



NORTH CAROLINA GENERAL ASSEMBLY

Session 2021

Legislative Fiscal Note

Short Title: 2021 Appropriations Act.
Bill Number: Senate Bill 105 (Second Edition)
Sponsor(s): Senators B. Jackson, Harrington, and Hise

SUMMARY TABLE

The following table summarizes the bill's impact on revenue. A more detailed fiscal chart is shown on page 4.

	FISCAL IMPACT OF SB 105, V2 (\$ in millions)				
	<u>FY 2021-22</u>	<u>FY 2022-23</u>	<u>FY 2023-24</u>	<u>FY 2024-25</u>	<u>FY 2025-26</u>
State Impact					
General Fund Revenue					
Tax Changes	(680.2)	(1,974.9)	(2,786.6)	(3,543.4)	(4,949.9)
Fee Changes	See Fiscal Analysis Section.				
Less Expenditures	[Not addressed within this Fiscal Note.]				
General Fund Impact	(680.2)	(1,974.9)	(2,786.6)	(3,543.4)	(4,949.9)
Highway Fund Revenue	70.2	75.1	76.8	78.6	80.4
Less Expenditures	-	-	-	-	-
Highway Fund Impact	70.2	75.1	76.8	78.6	80.4
NET STATE IMPACT	(\$610.0)	(\$1,899.8)	(\$2,709.8)	(\$3,464.8)	(\$4,869.9)
Local Impact					
Local Revenue	(1.8)	(1.8)	(1.8)	(1.7)	(1.7)
Less Local Expenditures	-	-	-	-	-
NET LOCAL IMPACT	(\$1.8)	(\$1.8)	(\$1.8)	(\$1.7)	(\$1.7)

FISCAL IMPACT SUMMARY

This Fiscal Note addresses only those bill sections that affect State or local revenue.

Fee Changes

- Sec. 9D.9 reduces fee revenue by suspending the Medicaid Provider Enrollment fee.
- Sec. 9D.13 amends the Modernized Hospital Assessments in House Bill 383 to add a component that would increase the collection under those assessments to cover the cost of providing additional Medicaid coverage for pregnant women during pregnancy and through 12 months postpartum, as allowed under the American Rescue Plan federal legislation. The additional coverage and the additional assessment component would be effective for a 5-year period beginning April 1, 2022, consistent with the authority for the coverage under the American Rescue Plan.
- Sec. 9E.1 may reduce fee revenue by raising the dollar threshold beyond which capital expenditures on Health Care Projects require a Certificate of Need.
- Sec. 10.2 may increase fee revenue because it allows the Board of Agriculture to create a fee for phytosanitary certificates.
- Sec. 30.1.(a) reduces fee revenue by temporarily reducing the Insurance Regulatory charge from 6.5% to 5%.
- Sec. 41.9 extends motor vehicle dealer/salesperson licenses to 3-year terms from 1-year terms and makes conforming changes to the fee structure.

Tax Changes

- Sec. 42.1 reduces revenue in three ways: first, by lowering the Personal Income tax rate from 5.25% to 3.99% over a five-year period; second, by increasing the Standard Deduction; and third, by increasing the amount of the child deduction and expanding eligibility for that deduction to more filers.
- Sec. 42.2 reduces revenue by eliminating the Corporate Income tax over five years.
- Sec. 42.3 reduces revenue by eliminating the North Carolina property bases from the Franchise tax calculation.
- Sec. 42.4 reduces revenue by updating North Carolina's reference to the Internal Revenue Code (IRC) from May 1, 2020 to April 1, 2021. The fiscal impact results from conforming to a lower threshold amount for the medical expense deduction (7.5% of income instead of 10%) for 2021 and beyond. The bill decouples from additional federal tax provisions that otherwise would reduce State revenue.
- Sec. 42.7 reduces tax revenue by extending the time to complete eligible Mill Rehabilitation tax credit projects by two years.
- Sec. 42.8 reduces tax revenue by limiting the Gross Premium tax base for premiums paid to a surety bondsman to the amount paid by the surety bondsman to the insurer of the bail bonds.



- Sec. 42.9 increases tax revenue to the General Fund by expanding the State’s existing 12.8% excise tax on Other Tobacco Products (OTP) to include all cigars shipped to North Carolina residents from out of State sellers. It also places a cap of 30¢ per cigar on all sales of cigars, regardless of whether they are sold in-person or online. Finally, the section reduces the share of the 12.8% OTP tax that goes to the University Cancer Research Fund, in order to hold that Fund’s revenue stable despite the expansion of the tax’s scope.
- Sec. 42.10 increases State and local sales tax revenue by applying the existing general rates of sales and use tax to short-term motor vehicle rentals by a peer-to-peer vehicle sharing facilitator. The section also requires that all proceeds of the short-term motor vehicle rental tax and the vehicle subscription rental tax be credited to the Highway Fund, along with \$500,000 to represent revenue generated by peer-to-peer transactions.
- Sec. 42.11 replaces the 10% penalty for failure to pay tax due with a graduated penalty of 2% for each month that the payment is late, not to exceed a total penalty of 10%.
- Sec. 42.12 reduces local property tax revenue by exempting from property tax: 1) vaccines, and 2) commercial real property set aside for burial purposes.

FISCAL ANALYSIS

Fee Changes

Suspend Medicaid Provider Enrollment Fee (Sec. 9D.9)

The bill waives the requirement in G.S. 108C-2.1 that Medicaid providers who are revalidating enrollment or enrolling in the North Carolina Medicaid program or NC Health Choice be charged a fee of \$100 above the federally-required fee for the enrollment or revalidation.

This change is estimated to reduce fee revenue by \$1.6 million in FY 2021-22 and by \$2.65 million in FY 2022-23; the impact is lower in the first year due to an existing temporary fee suspension related to the COVID-19 pandemic. The fiscal impact is calculated based on the anticipated number of new and re-validated provider enrollments over the biennium.

Extension of Postpartum Benefits (Sec. 9D.13)

The bill provides funds to extend Medicaid benefits for the pregnant women eligibility category from 60 days postpartum to 12 months postpartum. The State share of the funding, \$12.5 million in FY 2021-22 and \$50.8 million in FY 2022-23, will be paid from additional hospital assessment receipts.

Modification of Certificate of Need Laws (Sec. 9E.1)

Raising the threshold at which projects must have a Certificate of Need (CON) will reduce fee revenue by an unknown amount. The projects that would become exempt currently pay CON application fees ranging from \$5,000- \$14,000. It is unknown how many projects would become exempt from fees due to the change. The State collects \$2 - \$3 million annually in CON fees, but Fiscal Research believes that most projects are above the new thresholds and would still pay fees.

Fee Authority for State Phytosanitary Certificate (Sec. 10.2)

Because the bill authorizes a new fee but does not enact it, no estimate is available.



Insurance Regulatory Charge (Sec. 30.1.(a))

The bill lowers the insurance regulatory charge from the Statutory rate of 6.5% to 5% for calendar year 2022 to spend down an accrued cash balance. The change is expected to lower revenue by \$6.2 million in each fiscal year of the biennium, based on estimates provided by the North Carolina Department of Insurance.

Extend Duration of Dealer Plates and Dealer Licenses (Sec. 41.9)

Sec. 41.9 extends dealer/salesperson licenses to 3-year terms from 1-year terms and makes conforming changes to the fee structure. The fee change is revenue neutral since it triples the annual fee amount to determine the 3-year fees, after taking into consideration the quadrennial fee adjustment authorized by G.S. 20-40.2. (The Division of Motor Vehicles increased the statutory fee amounts under G.S.20-289, as required by G.S. 20-40.2, effective July 1, 2020.)

Tax Changes

The following table summarizes the five-year General Fund impact of the bill’s tax changes.

	FY 2021-22	FY 2022-23	FY 2023-24	FY 2024-25	FY 2025-26
Personal Income Tax (changes effective 2022 tax year)					
<ul style="list-style-type: none"> • Reduce tax rate: 2022: 4.99% 2023: 4.7% 2024: 4.6% 2025: 4.5% 2026: 3.99% • Increase standard deduction to match 2022 federal standard deduction • Conform to 2022 federal medical expense deduction • Increase child deduction by \$500 and expand eligibility up to AGI of \$140,000 MFJ, \$105,000 HOH, \$70,000 S/MFS 					
Subtotal: Personal Income Tax	(619.2)	(1,737.7)	(2,419.7)	(2,834.1)	(3,918.0)
Corporate Income Tax					
<ul style="list-style-type: none"> • Repeal over 5 years: 2% in 2024; 1.5%, 2025; 1%, 2026; 0.5%, 2027; 0% in 2028 					
	-	-	(115.2)	(413.3)	(737.4)
Franchise Tax					
<ul style="list-style-type: none"> • Eliminate alternate property bases (effective for tax calculated on 2022 returns) 					
	-	(173.3)	(180.6)	(188.2)	(196.1)
Miscellaneous Tax Changes					
<ul style="list-style-type: none"> • Extend time to complete eligible Mill Rehabilitation projects 					
	5.8	-	(5.8)	(41.0)	(30.0)
<ul style="list-style-type: none"> • Limit Gross Premiums Tax on surety of bail bonds 					
	(0.7)	(1.0)	(1.0)	(1.0)	(1.0)
<ul style="list-style-type: none"> • Modify Excise tax on cigars 					
	3.7	11.7	12.0	12.2	12.4
<ul style="list-style-type: none"> • Expand the sales tax base to include peer-to-peer (P2P) vehicle rentals 					
	0.4	0.5	0.5	0.6	0.6
<ul style="list-style-type: none"> • Credit short-term vehicle rental and P2P proceeds to Highway Fund 					
	(70.2)	(75.1)	(76.8)	(78.6)	(80.4)
<ul style="list-style-type: none"> • Replace flat 10% late tax penalty with graduated penalties. 					
	No estimate	No estimate	No estimate	No estimate	No estimate
<ul style="list-style-type: none"> • Create local property tax exemptions for commercial cemeteries and vaccines held by private medical practices. (\$2 m loss to locals) 					
	-	-	-	-	-
Subtotal: Miscellaneous Tax Changes	(61.0)	(63.9)	(71.1)	(107.8)	(98.4)
Total General Fund Impact	(680.2)	(1,974.9)	(2,786.6)	(3,543.4)	(4,949.9)

Personal Income Tax Changes (Sections 42.1)

Fiscal Research estimated the impact of the individual income tax changes using the Fiscal Research Division's Individual Income Tax Microsimulation model. The full year impact of the individual income tax changes in 2022 is approximately \$1.2 billion. Because the income tax changes are effective for taxable years beginning January 1, 2022, the FY 2021-22 estimate includes the withholding and estimated payments for the first half of 2022, which represents approximately 45% of the annual impact.

Corporate Income Tax Changes (Section 42.2)

The estimated fiscal impact of phasing out the corporate income tax is based on the most recent Consensus Revenue Forecast for the biennium and is adjusted for growth in subsequent years. Timing adjustments were made to account for differences between the State's fiscal year and the typical tax year.

Franchise Tax Change (Section 42.3)

Fiscal Research estimated the impact of the franchise tax rate reduction based on the Consensus Revenue Forecast and on franchise tax statistics provided by the Department of Revenue.

IRC Update (Section 42.4)

Reducing the threshold for the medical expense deduction to 7.5% is expected to reduce revenue collections by approximately \$22.5 million initially, and this estimate is adjusted for growth in subsequent years. The estimate was developed using the Fiscal Research Microsimulation Tax Model using Federal and North Carolina tax return data.

Mill Rehabilitation Extensions (Section 42.7)

Extending the time to complete eligible projects will reduce State Revenue. Fiscal Research's estimate was developed based on a review of eligible projects and the projected average amount of credit used to reduce tax collections.

Gross Premiums Tax on Surety Bonds (Section 42.8)

Fiscal Research estimated the impact using industry data comparing tax liability under current law vs. tax liability under the proposed tax base change.

Excise Tax on Cigars (Section 42.9)

Fiscal Research's estimate for the total new revenue generated is based on confidential, proprietary data from one or multiple tobacco companies. The estimates used to adjust the split between the General Fund and the University Cancer Research Fund are based on the Consensus Revenue Forecast.

Sales Tax on Peer-to-Peer Vehicle Rentals (Section 42.10)

The bill expands the State and local sales tax base to include vehicle rental transactions conducted through a peer-to-peer (P2P) facilitator.

Fiscal Research's estimate was based on data provided by the Maryland General Assembly, which enacted an 8% P2P tax in 2018. Maryland's expected gross sales revenue was adjusted to account



for North Carolina's higher population of residents over age 18 (approximately 175% higher) and to reflect North Carolina's State and local tax rates.

The bill also directs that taxes collected on the State's existing 5% vehicle subscription tax and 8% short-term car rental tax must be credited to the Highway Fund, along with \$500,000 to represent revenue generated by peer-to-peer transactions. The estimate is based on the Consensus Revenue Forecast.

Graduated Late Payment Penalty (Section 42.11)

Changing the automatic full 10% penalty for failure to pay tax due to a graduated penalty of 2% for each month the payment is late, not to exceed 10%, will reduce collections in the Fines and Forfeitures Fund by an unknown amount. About \$75 million per year is credited to the Fund currently.

Property Tax Reductions (Section 42.12)

Most vaccines are provided by governmental or nonprofit health organizations; these vaccines are already exempt from business personal property taxes. The additional revenue loss from exempting vaccines held by private health facilities is unknown but minimal.

The fiscal impact of exempting commercial cemetery burial property is expected to reduce local government revenues by \$2 million annually. The estimate is based on data provided by the North Carolina Association of Assessing Officers, based on FY 2018-19 property tax information available from 65 counties. The average revenue loss for those 65 counties was scaled up to estimate the impact across the State's 100 counties and their municipalities.

TECHNICAL CONSIDERATIONS

N/A.

DATA SOURCES

Fiscal Research Microsimulation Tax Model; North Carolina Departments of Revenue, Health and Human Services, Transportation, and Insurance; NC Association of Assessing Officers; Cigar Association of America; Maryland General Assembly; US Census Bureau.

LEGISLATIVE FISCAL NOTE – PURPOSE AND LIMITATIONS

This document is an official fiscal analysis prepared pursuant to Chapter 120 of the General Statutes and rules adopted by the Senate and House of Representatives. The estimates in this analysis are based on the data, assumptions, and methodology described in the Fiscal Analysis section of this document. This document only addresses sections of the bill that have projected direct fiscal impacts on State or local governments and does not address sections that have no projected fiscal impacts.

CONTACT INFORMATION



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