

# ALERTS

## North Carolina Legislative Report - May 16, 2014

May 10-16, 2014

The General Assembly's Short Session began Wednesday, May 14, 2014. The MVA Public Affairs Legislative Report on North Carolina will be distributed weekly to keep you up to date on the latest legislative issues facing the state.

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### *Committee Reports*

#### **Joint Study Committee on the Affordable Care Act and Implementation Issues**

The Committee met twice on Tuesday, May 13, and once Wednesday, May 14. The Committee was scheduled to vote to recommend that the General Assembly consider legislation that would place a two-year moratorium on new requirements that insurance companies cover certain treatments. Each Committee meeting lacked the required number of members present to consider the recommendation, so no action was taken.

#### **Legislative Research Commission**

The Commission met on Tuesday, May 13. The LRC met to formally approve the recommendations that were approved from the various study committees over the interim. Here is the link to the full list of study committee recommendations for the 2014 short session.

#### **Joint Appropriations/Base Budget Committee**

The Committee met on Thursday, May 15. Staff from the Governor's office briefed the members of the Committee on the Governor's recommended budget adjustments. The Governor will make his recommendations public on Wednesday, which will be posted on the Office of State Budget and Management website.

#### **Revenue Laws Study Committee**

The Committee had its final meeting before the 2014 Regular Session on Tuesday, May 13. The Committee approved its final report, which included recommended legislation entitled Omnibus Tax Law Changes. The recommended legislation included all proposals that had previously received approval by the Committee and two proposals before the Committee for the first time. The legislation includes provisions related to the following:

- Deduction for State net loss. This part replaces the corporate net economic loss deduction with a State net loss deduction that is more comparable to the federal net operating loss deduction. The change would

become effective for taxable years beginning on or after January 1, 2015.

- Sales tax – agricultural exemption certificate. The tax reform legislation passed in 2013 imposed an income threshold a person must meet to qualify for a sales tax agricultural exemption certificate, effective for purchases made on or after July 1, 2014. This part gives additional guidance with respect to the administration of the income threshold.
- Sales tax – prepaid meal plans. The tax reform legislation passed in 2013 repealed the sales tax exemption for meals served to students in dining rooms regularly operated by educational institutions. This part imposes the sales tax on the gross receipts derived from prepaid meal plans and makes other changes that will simplify the administrative compliance burden with respect to the repealed exemption.
- Sales tax – admissions. The tax reform legislation passed in 2013 changed the taxation of live events and movies from a gross receipts privilege tax to a State and local sales tax. It also expanded the sales tax base to include other attractions for which an admission is charged. The act listed five exemptions from the tax. This part addresses issues that arose with respect to the administration and implementation of the tax, such as who must collect the tax, how will the local tax revenues be sourced, and what constitutes "admission charges". This part also eliminates some of the exemptions that were retained by the 2013 legislation.
- Sales tax – service contracts. The tax reform legislation passed in 2013 expanded the sales tax base to include the sales price of a service contract. This part amended the definition of a "service contract" and addresses concerns expressed by taxpayers related to who must collect the tax and how to administer refunds of sales tax paid on service contracts that are later rescinded.
- Sales tax – retailer-contractors. This part provides definitions for "real property contractors" and "retailer-contractors" and clarifies the applicability of sales tax to items used in real property contracts.
- Tax compliance. The Department of Revenue requested the Committee to consider enhancing its tools to improve compliance with the revenue laws. The Committee approved two of the three items requested: increasing the budget for locator service fees and subjecting renewal of ABC retail permits to tax compliance checks.
- Property tax changes. This part provides for the central assessment of mobile telecommunications equipment by experienced public service company appraisers at the Department of Revenue. Under current law, the property is locally assessed by each county. The change is supported by the mobile telecommunications industry, the Department of Revenue, and local governments. The part would become effective for taxable years beginning on or after July 1, 2015.
- Local privilege license taxes. This part repeals cities' current authority to levy local privilege license taxes and replaces it with authority to levy a tax with a broader tax base and a flat tax rate of up to \$100 per business. It completely repeals the counties' limited authority to levy local privilege license taxes.
- License plate agent compensation. The Tax & Tag Together program enacted in previous sessions requires the collection of property taxes at the same time registration on motor vehicles is renewed. License plate agents are private businesses that contract with the State for collection of these amounts. Legislation enacted in 2013 increased compensation for license plate agents (LPAs) to recognize new job responsibilities imposed upon them under the Tax & Tag Together program. This part maintains the compensation rate at the transitional rate of \$1.06, clarifies the increased rate applies to all transactions where a LPA collects property tax as of July 1, 2014, and allows the retroactive portion of the fee increase to be paid out over a three month time period.

- (New provision.) Tax on vapor products. Vapor products are most often referred to as e-cigarettes. This part would provide an excise tax of 5¢ per milliliter on the fluid used in vapor products, would prohibit the use of vapor products in State correctional facilities, and would make it a criminal offense for a person to provide a vapor product to an inmate of a local confinement facility and for an inmate to possess a vapor product. The rate of tax imposed on vapor products would be significantly lower than that imposed on tobacco products.
- (New provision.) Corporate apportionment. This part would amend the formula used to apportion corporate income for tax purposes by increasing the weight assigned to the sales factor. Currently, North Carolina apportions income by a formula that looks at an average of the percentages of the corporation's sales, payroll, and property that are in this State as compared to other jurisdictions. The current standard formula weights the sales factor twice as heavily as either the payroll or property factor. This proposal would weigh the sales factor four times as heavy as either the payroll or property factor.
- Other changes. Additional parts of the bill make numerous technical, clarifying, and administrative changes with respect to the tax laws.

### House Finance Committee

The Committee met for the first time this session on Thursday, May 15. The only item on the agenda was H 1050, Omnibus Tax Law Changes, recommended by the Revenue Laws Study Committee (a brief summary of the bill is included in the Revenue Laws Study Committee update above). Two amendments were offered to the bill. The first amendment, which failed on a tie vote, would have deleted the provisions related to vapor products. The second amendment, which passed overwhelmingly, removed the provisions related to the corporate apportionment formula. The bill will now proceed to the full House for consideration.

### *In the News*

Raleigh News & Observer: House tax bill marked by political gamesmanship

Fayetteville Observer: Tax on businesses debated by N.C. legislative committee

Charlotte Observer: N.C. senate bill: Teachers should get majority of education budget

Fayetteville Observer: N.C. bill tightens some rules for fracking, loosens others

Greensboro News-Record: Coble endorses Berger Jr. in 6th Congressional District race

Raleigh News & Observer: McCrory's \$21B budget proposal raises NC teacher pay, cuts from universities

AP: McCrory unveils \$21B NC budget for next year

Raleigh News & Observer: Coal ash regulatory bill one of first filed on opening day

Raleigh News & Observer: NC proposal to limit Affordable Care Act sidelined

## NORTH CAROLINA LEGISLATIVE REPORT - MAY 16, 2014

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Winston-Salem Journal: Legislators concerned about cap on tax-revenue increases

WRAL: Hurricanes, Panthers growl over proposed sales tax change

Release: Mooneyham to join League's governmental affairs team

### *Calendar*

#### **Mon, May 19, 2014**

4:00 PM

Session Convenes (House)

House

7:00 PM

Session Convenes (Senate)

Senate

#### **Tue, May 20, 2014**

11:00 AM

**Agriculture/Environment/Natural Resources (Senate)**

Authority to Adopt Certain Ordinances. (S734)

544 LOB

#### **Wed, May 21, 2014**

11:00 AM

**Appropriations on Health and Human Services (Senate)**

\*Note time change

The Senate HHS Appropriations Committee will hold a Legislative Public Hearing on Community Services Block Grant per federal requirements.

544 LOB

12:00 PM

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**Public Utilities and Energy (House)**

643 LOB

**Thu, May 22, 2014**

8:00 AM

Skin Cancer Screening

1124/1224 LB

**Wed, June 04, 2014**

11:00 AM

Rep. Insko - Press Conference

Press Room LB