

**GENERAL ASSEMBLY OF NORTH CAROLINA  
SESSION 2001**

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**HOUSE BILL 231  
Committee Substitute Favorable 8/23/01  
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Short Title: Education Revenue Act.

(Public)

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Sponsors:

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Referred to:

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February 26, 2001

A BILL TO BE ENTITLED

1 AN ACT TO (1) ELIMINATE THE MARRIAGE TAX PENALTY FOR THE  
2 STANDARD DEDUCTION, (2) INCREASE THE TAX CREDIT FOR  
3 CHILDREN FROM \$60 TO \$100 PER CHILD, (3) PROVIDE A STABLE  
4 SOURCE OF REVENUE FOR LOCAL GOVERNMENTS BY AUTHORIZING A  
5 LOCAL OPTION, HALF-CENT SALES TAX, (4) REPEAL THE LOCAL TAX  
6 REIMBURSEMENTS PAID ANNUALLY TO LOCAL GOVERNMENTS, (5)  
7 PROVIDE A HOLD HARMLESS PAYMENT FOR THOSE COUNTIES AND  
8 MUNICIPALITIES WHOSE ESTIMATED GAIN FROM THE NEW SALES TAX  
9 WOULD BE LESS THAN 105% OF THEIR REPEALED REIMBURSEMENT  
10 AMOUNT, (6) ADD A NEW TAX BRACKET WITH AN ADDITIONAL 1/2%  
11 ON NET TAXABLE INCOME ABOVE \$200,000 FOR THREE YEARS, (7)  
12 EQUALIZE TAXATION OF HEALTH MAINTENANCE ORGANIZATIONS  
13 AND MEDICAL SERVICE CORPORATIONS AT 1% OF GROSS PREMIUMS,  
14 (8) APPLY THE SAME SALES TAX RATE TO SPIRITUOUS LIQUOR THAT  
15 APPLIES TO OTHER ALCOHOLIC BEVERAGES, (9) ELIMINATE THE  
16 SPECIAL TAX BREAK FOR LUXURY VEHICLES, (10) EXEMPT  
17 VOLUNTEER FIRE AND RESCUE VEHICLES FROM HIGHWAY USE TAX,  
18 (11) EXEMPT CERTAIN ITEMS PURCHASED DURING A SPECIFIC PERIOD  
19 FROM THE SALES AND USE TAX, AND (12) ELIMINATE OTHER TAX  
20 LOOPHOLES AND CREDITS.  
21

22       Whereas, it is the intent of the General Assembly to avoid harmful cuts in the  
23 budgets of the public schools, community colleges, and State university system; and

24       Whereas, it is the intent of the General Assembly to provide funds to  
25 accommodate enrollment growth and other continuing needs; and

1           Whereas, it is the intent of the General Assembly to pursue education  
2 initiatives that will build on the achievements of the State's educational system, such as  
3 reductions in class size in elementary schools; and

4           Whereas, it is the intent of the General Assembly to use revenues resulting  
5 from this act to avoid the harmful cuts in these budgets and to fund these public needs;

6 Now, therefore,

7 The General Assembly of North Carolina enacts:

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23 **PART 1.     ELIMINATE THE MARRIAGE TAX PENALTY FOR THE**  
24 **STANDARD DEDUCTION**

25           **SECTION 1.(a)** Effective for taxable years beginning on or after January 1,  
26 2002, G.S. 105-134.6(c)(3) and (4) reads as rewritten:

27           "(c) Additions. – The following additions to taxable income shall be made in  
28 calculating North Carolina taxable income, to the extent each item is not included in  
29 taxable income:

30           ...

31           (3) Any amount deducted from gross income under section 164 of the  
32 Code as state, local, or foreign income tax to the extent that the  
33 taxpayer's total itemized deductions deducted under the Code for the  
34 taxable year exceed the standard deduction allowable to the taxpayer  
35 under the Code reduced by the amount ~~by which the taxpayer's~~  
36 ~~allowable standard deduction has been increased under section~~  
37 ~~63(c)(4) of the Code.~~ the taxpayer is required to add to taxable income  
38 under subdivision (4) of this subsection.

39           (4) The amount by which the taxpayer's additional standard deduction for  
40 aged and blind has been increased for inflation under section  
41 63(c)(4)(A) of the ~~Code.~~ Code plus the amount by which the taxpayer's  
42 basic standard deduction, including adjustments for inflation, under the

Code exceeds the appropriate amount in the following chart based on the taxpayer's filing status:

<u>Filing Status</u>	<u>Standard Deduction</u>
Married filing jointly/Surviving Spouse	\$5,500
Head of Household	4,400
Single	3,000
Married filing separately	2,750".

**SECTION 1.(b)** Effective for taxable years beginning on or after January 1, 2003, G.S. 105-134.6(c)(4), as amended by this section, reads as rewritten:

"(c) Additions. – The following additions to taxable income shall be made in calculating North Carolina taxable income, to the extent each item is not included in taxable income:

- ...
  - (4) The amount by which the taxpayer's additional standard deduction for aged and blind has been increased for inflation under section 63(c)(4)(A) of the Code plus the amount by which the taxpayer's basic standard deduction, including adjustments for inflation, under the Code exceeds the appropriate amount in the following chart based on the taxpayer's filing status:

<u>Filing Status</u>	<u>Standard Deduction</u>
Married filing jointly/Surviving Spouse	<del>\$5,500</del> \$6,000
Head of Household	4,400
Single	3,000
Married filing separately	<del>2,750</del> 3,000".

**PART 2. INCREASE TAX CREDIT FOR CHILDREN**

**SECTION 2.(a)** Effective for taxable years beginning on or after January 1, 2002, G.S. 105-151.24 reads as rewritten:

**"§ 105-151.24. Credit for children.**

An individual whose adjusted gross income (AGI), as calculated under the Code, is less than the amount listed below is allowed a credit against the tax imposed by this Part in an amount equal to ~~sixty dollars (\$60.00)~~seventy-five dollars (\$75.00) for each dependent child for whom the individual was allowed to deduct a personal exemption under section 151(c)(1)(B) of the Code for the taxable year:

<u>Filing Status</u>	<u>AGI</u>
Married, filing jointly	\$100,000
Head of Household	80,000
Single	60,000
Married, filing separately	50,000.

A nonresident or part-year resident who claims the credit allowed by this section shall reduce the amount of the credit by multiplying it by the fraction calculated under

1 G.S. 105-134.5(b) or (c), as appropriate. The credit allowed under this section may not  
 2 exceed the amount of tax imposed by this Part for the taxable year reduced by the sum  
 3 of all credits allowed, except payments of tax made by or on behalf of the taxpayer."

4 **SECTION 2.(b)** Effective for taxable years beginning on or after January 1,  
 5 2003, G.S. 105-151.24, as amended by this section, reads as rewritten:

6 "**§ 105-151.24. Credit for children.**

7 An individual whose adjusted gross income (AGI), as calculated under the Code, is  
 8 less than the amount listed below is allowed a credit against the tax imposed by this Part  
 9 in an amount equal to ~~seventy five dollars (\$75.00)~~ one hundred dollars (\$100.00) for  
 10 each dependent child for whom the individual was allowed to deduct a personal  
 11 exemption under section 151(c)(1)(B) of the Code for the taxable year:

<u>Filing Status</u>	<u>AGI</u>
12 Married, filing jointly	\$100,000
13 Head of Household	80,000
14 Single	60,000
15 Married, filing separately	50,000.

16 A nonresident or part-year resident who claims the credit allowed by this section  
 17 shall reduce the amount of the credit by multiplying it by the fraction calculated under  
 18 G.S. 105-134.5(b) or (c), as appropriate. The credit allowed under this section may not  
 19 exceed the amount of tax imposed by this Part for the taxable year reduced by the sum  
 20 of all credits allowed, except payments of tax made by or on behalf of the taxpayer."  
 21  
 22

23 **PART 3. LOCAL OPTION SALES TAX/HOLD HARMLESS**

24 **SECTION 3.(a)** Subchapter VIII of Chapter 105 of the General Statutes is  
 25 amended by adding a new Article to read:

26 "Article 44.

27 "Third One-Half Cent (1/2¢) Local Government Sales and Use Tax.

28 "**§ 105-515. Short title.**

29 This Article is the Third One-Half Cent (1/2¢) Local Government Sales and Use Tax  
 30 Act.

31 "**§ 105-516. Limitations.**

32 This Article applies only to counties that levy the first one-cent (1¢) sales and use  
 33 tax under Article 39 of this Chapter or under Chapter 1096 of the 1967 Session Laws,  
 34 the first one-half cent (1/2¢) local sales and use tax under Article 40 of this Chapter, and  
 35 the second one-half cent (1/2¢) local sales and use tax under Article 42 of this Chapter.

36 "**§ 105-517. Levy.**

37 (a) After Vote. – If a majority of those voting in a special election held pursuant  
 38 to this Article vote for the levy of the taxes in a county, the board of commissioners of a  
 39 county may, by resolution, levy one-half percent (1/2%) local sales and use taxes in  
 40 addition to any other State and local sales and use taxes levied pursuant to law.

41 (b) Without Vote. – If the question of whether to levy taxes under this Article has  
 42 not been defeated in a special election held in the county within two years, the board of  
 43 commissioners of a county may, by resolution, levy one-half percent (1/2%) local sales

1 and use taxes in addition to any other State and local sales and use taxes levied pursuant  
2 to law. Before adopting a resolution under this subsection, the board of commissioners  
3 must give at least 10 days' public notice of its intent to adopt the resolution and must  
4 hold a public hearing on the issue of adopting the resolution.

5 **"§ 105-518. County election on adoption of tax.**

6 (a) Resolution. – The board of commissioners of a county may direct the county  
7 board of elections to conduct a special election on the question of whether to levy local  
8 one-half percent (½%) sales and use taxes in the county as provided in this Article. The  
9 election must be held on a date jointly agreed upon by the two boards and must be held  
10 in accordance with the procedures of G.S. 163-287, subject to the following exceptions:

11 (1) Legal notice of the special election may be published less than 45  
12 days, but no less than 30 days, before the election.

13 (2) The notice requirements of G.S. 163-33(8) do not apply.

14 (b) Ballot Question. – The question to be presented on a ballot for a special  
15 election concerning the levy of the taxes authorized by this Article must be in the  
16 following form:

17 [ ] FOR [ ] AGAINST

18 one-half percent (½%) local sales and use taxes, in addition to the current local sales  
19 and use taxes.'

20 **"§ 105-519. Administration of taxes.**

21 Except as provided in this Article, the adoption, levy, collection, administration, and  
22 repeal of these additional taxes must be in accordance with Article 39 of this Chapter. A  
23 tax levied under this Article does not apply to the sales price of food that is exempt from  
24 tax pursuant to G.S. 105-164.13B.

25 **"§ 105-520. Distribution of taxes.**

26 (a) Point of Origin. – The Secretary must, on a quarterly basis, allocate to each  
27 taxing county one-half of the net proceeds of the tax collected in that county under this  
28 Article. If the Secretary collects taxes under this Article in a month and the taxes cannot  
29 be identified as being attributable to a particular taxing county, the Secretary must  
30 allocate one-half of the net proceeds of these taxes among the taxing counties in  
31 proportion to the amount of taxes collected in each county under this Article in that  
32 month.

33 (b) Per Capita. – The Secretary must, on a quarterly basis, allocate the remaining  
34 net proceeds of the tax collected under this Article among the taxing counties on a per  
35 capita basis according to the most recent annual population estimates certified to the  
36 Secretary by the State Budget Officer. The Secretary must then adjust the amount  
37 allocated to each county as provided in G.S. 105-486(b). If any taxes levied under this  
38 Article by a county have not been collected in that county for a full quarter because of  
39 the levy or repeal of the taxes, the Secretary must allocate a pro rata share to that county  
40 for that quarter based on the number of months the taxes were collected in that county  
41 during the quarter.

42 (c) Distribution Between Counties and Cities. – The Secretary must divide and  
43 distribute the funds allocated under this section each quarter between each taxing county

1 and the municipalities located in the county in accordance with the method by which the  
2 one percent (1%) sales and use taxes levied in that county pursuant to Article 39 of this  
3 Chapter or Chapter 1096 of the 1967 Session Laws are distributed. No municipality may  
4 receive any funds under this subsection for a quarter if it is not entitled to a distribution  
5 under G.S. 105-501 for the same quarter.

6 **"§ 105-521. Transitional local government hold harmless.**

7 (a) Definitions. – The following definitions apply in this section:

8 (1) Local government. – A county or municipality that received a  
9 distribution of local sales taxes in the most recent fiscal year for which  
10 a local sales tax share has been calculated.

11 (2) Local sales tax share. – A local government's percentage share of the  
12 two-cent (2¢) sales taxes distributed during the most recent fiscal year  
13 for which data are available.

14 (3) Repealed reimbursement amount. – The total amount a local  
15 government would have been entitled to receive during the 2000-2001  
16 fiscal year under G.S. 105-164.44C, 105-275.1, 105-275.2,  
17 105-277.001, and 105-277.1A, if the Governor had not withheld any  
18 distributions under those sections.

19 (4) Two-cent (2¢) sales taxes. – The first one-cent (1¢) sales and use tax  
20 authorized in Article 39 of this Chapter and in Chapter 1096 of the  
21 1967 Session Laws, the first one-half cent (½¢) local sales and use tax  
22 authorized in Article 40 of this Chapter, and the second one-half cent  
23 (½¢) local sales and use tax authorized in Article 42 of this Chapter.

24 (b) 2001-2002 Distribution. – On or before December 15, 2001, the Secretary  
25 must multiply each local government's local sales tax share by the sum of one hundred  
26 ninety-eight million four hundred thousand dollars (\$198,400,000). If the resulting  
27 amount, when added to any distributions the local government received during the fiscal  
28 year under G.S. 105-164.44C and G.S. 105-275.2, is less than one hundred five percent  
29 (105%) of the local government's repealed reimbursement amount, the Secretary must  
30 pay the local government the difference, but not less than one hundred dollars  
31 (\$100.00).

32 (c) 2002-2003 Distribution. – On or before September 15, 2002, the Secretary  
33 must multiply each local government's local sales tax share by the sum of three hundred  
34 ninety-eight million six hundred sixty-nine thousand dollars (\$398,669,000). If the  
35 resulting amount is less than one hundred five percent (105%) of the local government's  
36 repealed reimbursement amount, the Secretary must pay the local government the  
37 difference, but not less than one hundred dollars (\$100.00).

38 (d) Subsequent Distributions. – On or before September 15, 2003, and each year  
39 thereafter, the Secretary must multiply each local government's local sales tax share by  
40 the estimated amount that all local governments would be expected to receive during the  
41 current fiscal year under G.S. 105-520 if every county levied the tax under this Article  
42 for the year. If the resulting amount is less than one hundred five percent (105%) of the

1 local government's repealed reimbursement amount, the Secretary must pay the local  
2 government the difference, but not less than one hundred dollars (\$100.00).

3 Beginning May 1, 2003, and each year thereafter, the Office of State Budget and  
4 Management and the Fiscal Research Division of the General Assembly must each  
5 submit to the Secretary and to the General Assembly a final projection of the estimated  
6 amount that all local governments would be expected to receive during the upcoming  
7 fiscal year under G.S. 105-520 if every county levied the tax under this Article for the  
8 fiscal year. The Secretary must use the lower of the two final projections to make the  
9 calculation required by this subsection.

10 (e) Source of Funds. – The Secretary must draw the funds distributed under this  
11 section from sales and use tax collections under Article 5 of this Chapter.

12 (f) Reports. – The Secretary must report to the Revenue Laws Study Committee  
13 by January 31 of each year the amount distributed under this section for the current  
14 fiscal year."

15 **SECTION 3.(b)** Notwithstanding the provisions of G.S. 105-466(c), a tax  
16 levied during the 2001 calendar year under Article 44 of Chapter 105 of the General  
17 Statutes, as enacted by this act, may become effective on the first day of any calendar  
18 month but may not become effective before December 1, 2001. Notwithstanding the  
19 provisions of G.S. 105-466(c), if a county levies a tax during the 2001 calendar year  
20 under Article 44 of Chapter 105 of the General Statutes, as enacted by this act, the  
21 county is required to give the Secretary of Revenue only 30 days' advance notice of the  
22 tax levy. For taxes levied on or after January 1, 2002, the provisions of G.S. 105-466(c)  
23 apply.

24 **SECTION 3.(c)** A tax levied under Article 44 of Chapter 105 of the General  
25 Statutes, as enacted by this act, does not apply to construction materials purchased to  
26 fulfill a lump-sum or unit-price contract entered into or awarded before the effective  
27 date of the levy or entered into or awarded pursuant to a bid made before the effective  
28 date of the levy when the construction materials would otherwise be subject to the tax  
29 levied under Article 44 of Chapter 105 of the General Statutes.

30 **SECTION 3.(d)** This section is effective when it becomes law.

#### 31 **PART 4. LOCAL GOVERNMENT REIMBURSEMENTS**

32 **SECTION 4.(a)** The following sections of the General Statutes are repealed:

- 33 (1) G.S. 105-164.44C. Reimbursement for sales taxes on food stamp foods  
34 and supplemental foods.
- 35 (2) G.S. 105-275.1. Reimbursement for exclusion of manufacturers'  
36 inventories and poultry and livestock.
- 37 (3) G.S. 105-275.2. Reimbursement to counties and municipalities for  
38 repeal of State tax on intangible personal property.
- 39 (4) G.S. 105-277.001. Reimbursement for exclusion of retailers' and  
40 wholesalers' inventories.
- 41

(5) G.S. 105-277.1A. Property classified for taxation at reduced valuation; duties of tax collectors; reimbursement of localities for portion of tax lost.

**SECTION 4.(b)** This section is effective on and after July 1, 2001.

**PART 5. NEW TAX BRACKET FOR INCOME OVER \$200,000**

**SECTION 5.(a)** G.S. 105-134.2(a) reads as rewritten:

"(a) A tax is imposed upon the North Carolina taxable income of every individual. The tax shall be levied, collected, and paid annually and shall be computed at the following percentages of the taxpayer's North Carolina taxable income.

(1) For married individuals who file a joint return under G.S. 105-152 and for surviving spouses, as defined in section 2(a) of the Code:

<u>Over</u>	<u>Up To</u>	<u>Rate</u>
<u>-0-</u>	<u>\$21,250</u>	<u>6%</u>
<u>\$21,250</u>	<u>\$100,000</u>	<u>7%</u>
<u>\$100,000</u>	<u>\$200,000</u>	<u>7.75%</u>
<u>\$200,000</u>	<u>NA</u>	<u>8.25%</u>

~~On the North Carolina taxable income up to twenty one thousand two hundred fifty dollars (\$21,250), six percent (6%).~~

~~On the amount over twenty one thousand two hundred fifty dollars (\$21,250) and up to one hundred thousand dollars (\$100,000), seven percent (7%).~~

~~On the amount over one hundred thousand dollars (\$100,000), seven and seventy five one hundredths percent (7.75%).~~

(2) For heads of households, as defined in section 2(b) of the Code:

<u>Over</u>	<u>Up To</u>	<u>Rate</u>
<u>-0-</u>	<u>\$17,000</u>	<u>6%</u>
<u>\$17,000</u>	<u>\$80,000</u>	<u>7%</u>
<u>\$80,000</u>	<u>\$160,000</u>	<u>7.75%</u>
<u>\$160,000</u>	<u>NA</u>	<u>8.25%</u>

~~On the North Carolina taxable income up to seventeen thousand dollars (\$17,000), six percent (6%).~~

~~On the amount over seventeen thousand dollars (\$17,000) and up to eighty thousand dollars (\$80,000), seven percent (7%).~~

~~On the amount over eighty thousand dollars (\$80,000), seven and seventy five one hundredths percent (7.75%).~~

(3) For unmarried individuals other than surviving spouses and heads of households:

<u>Over</u>	<u>Up To</u>	<u>Rate</u>
<u>-0-</u>	<u>\$12,750</u>	<u>6%</u>
<u>\$12,750</u>	<u>\$60,000</u>	<u>7%</u>
<u>\$60,000</u>	<u>\$120,000</u>	<u>7.75%</u>
<u>\$120,000</u>	<u>NA</u>	<u>8.25%</u>

~~On the North Carolina taxable income up to twelve thousand seven hundred fifty dollars (\$12,750), six percent (6%).~~

~~On the amount over twelve thousand seven hundred fifty dollars (\$12,750) and up to sixty thousand dollars (\$60,000), seven percent (7%).~~

~~On the amount over sixty thousand dollars (\$60,000), seven and seventy five one hundredths percent (7.75%).~~

(4) For married individuals who do not file a joint return under G.S. 105-152:

<u>Over</u>	<u>Up To</u>	<u>Rate</u>
<u>-0-</u>	<u>\$10,625</u>	<u>6%</u>
<u>\$10,625</u>	<u>\$50,000</u>	<u>7%</u>
<u>\$50,000</u>	<u>\$100,000</u>	<u>7.75%</u>
<u>\$100,000</u>	<u>NA</u>	<u>8.25%</u>

~~On the North Carolina taxable income up to ten thousand six hundred twenty five dollars (\$10,625), six percent (6%).~~

~~On the amount over ten thousand six hundred twenty five dollars (\$10,625) and up to fifty thousand dollars (\$50,000), seven percent (7%).~~

~~On the amount over fifty thousand dollars (\$50,000), seven and seventy five one hundredths percent (7.75%)."~~

**SECTION 5.(b)** This section becomes effective for taxable years beginning on or after January 1, 2001, and expires for taxable years beginning on or after January 1, 2004. Notwithstanding G.S. 105-163.15, no addition to tax may be made under that statute for a taxable year beginning on or after January 1, 2001, and before January 1, 2002, with respect to an underpayment of individual income tax to the extent the underpayment was created or increased by this section.

**PART 6. EQUALIZE TAXATION OF HMOs AND MEDICAL SERVICE COMPANIES**

**SECTION 6.(a)** G.S. 105-228.5 reads as rewritten:

**"§ 105-228.5. Taxes measured by gross premiums.**

(a) Tax Levied. – A tax is levied in this section on insurers, Article 65 corporations, health maintenance organizations, and self-insurers. An ~~insurer-insurer~~, health maintenance organization, or Article 65 corporation that is subject to the tax levied by this section is not subject to franchise or income taxes imposed by Articles 3 and 4, respectively, of this Chapter.

(b) Tax Base. –

(1) Insurers. – The tax imposed by this section on an insurer or a health maintenance organization shall be measured by gross premiums from business done in this State during the preceding calendar year.

(2) Additional Local Fire and Lightning Rate. – The additional tax imposed by subdivision (d)(4) of this section shall be measured by

1 gross premiums from business done in fire districts in this State during  
2 the preceding calendar year. For the purpose of this section, the term  
3 "fire district" has the meaning provided in G.S. 58-84-5.

4 (3) Article 65 Corporations. – The tax imposed by this section on an  
5 Article 65 corporation shall be measured by gross collections from  
6 membership dues, exclusive of receipts from cost plus plans, received  
7 by the corporation during the preceding calendar year.

8 (4) Self-insurers. – The tax imposed by this section on a self-insurer shall  
9 be measured by the gross premiums that would be charged against the  
10 same or most similar industry or business, taken from the manual  
11 insurance rate then in force in this State, applied to the self-insurer's  
12 payroll for the previous calendar year as determined under Article 2 of  
13 Chapter 97 of the General Statutes modified by the self-insurer's  
14 approved experience modifier.

15 (b1) Calculation of Tax Base. – In determining the amount of gross premiums  
16 from business in this State, all gross premiums received in this State, credited to policies  
17 written or procured in this State, or derived from business written in this State shall be  
18 deemed to be for contracts covering persons, property, or risks resident or located in this  
19 State unless one of the following applies:

20 (1) The premiums are properly reported and properly allocated as being  
21 received from business done in some other nation, territory, state, or  
22 states.

23 (2) The premiums are from policies written in federal areas for persons in  
24 military service who pay premiums by assignment of service pay.

25 Gross premiums from business done in this State in the case of life insurance  
26 contracts, including supplemental contracts providing for disability benefits, accidental  
27 death benefits, or other special benefits that are not annuities, means all premiums  
28 collected in the calendar year, other than for contracts of reinsurance, for policies the  
29 premiums on which are paid by or credited to persons, firms, or corporations resident in  
30 this State, or in the case of group policies, for contracts of insurance covering persons  
31 resident within this State. The only deductions allowed shall be for premiums refunded  
32 on policies rescinded for fraud or other breach of contract and premiums that were paid  
33 in advance on life insurance contracts and subsequently refunded to the insured,  
34 premium payer, beneficiary or estate. Gross premiums shall be deemed to have been  
35 collected for the amounts as provided in the policy contracts for the time in force during  
36 the year, whether satisfied by cash payment, notes, loans, automatic premium loans,  
37 applied dividend, or by any other means except waiver of premiums by companies  
38 under a contract for waiver of premium in case of disability.

39 Gross premiums from business done in this State for all other health care plans and  
40 contracts of insurance, including contracts of insurance required to be carried by the  
41 Workers' Compensation Act, means all premiums written during the calendar year, or  
42 the equivalent thereof in the case of self-insurers under the Workers' Compensation Act,  
43 for contracts covering property or risks in this State, other than for contracts of

1 reinsurance, whether the premiums are designated as premiums, deposits, premium  
2 deposits, policy fees, membership fees, or assessments. Gross premiums shall be  
3 deemed to have been written for the amounts as provided in the policy contracts, new  
4 and renewal, becoming effective during the year irrespective of the time or method of  
5 making payment or settlement for the premiums, and with no deduction for dividends  
6 whether returned in cash or allowed in payment or reduction of premiums or for  
7 additional insurance, and without any other deduction except for return of premiums,  
8 deposits, fees, or assessments for adjustment of policy rates or for cancellation or  
9 surrender of policies.

10 (c) Exclusions. – Every insurer, in computing the premium tax, shall exclude all  
11 of the following from the gross amount of ~~premiums~~: premiums, and the gross amount  
12 of excluded premiums is exempt from the tax imposed by this section:

- 13 (1) All premiums received on or after July 1, 1973, from policies or  
14 contracts issued in connection with the funding of a pension, annuity,  
15 or profit-sharing plan qualified or exempt under section 401, 403, 404,  
16 408, 457 or 501 of the Code as defined in G.S. 105-228.90.
- 17 (2) Premiums or considerations received from annuities, as defined in G.S.  
18 58-7-15.
- 19 (3) Funds or considerations received in connection with funding  
20 agreements, as defined in G.S. 58-7-16.
- 21 (4) The following premiums, to the extent federal law prohibits their  
22 taxation under this Article:
  - 23 a. Federal Employees Health Benefits Plan premiums.
  - 24 b. Medicaid or Medicare premiums.

25 ~~The gross amount of the excluded premiums, funds, and considerations shall be~~  
26 ~~exempt from the tax imposed by this section.~~

27 (d) Tax Rates; Disposition. –

- 28 (1) ~~Workers'~~ Workers' Compensation. – The tax rate to be applied to gross  
29 premiums, or the equivalent thereof in the case of self-insurers, on  
30 contracts applicable to liabilities under the Workers' Compensation  
31 Act ~~shall be~~ is two and five-tenths percent (2.5%). The net proceeds  
32 shall be credited to the General Fund.
- 33 (2) Other Insurance Contracts. – The tax rate to be applied to gross  
34 premiums on all other ~~insurance~~ taxable contracts issued by insurers  
35 ~~shall be~~ is one and nine-tenths percent (1.9%). The net proceeds shall  
36 be credited to the General Fund.
- 37 (3) Additional Statewide Fire and Lightning Rate. – An additional tax  
38 shall be applied to gross premiums on contracts of insurance  
39 applicable to fire and lightning coverage, except in the case of marine  
40 and automobile policies, at the rate of one and thirty-three hundredths  
41 percent (1.33%). Twenty-five percent (25%) of the net proceeds of this  
42 additional tax shall be deposited in the Volunteer Fire Department

1 Fund established in Article 87 of Chapter 58 of the General Statutes.  
2 The remaining net proceeds shall be credited to the General Fund.

3 (4) Additional Local Fire and Lightning Rate. – An additional tax shall be  
4 applied to gross premiums on contracts of insurance applicable to fire  
5 and lightning coverage within fire districts at the rate of one-half of  
6 one percent (1/2 of 1%). The net proceeds shall be credited to the  
7 Department of Insurance for disbursement pursuant to G.S. 58-84-25.

8 (5) Article 65 Corporations. – The tax rate to be applied to gross  
9 premiums and/or gross collections from membership dues, exclusive  
10 of receipts from cost plus plans, received by Article 65 corporations  
11 ~~shall be one-half of one percent (1/2 of 1%)~~ is one percent (1%). The  
12 net proceeds shall be credited to the General Fund.

13 (6) Health Maintenance Organizations. – The tax rate to be applied to  
14 gross premiums on insurance contracts issued by health maintenance  
15 organizations is one percent (1%). The net proceeds shall be credited  
16 to the General Fund.

17 (e) Report and Payment. – Each ~~insurer, Article 65 corporation, and self-insurer~~  
18 taxpayer doing business in this State shall, within the first 15 days of March, file with  
19 the Secretary of Revenue a full and accurate report of the total gross premiums as  
20 defined in this section, the payroll and other information required by the Secretary in the  
21 case of a self-insurer, or the total gross collections from membership dues exclusive of  
22 receipts from cost plus plans collected in this State during the preceding calendar year.  
23 The report shall be verified by the oath of the official or other representative responsible  
24 for transmitting it; the taxes imposed by this section shall be remitted to the Secretary  
25 with the report.

26 In the case of an insurer liable for the additional local fire and lightning tax, the  
27 report shall include the information required under G.S. 58-84-1.

28 (f) Installment Payments Required. – ~~Insurers, Article 65 corporations, and self-~~  
29 ~~insurers~~ Taxpayers that are subject to the tax imposed by this section and have a  
30 premium tax liability, not including the additional local fire and lightning tax, of ten  
31 thousand dollars (\$10,000) or more for business done in North Carolina during the  
32 immediately preceding year shall remit three equal quarterly installments with each  
33 installment equal to at least thirty-three and one-third percent (33 1/3%) of the premium  
34 tax liability incurred in the immediately preceding taxable year. The quarterly  
35 installment payments shall be made on or before April 15, June 15, and October 15 of  
36 each taxable year. The company shall remit the balance by the following March 15 in  
37 the same manner provided in this section for annual returns.

38 The Secretary of Revenue may permit an insurance company to pay less than the  
39 required estimated payment when the insurer reasonably believes that the total  
40 estimated payments made for the current year will exceed the total anticipated tax  
41 liability for the year.

42 An underpayment of an installment payment required by this subsection shall bear  
43 interest at the rate established under G.S. 105-241.1(i). Any overpayment shall bear

1 interest as provided in G.S. 105-266(b) and, together with the interest, shall be credited  
2 to the company and applied against the taxes imposed upon the company under this  
3 Article.

4 (g) Exemptions. – This section does not apply to farmers' mutual assessment fire  
5 insurance companies or to fraternal orders or societies that do not operate for a profit  
6 and do not issue policies on any person except members."

7 **SECTION 6.(b)** G.S. 58-6-25(a) reads as rewritten:

8 "(a) Charge Levied. – There is levied on each insurance company an annual  
9 charge for the purposes stated in subsection (d) of this section. The charge levied in this  
10 section is in addition to all other fees and taxes. The percentage rate of the charge is  
11 established pursuant to subsection (b) of this section. For each insurance company that  
12 is not an Article 65 corporation nor a health maintenance organization, the rate is  
13 applied to the company's premium tax liability for the taxable year. For Article 65  
14 corporations and health maintenance organizations, the rate is applied to a ~~presumed~~  
15 premium tax liability for the taxable year calculated as if the corporation or organization  
16 were ~~an insurer providing health insurance. paying tax at the rate in G.S.~~  
17 105-228.5(d)(2). In determining an insurance company's premium tax liability for a  
18 taxable year, the following shall be disregarded:

19 (1) Additional taxes imposed by G.S. 105-228.8.

20 (2) The additional local fire and lightning tax imposed by G.S.  
21 105-228.5(d)(4).

22 (3) Any tax credits for guaranty or solvency fund assessments under G.S.  
23 105-228.5A or G.S. 97-133(a).

24 (4) Any tax credits allowed under Chapter 105 of the General Statutes  
25 other than tax payments made by or on behalf of the taxpayer."

26 **SECTION 6.(c)** G.S. 58-6-25(e) reads as rewritten:

27 "(e) Definitions. – The following definitions apply in this section:

28 (1) Article 65 corporation. – Defined in G.S. 105-228.3.

29 (2) Insurance company. – A company that pays the gross premiums tax  
30 levied in G.S. 105-228.5 and G.S. ~~105-228.8~~ or a health maintenance  
31 organization-105-228.8.

32 (3) Insurer. – Defined in G.S. 105-228.3."

33 **SECTION 6.(d)** This section is effective for taxable years beginning on or  
34 after January 1, 2002.

## 36 PART 7. SPIRITUOUS LIQUOR SALES TAX

37 **SECTION 7.(a)** G.S. 105-164.13(37) is repealed.

38 **SECTION 7.(b)** G.S. 105-164.4(a) is amended by adding a new subdivision  
39 to read:

40 "(6) The rate of six percent (6%) applies to the sales price of spirituous  
41 liquor other than mixed beverages. As used in this subdivision, the  
42 terms 'spirituous liquor' and 'mixed beverage' have the meanings  
43 provided in G.S. 18B-101."

1           **SECTION 7.(c)** G.S. 105-113.80(c) reads as rewritten:

2           "(c) Liquor. – An excise tax of twenty-eight percent (28%) is levied on liquor sold  
3 in ABC stores. Pursuant to G.S. 18B-804(b), the price of liquor on which this tax is  
4 computed is the distiller's price plus (i) the State ABC warehouse freight and bailment  
5 charges, and (ii) a markup for local ABC boards. ~~This tax is in lieu of sales and use~~  
6 ~~taxes; accordingly, liquor is exempt from those taxes as provided in G.S.~~  
7 ~~105-164.13(37).~~"

8           **SECTION 7.(d)** G.S. 105-113.80(c), as amended by subsection (c) of this  
9 section, reads as rewritten:

10          "(c) Liquor. – An excise tax of ~~twenty-eight percent (28%)~~ twenty-five percent  
11 (25%) is levied on liquor sold in ABC stores. Pursuant to G.S. 18B-804(b), the price of  
12 liquor on which this tax is computed is the distiller's price plus (i) the State ABC  
13 warehouse freight and bailment charges, and (ii) a markup for local ABC boards."

14          **SECTION 7.(e)** Subsection (d) of this section becomes effective February 1,  
15 2002. The remainder of this section becomes effective December 1, 2001, and applies  
16 to sales made on or after that date.

17

18   **PART 8.     NO TAX BREAK FOR LUXURY CARS/NO FIRE & RESCUE**  
19               **VEHICLE TAX**

20          **SECTION 8.(a)** G.S. 105-187.3(a) reads as rewritten:

21          "(a) Amount. – The rate of the use tax imposed by this Article is three percent  
22 (3%) of the retail value of a motor vehicle for which a certificate of title is issued. The  
23 tax is payable as provided in G.S. 105-187.4. The tax may not be more than one  
24 thousand dollars (\$1,000) for each certificate of title issued for a Class A or Class B  
25 motor vehicle that is a commercial motor vehicle, as defined in G.S. 20-4.01. ~~The tax~~  
26 ~~may not be more than one thousand five hundred dollars (\$1,500) for each certificate of~~  
27 ~~title issued for any other motor vehicle."~~

28          **SECTION 8.(b)** G.S. 105-187.5(b) reads as rewritten:

29          "(b) Rate. – The tax rate on the gross receipts from the short-term lease or rental  
30 of a motor vehicle is eight percent (8%) and the tax rate on the gross receipts from the  
31 long-term lease or rental of a motor vehicle is three percent (3%). Gross receipts does  
32 not include the amount of any allowance given for a motor vehicle taken in trade as a  
33 partial payment on the lease or rental price. The maximum tax in G.S. 105-187.3(a) on  
34 certain commercial motor vehicles applies to a continuous lease or rental of such a  
35 motor vehicle to the same person."

36          **SECTION 8.(c)** G.S. 105-187.9 reads as rewritten:

37    "**§ 105-187.9. Disposition of tax proceeds.**

38          (a) Taxes collected under this Article at the rate of eight percent (8%) shall be  
39 credited to the General Fund. Taxes collected under this Article at the rate of three  
40 percent (3%) shall be credited to the North Carolina Highway Trust Fund.

41          (b) In each fiscal year the State Treasurer shall transfer the ~~sum of one hundred~~  
42 ~~seventy million dollars (\$170,000,000)~~ of amounts provided below from the taxes  
43 deposited in the Trust Fund to the General Fund. The transfer of funds authorized by

1 this section may be made by transferring one-fourth of the amount at the end of each  
2 quarter in the fiscal year or by transferring the full amount annually on July 1 of each  
3 fiscal year, subject to the availability of revenue.

4 (1) The sum of one hundred seventy million dollars (\$170,000,000).

5 (2) In the 2001-2002 fiscal year, the sum of one million seven hundred  
6 thousand dollars (\$1,700,000). In the 2002-2003 fiscal year, the sum of  
7 two million four hundred thousand dollars (\$2,400,000). In each fiscal  
8 year thereafter, the sum transferred under this subdivision in the  
9 previous fiscal year plus or minus a percentage of this sum equal to the  
10 percentage by which tax collections under this Article increased or  
11 decreased for the most recent 12-month period for which data are  
12 available."

13 **SECTION 8.(d)** G.S. 105-187.6(a) reads as rewritten:

14 "(a) Full Exemptions. – The tax imposed by this Article does not apply when a  
15 certificate of title is issued as the result of a transfer of a motor vehicle:

16 (1) To the insurer of the motor vehicle under G.S. 20-109.1 because the  
17 vehicle is a salvage vehicle.

18 (2) To either a manufacturer, as defined in G.S. 20-286, or a motor vehicle  
19 retailer for the purpose of resale.

20 (3) To the same owner to reflect a change or correction in the owner's  
21 name.

22 (4) By will or intestacy.

23 (5) By a gift between a husband and wife, a parent and child, or a  
24 stepparent and a stepchild.

25 (6) By a distribution of marital or divisible property incident to a marital  
26 separation or divorce.

27 (7) To a handicapped person from the Department of Health and Human  
28 Services after the vehicle has been equipped by the Department for use  
29 by the handicapped.

30 (8) To a local board of education for use in the driver education program  
31 of a public school when the motor vehicle is transferred:

32 a. By a retailer and is to be transferred back to the retailer within  
33 300 days after the transfer to the local board.

34 b. By a local board of education.

35 (9) To a volunteer fire department or volunteer rescue squad that is not  
36 part of a unit of local government, has no more than two paid  
37 employees, and is exempt from State income tax under G.S.  
38 105-130.11, when the motor vehicle is one of the following:

39 a. A fire truck, a pump truck, a tanker truck, or a ladder truck used  
40 to suppress fire.

41 b. A four-wheel drive vehicle intended to be mounted with a water  
42 tank and hose and used for forest fire fighting.

43 c. An emergency services vehicle."

1           **SECTION 8.(e)** G.S. 105-187.1 reads as rewritten:

2   "**§ 105-187.1. Definitions.**

3       The following definitions and the definitions in G.S. 105-164.3 apply to this Article:

- 4           (1)   "~~Commissioner~~" means ~~the Commissioner.~~ – The Commissioner of  
5                Motor Vehicles.
- 6           (2)   "~~Division~~" means ~~the Division.~~ – The Division of Motor Vehicles,  
7                Department of Transportation.
- 8           (3)   "~~Long term lease or rental~~" means a Long-term lease or rental. – A  
9                lease or rental made under a written agreement to lease or rent  
10              property to the same person for a period of at least 365 continuous  
11              days.
- 12           (3a) Rescue squad. – An organization that provides rescue services,  
13              emergency medical services, or both.
- 14           (3a)(3b) Retailer. – A retailer as defined in G.S. 105-164.3 who is engaged in  
15              the business of selling, leasing, or renting motor vehicles.
- 16           (4)   "~~Short term lease or rental~~" means a Short-term lease or rental. – A  
17              lease or rental that is not a long-term lease or rental."

18           **SECTION 8.(f)** Subsection (c) of this section is effective on and after July 1,  
19   2001. The remainder of this section becomes effective October 1, 2001, and applies to  
20   certificates of title issued on or after that date.

21  
22   **PART 9.     SALES TAX HOLIDAY**

23           **SECTION 9.(a)** Part 3 of Article 5 of Chapter 105 of the General Statutes is  
24   amended by adding a new section to read:

25   "**§ 105-164.13C. Sales and use tax holiday.**

26           (a)   The taxes imposed by this Article do not apply to the following items of  
27              tangible personal property if sold between 12:01A.M. on the first Friday of August and  
28              11:59 P.M. the following Sunday:

- 29           (1)   Clothing with a sales price of one hundred dollars (\$100.00) or less per  
30              item.
- 31           (2)   Clothing accessories, such as hats, scarves, hosiery, and handbags,  
32              with a sales price of one hundred dollars (\$100.00) or less per item.
- 33           (3)   Footwear with a sales price of one hundred dollars (\$100.00) or less  
34              per item.
- 35           (4)   School supplies, such as pens, pencils, paper, binders, notebooks,  
36              textbooks, reference books, book bags, lunchboxes, and calculators,  
37              with a sales price of one hundred dollars (\$100.00) or less per item.
- 38           (5)   Computers, printers and printer supplies, and educational computer  
39              software, with a sales price of three thousand five hundred dollars  
40              (\$3,500) or less per item.
- 41           (b)   The exemption allowed by this section does not apply to the following:
- 42           (1)   Sales of jewelry, cosmetics, eyewear, wallets, or watches.
- 43           (2)   Sales of furniture.

1           (3) Sales involving a layaway contract or a similar deferred payment and  
2           delivery plan.

3           (4) Sales of an item for use in a trade or business.

4           (5) Rentals.

5       (c) For the purpose of this section, "computer" means a central processing unit  
6 for personal use and any peripherals sold with it and any computer software installed at  
7 the time of purchase."

8           **SECTION 9.(b)** G.S. 105-467, as amended by S.L. 2001-347, reads as  
9 rewritten:

10 **"§ 105-467. Scope of sales tax.**

11       (a) Sales Tax. – The sales tax that may be imposed under this Article is limited to  
12 a tax at the rate of one percent (1%) of the transactions listed in this subsection. The  
13 sales tax authorized by this Article does not apply to sales that are taxable by the State  
14 under G.S. 105-164.4 but are not specifically included in this subsection.

15           (1) The sales price of tangible personal property subject to the general rate  
16 of sales tax imposed by the State under G.S. 105-164.4(a)(1) and  
17 (a)(4b).

18           (2) The gross receipts derived from the lease or rental of tangible personal  
19 property when the lease or rental of the property is subject to the  
20 general rate of sales tax imposed by the State under G.S.  
21 105-164.4(a)(2).

22           (3) The gross receipts derived from the rental of any room or other  
23 accommodations subject to the general rate of sales tax imposed by the  
24 State under G.S. 105-164.4(a)(3).

25           (4) The gross receipts derived from services rendered by laundries, dry  
26 cleaners, and other businesses subject to the general rate of sales tax  
27 imposed by the State under G.S. 105-164.4(a)(4).

28           (5) The sales price of food that is not otherwise exempt from tax pursuant  
29 to G.S. 105-164.13 but would be exempt from the State sales and use  
30 tax pursuant to G.S. 105-164.13 if it were purchased under the Food  
31 Stamp Program, 7 U.S.C. § 51.

32       (b) Exemptions and Refunds. – The State exemptions and exclusions contained  
33 in ~~G.S. 105-164.13~~ G.S. 105-164.13, the State sales and use tax holiday contained in G.S.  
34 105-164.13C, and the State refund provisions contained in G.S. 105-164.14 apply to the  
35 local sales and use tax authorized to be levied and imposed under this Article. A taxing  
36 county may not allow an exemption, exclusion, or refund that is not allowed under the  
37 State sales and use tax.

38       (c) Sourcing. – The local sales tax authorized to be imposed and levied under this  
39 Article applies to taxable transactions by retailers whose place of business is located  
40 within the taxing county. The sourcing principles in G.S. 105-164.4B apply in  
41 determining whether the local sales tax applies to a transaction."

42           **SECTION 9.(c)** The second paragraph of Section 4 of Chapter 1096 of the  
43 1967 Session Laws is rewritten to read:

1 "The exemptions and exclusions contained in G.S. 105-164.13 and the sales and use  
2 tax holiday contained in G.S. 105-164.13C shall apply with equal force and like manner  
3 to the local sales tax authorized to be imposed and levied under this division. The  
4 county shall have no authority, with respect to the local sales and use tax, imposed  
5 under this division, to change, alter, add or delete any exemptions or exclusions  
6 contained under G.S. 105-164.13."

7 **SECTION 9.(d)** This section is effective January 1, 2002, and applies to  
8 sales made on or after that date.

9

10 **PART 10. EFFECTIVE DATE**

11 **SECTION 10.** Except as otherwise provided in this act, this act is effective  
12 when it becomes law.