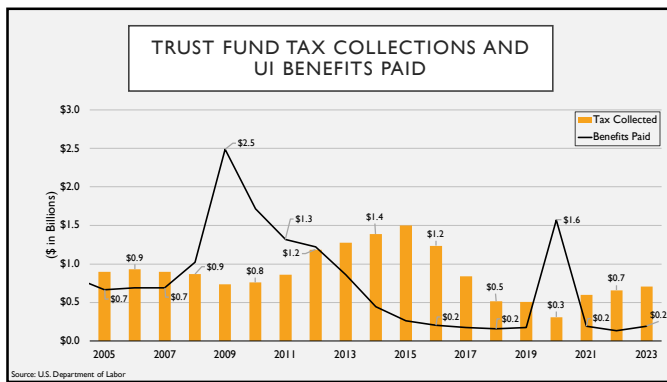
- Allows up to 26 weeks of UI benefits in disaster counties
- First 12 weeks paid by regular State operated UI system
- Next 14 weeks paid by federal funds
- 26 weeks end 3/29/25
- Weekly benefit amount calculated under higher EO amounts
- Weekly benefit amount not recalculated if UI benefits changed



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AVERAGE EMPLOYER TAX RATES

Calendar Year	Average Employer Tax Rate	Taxable Wage Base
2014	2.20%	\$21,400
2015	2.27%	\$21,700
2016	1.68%	\$22,300
2017	1.05%	\$23,100
2018	0.61%	\$23,500
2019	0.60%	\$24,300
2020	0.56%	\$25,200
2021	0.61%	\$26,000
2022	0.63%	\$28,000
2023	0.66%	\$29,600
2024	0.66%*	\$31,400
2025	n/a	\$32,600

Source: U.S. Department of Labor; *As of Q1 2024

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PRESENTATION OVERVIEW

Introduction to the Finance Committee

Overview of General Fund Revenues

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

Sports Wagering

Local Revenues

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Trina Griffin
Legislative
Analysis Division

INTRODUCTION
TO THE
FINANCE
COMMITTEE

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FINANCE COMMITTEE STAFF


LEGISLATIVE ANALYSIS DIVISION	FISCAL RESEARCH DIVISION	BILL DRAFTING DIVISION
If you need a PCS, amendment, bill summary, legal questions...	If you need a fiscal note/ memo, budget info, questions about fiscal impact of a bill or amendment...	If you need a finance-related bill drafted,
Trina Griffin Nick Giddings Greg Roney Melissa Zbikowski	Jonathan Tart Brent Lucas Nick Clerkin Nick Long	Brett Berne
(Suite 200 LOB)	(Suite 400 LOB)	(Suite 401 LOB)

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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

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BILLS NOT REQUIRED TO BE REFERRED TO FINANCE

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



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OCCUPANCY TAX SUBCOMMITTEE

- In existence for over 20 years
- 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



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ANNEXATION/DEANNEXATION SUBCOMMITTEE

- Established in 2013
- Historically allowed under “Guidelines” for one of the following reasons:
 - Agreement of interested parties
 - Error correction
 - Changed circumstances

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RESOURCES

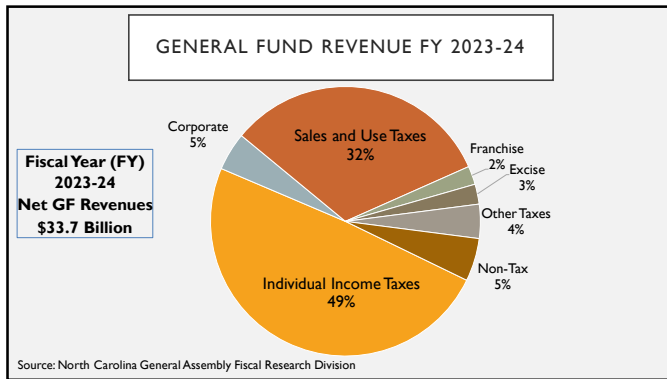
- NCGA Website
- Committee website
- Summaries of Substantive Legislation
- Fiscal Research website

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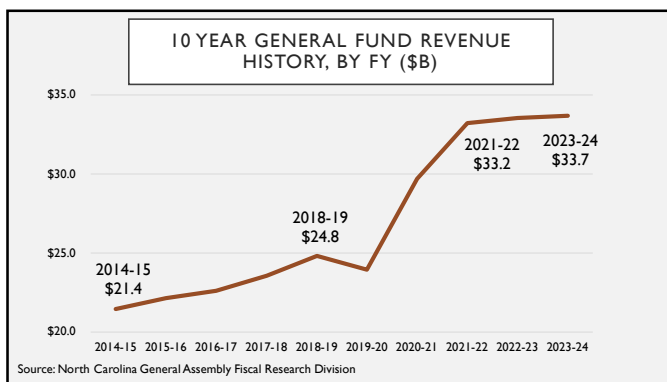
OVERVIEW OF GENERAL FUND REVENUE SOURCES

Nick Clerkin
Fiscal Research
Division

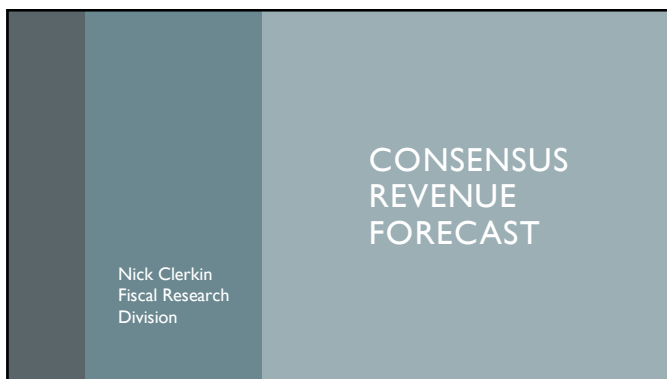
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WHAT IS THE CONSENSUS REVENUE FORECAST?

- Agreement by forecasters in both the legislative and executive branches (Fiscal Research Division (FRD) and Office of State Budget and Management (OSBM)) on the amount of revenue that will be collected in the upcoming biennium
- Used to develop the State's budget by both the Governor and the General Assembly. Spending must be balanced with the availability of State funds. (North Carolina Constitution, Article III, Sec. 5.(3))
- Consensus revenue forecast process is not set in statute

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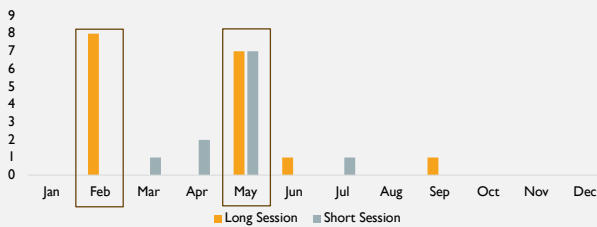
CONSENSUS REVENUE FORECAST PROCESS

- FRD (legislative) and OSBM (executive) develop independent revenue forecasts
- Compare forecasts and negotiate to reach consensus
- Budgets proposed and enacted by the General Assembly use the most recent Consensus Revenue Forecast, as adjusted by any policy changes in the budget or other new laws
- OSBM certifies revenue as part of the Certified Budget
- FRD and OSBM agree to consensus monthly revenue targets

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CONSENSUS FORECAST TIMELINE

When was consensus reached? 2009-2024

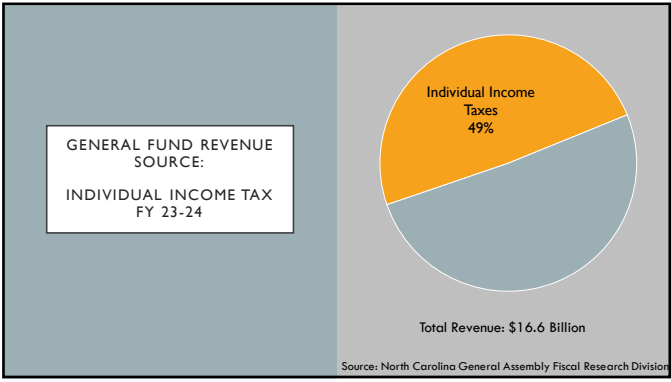


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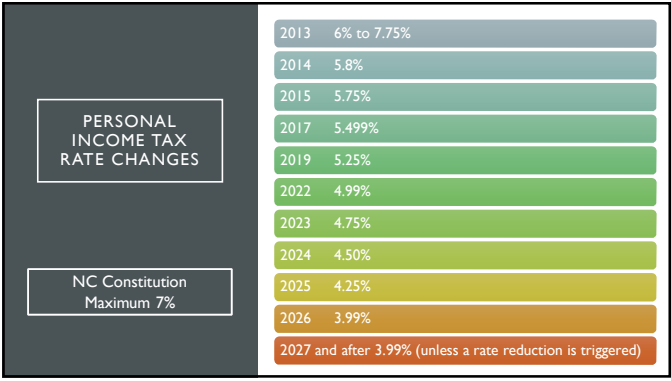
Jonathan Tart
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Analysis Division

PERSONAL
INCOME TAX

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FUTURE CONTINGENT TAX RATE REDUCTIONS

- Future personal income tax reductions beginning in calendar year 2027 contingent on meeting certain revenue thresholds
- Up to 3 additional rate reductions are authorized between 2027 and 2034, provided that total General Fund (GF) revenue in the preceding fiscal year reaches certain thresholds ("triggers") set in statute.
- Whenever GF revenue in a given fiscal year exceeds the trigger amount specified for that fiscal year, the personal income tax rate drops by 0.50% beginning January 1st of the following calendar year.
- For example, if GF revenue exceeds \$33.042 billion in FY 2025-26, the personal income tax rate will fall from 3.99% to 3.49% in Calendar Year 2027.

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FUTURE CONTINGENT TAX RATE REDUCTIONS

Fiscal Year	Trigger Amount (millions)	Tax Year	Tax Rate
-	-	2024	4.50%
-	-	2025	4.25%
-	-	2026	3.99%
FY 2025-26	\$33,042	2027	
FY 2026-27	\$34,100	2028	
FY 2027-28	\$34,760	2029	
FY 2028-29	\$35,750	2030	
FY 2029-30	\$36,510	2031	
FY 2030-31	\$38,000	2032	
FY 2031-32	\$38,500	2033	
FY 2032-33	\$39,000	2034	

*Up to 3 rate reductions of 0.5% each, contingent on triggers:
 1st Reduction: 3.99% to 3.49%
 2nd Reduction: 3.49% to 2.99%
 3rd Reduction: 2.99% to 2.49%
 (minimum rate = 2.49%)

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FEDERAL & STATE TAX CONFORMITY

NC Tax calculation starts with Federal Adjusted Gross Income.

Federal Adjusted Gross Income (AGI)= Gross Income minus deductions for business expenses and very limited list of personal expenses (ex. student loan interest)

- 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.



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TAX CALCULATION

NC Taxable Income =
(AGI + NC additions–NC deductions) × Non-Resident% (if applicable)

Examples of NC Deductions

Social Security Income

NC Standard or Itemized Deduction

Military Pension & Certain Government Retiree Income

Interest on US & NC State & Local obligations


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STANDARD OR ITEMIZED DEDUCTION

STANDARD DEDUCTION

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

ITEMIZED DEDUCTION



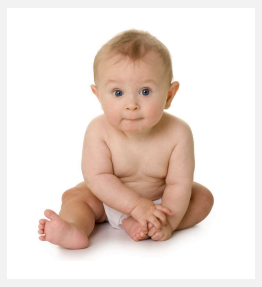
- Charitable Contributions
- Medical and Dental Expenses
 - Federal rules apply
 - 7.5% floor
- Capped at \$20,000
 - Home mortgage interest
 - Property taxes paid on real estate

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CHILD DEDUCTION

- Additional NC deduction for each child:

Adjusted Gross Income (MFJ)	Deduction Amount (\$, Per Child)
\$40k or less	3,000
>\$40k to \$60k	2,500
>\$60k to \$80k	2,000
>\$80k to \$100k	1,500
>\$100k to \$120k	1,000
>\$120k to \$140k	500
>\$140k	-

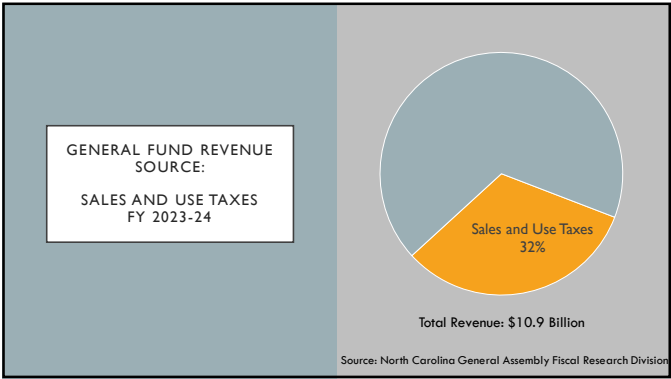


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Analysis Division

SALES TAX

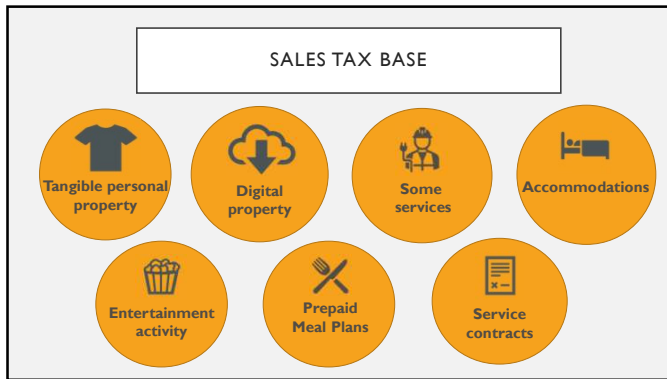
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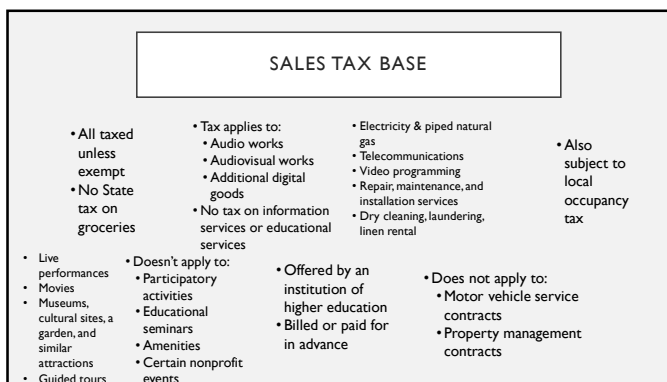
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STATE RATES		
State General Rate	Preferential Rates	Combined General Rate
<ul style="list-style-type: none">• 4.75%• Items that are subject to State sales and use tax are also subject to the local sales and use tax. Local rates vary.	<ul style="list-style-type: none">• 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	<ul style="list-style-type: none">• 7%• Spirituous Liquor• Telecommunications• Video Programming• Electricity & Piped Natural Gas• Aviation Gasoline & Jet Fuel

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STREAMLINED SALES TAX AGREEMENT

- Voluntary effort by more than 40 states
- Creates a national simplified process for charging, collecting, and remitting sales tax.
- 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
- Was a key factor in Wayfair decision

Streamlined Sales Tax™
Governing Board, Inc.

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RECENT CHANGES

CCRCs

- Exemption for goods and services, other than alcoholic beverages, sold by a provider of continuing care to its independent living residents.
- Effective November 1, 2023.

Breast Pumps & Supplies

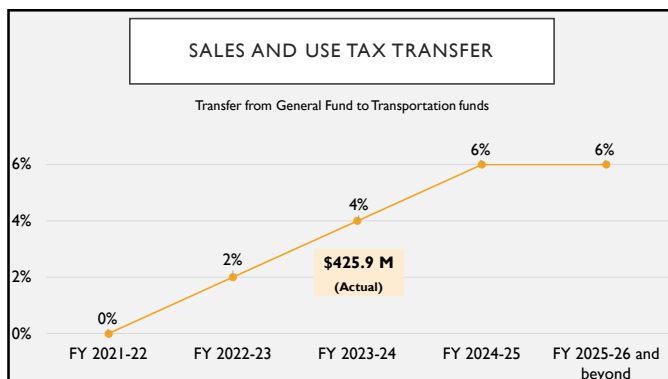
- Exemption for sales of breast pumps, including repair and replacement parts, breast pump collection and storage supplies, and breast pump kits.
- Effective November 1, 2023.

For-Hire Ground Transport







NEW TAX –For-hire ground transportation subject to an excise tax, collected like a sales tax.

- 1.5% for exclusive ride service; 1% for shared ride service.
- Credited to the Highway Fund.
- Effective July 1, 2025.

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LOCAL SALES TAX RATES AND DISTRIBUTIONS				
Article	Rate	Purpose	Distribution	Levied By
1 st 1 cent Art. 39		Any lawful purpose	Point of collection; shared with cities	100 counties
1 st ½ cent Art. 40		70% - general 30% - school capital	Per capita; shared with cities	100 counties
2 nd 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 – only distributed to counties.	48 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

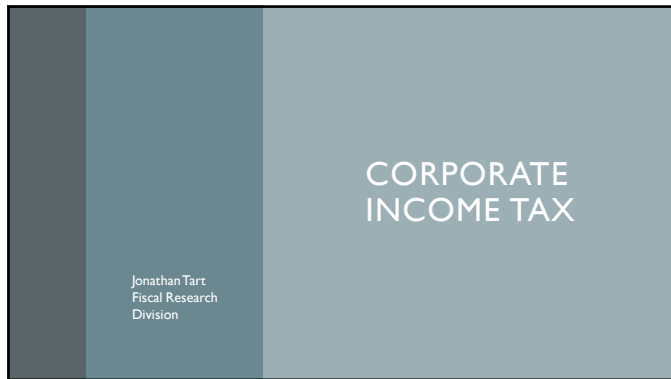
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SALES TAX RATES ACROSS THE COUNTIES				
Counties	State	+	Local	= Total
50 Counties Levy Articles 39, 40, & 42: Alamance; Avery; Beaufort; Bladen; Brunswick; Burke; Caldwell; Camden; Carteret; Caswell; Chowan; Cleveland; Columbus; Craven; Currituck; 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; Watauga; Wayne; Wilson; Yadkin; Yancey.	4.75%	+	2.0%	= 6.75%
46 Counties Levy Articles 39, 40, 42, & 46: 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; Washington; Wilkes.	4.75%	+	2.25%	= 7.0%
2 Counties Levy Articles 39, 40, 42, & 43: Mecklenburg and Wake	4.75%	+	2.5%	= 7.25%
2 Counties Levy Articles 39, 40, 42, 43, & 46: Durham and Orange	4.75%	+	2.75%	= 7.50%

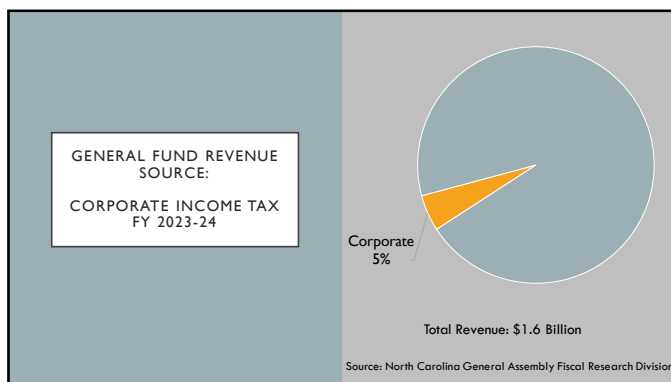
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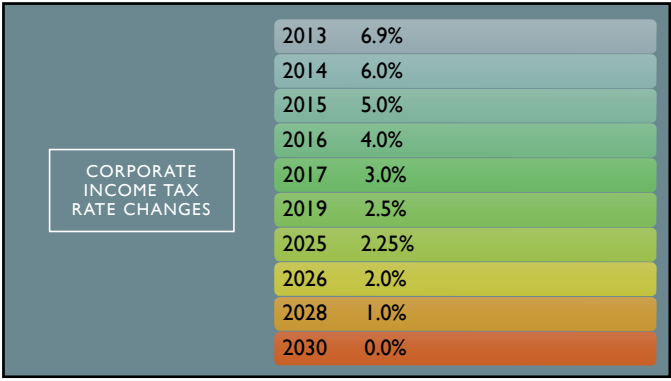
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WHO PAYS CORPORATE
INCOME TAXES?

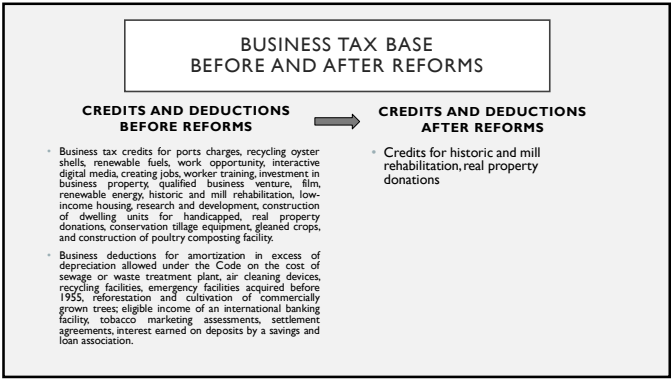
- About 100,000 returns filed, but most don't have a tax liability.
- Corporations with NC taxable income of over \$1 million pay about 90% of the total corporate income tax revenue, but they make up less than 5% of returns filed.

Over half of corporate income tax collections comes from about 500-1,000 multi-state companies.

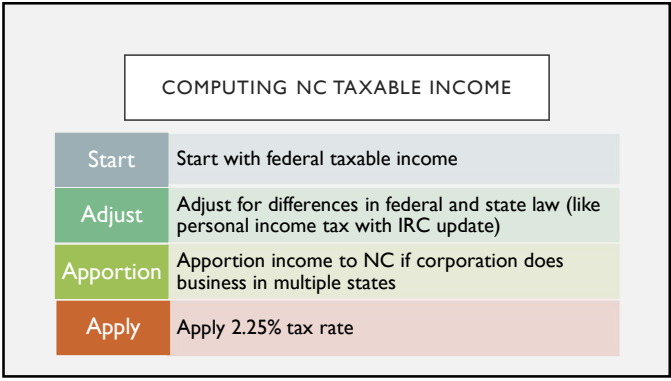
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APPORTIONMENT

- 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 2.25% tax rate

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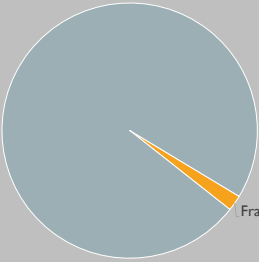


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FRANCHISE TAX

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GENERAL FUND REVENUE
SOURCE:
FRANCHISE TAX
FY 2021-22



Franchise
2%

Total Revenue: \$741.4 Million

Source: North Carolina General Assembly Fiscal Research Division

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WHO PAYS FRANCHISE TAXES?

- Approximately 300,000 franchise tax returns are filed each year
- Most of franchise tax revenue comes from 500-1000 large companies
- C corporation filers: about 100,000
- S corporation filers: about 200,000



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FRANCHISE TAX RATE

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

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

Minimum tax liability-\$200

Maximums

- C Corps: \$500 on the first \$1 million
- S Corps: \$200 on the first \$1 million
- Holding companies: \$150,000

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SPORTS WAGERING

Nick Giddings
Legislative
Analysis Division

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SPORTS WAGERING AND TAXATION

- Currently 8 licensed interactive sports wagering operators authorized to accept sports wagers in NC
- Began accepting sports wagers in March 2024
- Tax is 18% of the gross wagering revenue of an interactive sports wagering operator (*Chapter 105, Article 2E*)
 - "Gross wagering revenue" - Total of amounts received by an interactive sports wagering operator from sports wagers minus winnings paid.
 - No deduction allowed for bonus bets or promotional bets.
- Estimated total tax collection in FY 2024-2025 - \$127.7 million



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USE OF SPORTS WAGERING TAX REVENUE

Gaming Tax Revenues
(Remitted by 20th of following month)

Lottery Commission

Dept. of Revenue
Up to \$0.5M

DHHS
\$2M

NC Amateur Sports
\$1M

13 UNC Institutions*
\$3.9M (\$300K each)

NC Youth Outdoor Eng. Cmsn.
\$1M

Remaining Balance Subject to Distribution Formula

20%
13 UNC Schools

30%
NC Major Events Fund

50%
General Fund

*The 13 UNC Institutions are those with athletic programs, except UNC-Chapel Hill and NC State

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INCOME TAX ON GAMBLING

WINNINGS

- NC follows federal law with respect to taxation of *gambling winnings*
- All gambling winnings are taxable in NC
- Different reporting requirements depending on whether the taxpayer is considered a professional gambler or a casual gambler

LOSSES

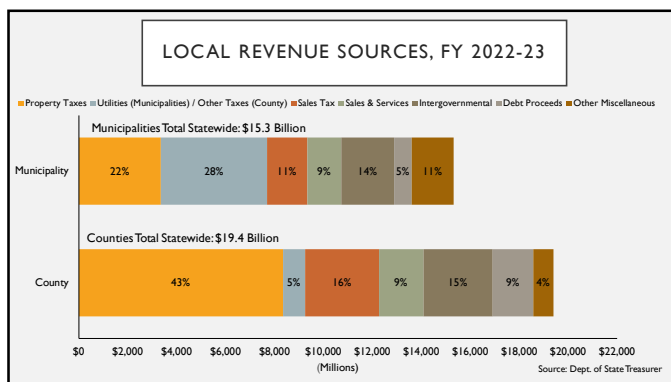
- NC differs from federal law regarding how most taxpayers report *gambling losses*
 - Casual gamblers may deduct gambling losses as an itemized deduction at federal level
- NC does not provide an itemized deduction for gambling losses



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PROPERTY TAX BASICS



- Most stable local revenue source.
- Classes of property must be taxed uniformly via general law.
- 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.

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TYPES OF PROPERTY



REAL PROPERTY

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

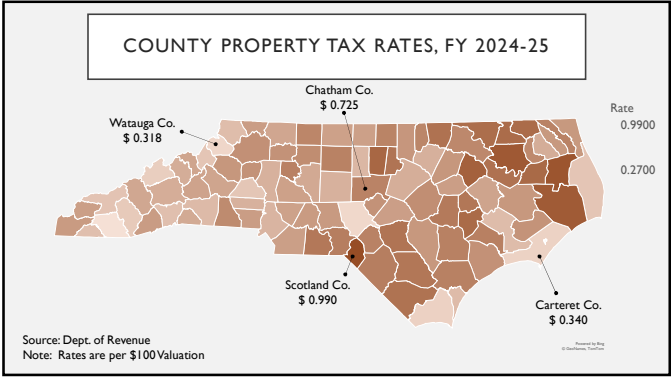


PERSONAL PROPERTY

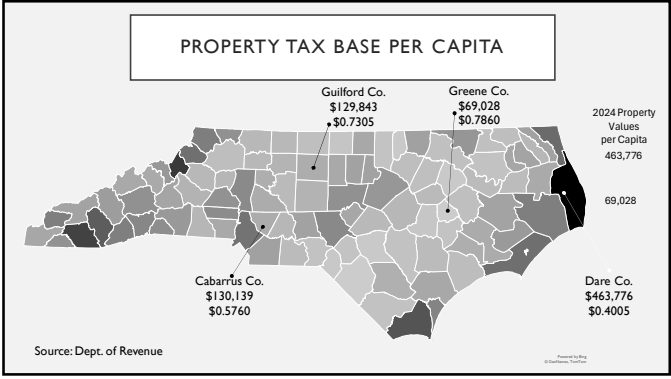
- Examples: boats, aircrafts, business personal property, motor vehicles.
- Appraised annually.
- Must be listed during annual listing period (January 1 – January 31).
- The assessment and collection of property taxes on registered motor vehicles are governed under different rules than other personal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



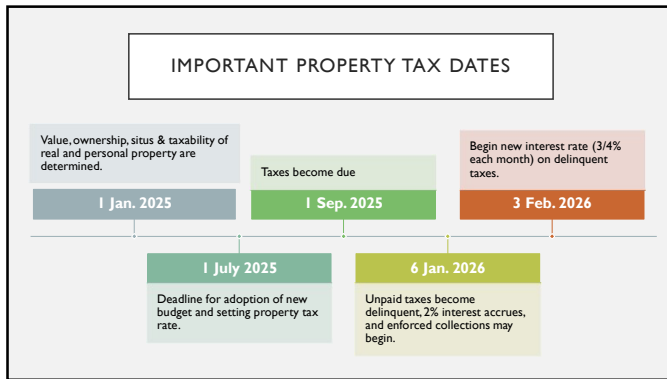
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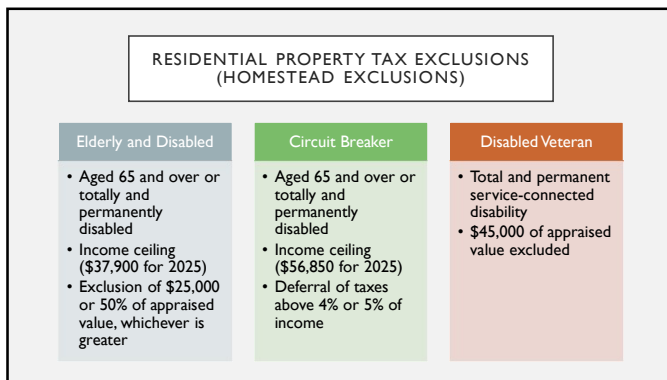
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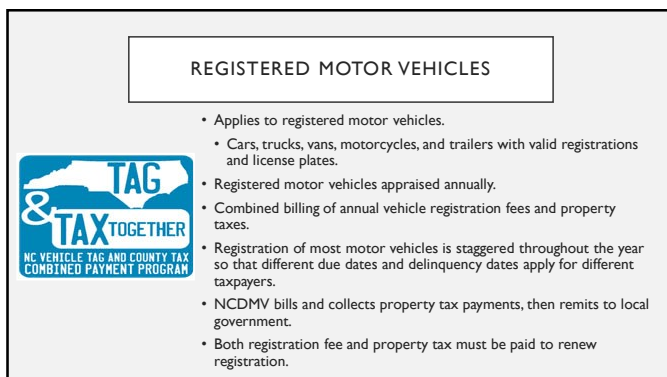
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REVENUE AUTHORIZED BY LOCAL ACT

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.

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QUESTIONS?

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