



NORTH CAROLINA GENERAL ASSEMBLY

2025 Session

Fiscal Analysis Memorandum

CONFIDENTIAL

Requestor: Sen. Craven and Sen. McInnis
Analyst(s): Jonathan Tart, Susie Camilleri, Nick Clerkin, Mark Collins, Aaron Cornell, Nick Long, Brent Lucas, Sean Hamel, Jacob Sargent, and Mark White.
RE: PCS to SB 257-2025 Appropriations Act

SUMMARY TABLE

This summary table only reflects Finance provisions in the PCS to SB 257 that impact General Fund revenue. Other revenue changes are shown in tables throughout the note.

FISCAL IMPACT OF PCS to SB 257, (V.1) (\$ in millions)

	<u>FY 2025-26</u>	<u>FY 2026-27</u>	<u>FY 2027-28</u>	<u>FY 2028-29</u>	<u>FY 2029-30</u>
State Impact					
General Fund Revenue	(41.2)	(24.5)	(1,222.6)	(2,543.7)	(2,670.3)
Less Expenditures	-	-	-	-	-
General Fund Impact	(41.2)	(24.5)	(1,222.6)	(2,543.7)	(2,670.3)
NET STATE IMPACT	(41.2)	(24.5)	(1,222.6)	(2,543.7)	(2,670.3)

FISCAL IMPACT SUMMARY

Tax Changes

Personal Income Tax

- Section 44.1a repeals conditional tax rate reductions between 2027 and 2034 that are subject to General Fund revenue triggers being met.
- Section 44.1b:
 - Reduces the tax rate from 3.99% to 3.49% in 2027 and from 3.49% to 2.99% in 2028.
 - Authorizes up to three future rate reductions between 2029 and 2036 that become effective if General Fund revenue meets specified revenue trigger amounts.

Franchise Tax

- Section 44.3 reduces the franchise tax by capping the tax at \$200 on the first \$5 million of the tax base for S corporations and \$500 on the first \$5 million of the tax base for C



corporations. Under current law, these caps apply to only the first \$1 million of the tax base.

Sales and Use Taxes

- Section 44.2 creates a trade-in exclusion for items subject to sales tax, reducing the amount of sales price subject to tax by any credit given for another item traded in.

Sports Wagering Tax

- Section 44.4 increases the sports wagering tax rate from 18% to 36%.
- Section 44.5 modifies the sports wagering allocation formula.

Fees and Other Changes

- Section 43.10 eliminates the fee collected from the issuance of duplicate vehicle registration cards due to the repeal of requirements for the printing and issuing of all physical registration cards.
- Section 43.15 establishes new tolls for previously untolled ferry routes and increases existing toll rates and allocates the toll revenue to the Ferry Capital Fund for marine vessel replacement.
- Section 43.12 allows large volume rental car companies to forego annual safety inspections for an inspection once every three years.
- Section 9E.11 transfers gross premiums tax collections from the General Fund to the Health Advancement Receipts Special Fund, which provides the State share of costs for the NC Health Works Medicaid population that began receiving services in 2023.
- Section 9E.16 increases gross premiums tax revenue resulting from the extension of the Healthcare Access and Stabilization Program to freestanding psychiatric hospitals.
- Section 9F.2 repeals the Certificate of Need laws and eliminates associated application fees.
- Section 16.6 increases various General Court of Justice fees by \$30.
- Section 16.7 increases the Driving Under the Influence Civil License Revocation Fee by \$100.
- Section 37.3 allows the Secretary of State to collect a paper filing fee for forms and applications which have an online alternative.



FISCAL ANALYSIS

TAX CHANGES

Personal Income Tax

Personal Income Tax Changes (\$ in millions)

	<u>FY 2025-26</u>	<u>FY 2026-27</u>	<u>FY 2027-28</u>	<u>FY 2028-29</u>	<u>FY 2029-30</u>
Repeals Conditional Tax Rate Reductions Subject to Revenue Triggers (2027-2034)	-	1,144.2	2,405.1	2,527.8	2,656.7
Reduces the Tax Rate in 2027 and 2028 by 0.5% each year	-	(1,144.2)	(3,607.7)	(5,055.6)	(5,313.4)
Authorizes Up To Three Additional Reductions Subject to Revenue Triggers (2029-2036)	-	-	-	-	-
Total	-	-	(1,202.6)	(2,527.8)	(2,656.7)

Repeal Current Personal Income Tax Rate Reduction Triggers (Sec. 44.1a)

- Repeals conditional personal income tax rate reductions between 2027 and 2034 that are subject to General Fund revenue triggers.

Personal Income Tax Rate Reductions (Sec 44.1b).

- Reduces the personal income tax rate from 3.99% to 3.49% in 2027 and from 3.49% to 2.99% in 2028. These rate reductions are not subject to General Fund revenue triggers.
- Authorizes up to 3 additional rate reductions between 2029 and 2036 that are subject to General Fund revenue triggers.

The estimated fiscal impacts of the personal income tax reductions are based on the revenue projections from the February 2025 Consensus Revenue Forecast for the 2025-27 biennium and on historical growth rates for the three years following the biennium. Estimates include adjustments to account for the estimated impacts of current law, including previously enacted rate reductions. The FY 2026-27 estimate reflects the expected reduction in revenue from payments due during the first half of calendar year 2027. Depending on the time of impact, the full year impact of the first conditional rate reduction is estimated to be between \$2.6-\$3.7 billion while the second and third conditional rate reductions are estimated to have a full year impact of \$1.4-\$1.8 billion.

Franchise Tax

Franchise Tax Changes (\$ in millions)

	<u>FY 2025-26</u>	<u>FY 2026-27</u>	<u>FY 2027-28</u>	<u>FY 2028-29</u>	<u>FY 2029-30</u>
Modifies Franchise Tax Cap	(87.9)	(90.6)	(93.1)	(95.8)	(98.5)
Total	(87.9)	(90.6)	(93.1)	(95.8)	(98.5)

Franchise Tax Reduction (Section 44.3). This section caps the maximum franchise tax on the first \$5 million of the tax base. Currently, the tax is capped at \$200 for S Corporations and \$500 for C Corporations on the first \$1 million of the tax base. The fiscal impact was estimated using franchise tax statistics provided by the North Carolina Department of Revenue on 2022 franchise tax returns. FRD calculated the net franchise tax liability among taxpayers with a 2022 return with the proposed franchise caps applied to first \$5 million of the tax base and with the caps applied to the first \$1 million of the tax base.

The net franchise tax liability across 2022 returns with a \$500 cap on the first \$1 million of the tax base for C corporations and a \$200 cap on the first \$1 million of the tax base for S corporations is estimated to have been roughly \$775 million. With these same caps applied to the first \$5 million of the tax base for all corporations, FRD estimates the net franchise tax liability across 2022 returns would have been approximately \$688 million. This difference represents approximately an 11% reduction in franchise tax collections.

FRD assumes increasing the tax base in which the maximum franchise tax cap applies to from \$1 million to \$5 million will result in approximately an 11% reduction in revenue in each year of the projection period. Using the revenue projections and underlying assumptions from the February 2025 Consensus Revenue Forecast and historical growth rates in the franchise tax base, FRD estimates this section would reduce franchise tax collections by approximately \$87.9 million in FY 2025-26 and \$90.6 million in FY 2026-27.

Sales and Use Taxes

Sales and Use Tax Changes (\$ in millions)

	<u>FY 2025-26</u>	<u>FY 2026-27</u>	<u>FY 2027-28</u>	<u>FY 2028-29</u>	<u>FY 2029-30</u>
Exclude Credit for Trade-Ins					
General Fund Revenue	(6.7)	(13.7)	(14.0)	(14.3)	(14.6)
Highway Trust Fund Revenue	(0.3)	(0.6)	(0.7)	(0.7)	(0.7)
Highway Fund Revenue	(0.1)	(0.2)	(0.2)	(0.2)	(0.2)
Local Revenue	(3.4)	(7.0)	(7.1)	(7.3)	(7.4)
Total	(10.5)	(21.5)	(22.0)	(22.5)	(22.9)

Exclude Credit for Trade-Ins from Sales Tax (Section 44.2). This section creates a trade-in exclusion for items subject to sales tax, reducing the amount of sales price subject to tax by any credit given for another item traded in. FRD used data from the Minnesota Tax Expenditure Budget Report to estimate the fiscal impact. Minnesota excludes the value of any trade-in credit

from the sales price of an item subject to sales tax. Based on historical data, Minnesota anticipates this exclusion would reduce Minnesota state revenue by \$12.4 million in FY 2024-2025. FRD divided this figure by Minnesota's sales tax rate and estimated over \$180 million in trade-in value would be excluded from tax in 2025 ($\$12.4 \text{ million in forgone revenue} / 6.875\% \text{ sales tax rate} = \$180 \text{ million in trade-in credit}$).

FRD used Moody's Analytics' 2024 estimates of gross state product for North Carolina and Minnesota to calculate the relative impact. North Carolina's gross state product is roughly 1.6 times greater than Minnesota's. Therefore, FRD assumes the total amount of trade-in value excluded in North Carolina will be approximately 1.6 times greater than the value excluded in Minnesota. Accounting for the relative difference between Minnesota and North Carolina's gross state product, FRD estimates the total amount of trade-in value excluded from tax in North Carolina would be nearly \$300 million in 2025.

FRD then applied the North Carolina general sales tax rate, accounted for the partial-year impact in FY 2025-26, and adjusted for inflation to determine the General Fund fiscal impact in future years. To estimate local revenue, FRD used a weighted local sales tax rate of 2.28%. FRD estimates this exemption would reduce total State sales and use tax revenue by approximately \$7.1 million and local revenue by approximately \$3.4 million in FY 2025-26. The full impact is estimated to be \$14.5 million to the State and \$7.0 million to local governments beginning in FY 2026-27.

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Sports Wagering Tax

Sports Wagering Allocation Comparison, Current Law, and PCS to S.B. 257, FY 2025-26

Recipient(s)	Estimated Allocation Under Current Law (Per Recipient, \$ in millions)*	Estimated Allocation Under PCS to SB 257 (Per Recipient, \$ in millions)	Change in Allocation (Per Recipient, \$ in millions)
General Fund	\$68.1	\$121.5	\$53.4
NC Major Events, Games, and Attractions Funds	\$40.8	\$24.4	(\$16.4)
Elizabeth City State University, Fayetteville State University, UNC-Pembroke, Winston-Salem State University	\$2.4	\$4.3	\$1.9
NC A&T, NC Central, UNC-Asheville, UNC-Greensboro, UNC-Wilmington, Western Carolina	\$2.4	\$4.8	\$2.4
Appalachian State, East Carolina, UNC-Charlotte	\$2.4	\$5.3	\$2.9
NC State, UNC-Chapel Hill	-	\$24.4	\$24.4
All Other Recipients	\$6.5	\$6.5	-
Total Sports Wagering Tax Revenue	\$146.6	\$263.1	\$116.5

*Estimates are based on the February 2025 Consensus Revenue Forecast.

Increase Sports Wagering Tax Rate and Modify Revenue Distribution (Sections 44.4 and 44.5).

Section 44.4 increases the tax rate paid by sports wagering operators on their gross wagering revenue from 18% to 36%. Section 44.5 also makes the following changes to the distribution of sports wagering tax revenue:

- Changes the \$300,000 allocation that each of 13 UNC institutions receives to:
 - \$500,000 each for Elizabeth City State University, Fayetteville State University, UNC-Pembroke, Winston-Salem State University.
 - \$1 million each for NC A&T, NC Central, UNC-Asheville, UNC-Greensboro, UNC-Wilmington, and Western Carolina University.
 - \$1.5 million each for Appalachian State University, East Carolina University, and UNC-Charlotte.
- Changes the allocation of the remaining revenue distributions as follows:
 - Decreases from 30% to 10% the amount distributed to the NC Major Events, Games, and Attractions Funds.
 - Allocates 10% each to the two public universities in the State with the largest athletic department budgets (UNC-Chapel Hill and NC State University).

To determine the fiscal impact, FRD used the February 2025 Consensus Revenue Forecast estimates of General Fund sports wagering revenue for the 2025-27 fiscal biennium to calculate total sports wagering revenue using the formula in current statute. Then, the total revenue was multiplied by 2 (36%/18%). FRD applied the amended sports wagering formula to the increased total sports wagering revenue estimates to calculate impact on the General Fund and other allocation recipients. FRD used a partial impact used for FY 2025-26 due to the effective date of October 1st, 2025 for the rate change. For FY 2027-2028 through FY 2029-30, FRD used declining growth rates of 10%, 7.5%, and 5% for total sports wagering revenue, anticipating the revenue growth rate to slow in future years.

The changes in these sections are estimated to increase General Fund revenues by \$53.4 million in FY 2025-26 and by \$79.8 million in FY 2026-27. These provisions also affect funds outside the General Fund, including 15 UNC constituent institutions' athletic programs funds and the Major Events, Games, and Attractions Fund ("Major Events Fund"). FRD estimates that the Major Events Fund revenue will decrease by approximately \$16.4 million in FY 2025-26. The table below shows the increases in the amounts the 15 UNC institutions will receive from sports wagering revenue in FY 2025-26.

FEES AND OTHER CHANGES

The following table summarizes the estimated fiscal impact of fee changes over the biennium, its corresponding section of the budget, and the impacted fund.

Fees and Other Changes in PCS to SB 257 (\$ in millions)	FY 2025-26	FY 2026-27
<i>General Fund</i>		
• Increase General Court of Justice fees (JPS)	\$12.1	\$20.8
• Increase DUI Revocation Fee (JPS)	\$0.3	\$0.6
• Eliminate Certificate of Need Fees (HHS)	(\$1.2)	(\$2.3)
• Transfer of Gross Premiums Tax Offset (HHS)	(\$78.0)	(\$75.6)
• HASP for Freestanding Psychiatric Hospitals (HHS)	-	\$0.6
<i>Special Funds</i>		
• Establish paper filing fee (GenGov)	\$1.1	\$2.2
• Establish tolls on all ferry routes and increases rates. (DOT)	\$6.4	\$6.4
• Transfer of Gross Premiums Tax Offset (HHS)	\$78.0	\$75.6
<i>Highway Fund (HF) and Highway Trust Fund (HTF)</i>		
• Eliminate vehicle registration cards and stickers. (DOT, HTF)	(\$0.9)	(\$0.9)
• Extend duration of safety inspections for large volume rental companies. (DOT, HF)	De minimis	De minimis

Justice and Public Safety (JPS)

- The estimated fiscal impact of increases to the General Court of Justice Fees are based on District Court Criminal/Civil and Superior Court Criminal/Civil actual fee collections from FY 2022-23. FRD estimates actual fee revenue collected could be higher because the fee will apply to additional case types that are substantially smaller and more infrequent.



- The estimated fiscal impact of increasing the DUI Revocation Fee is based on actual fee collections from FY 2022-23.

Health and Human Services (HHS)

- The estimated fiscal impact of eliminating Certificate of Need fees is based on actual fee collections from FY 2023-24.
- Since the State began serving additional Medicaid beneficiaries through NC Health Works in 2023, the additional gross premiums tax revenue generated from Medicaid prepaid health plans has been appropriated to the Department of Health and Human Services to offset the cost of providing services to the NC Health Works population. This change would allocate gross premiums tax directly to the special fund that supports NC Health Works instead of appropriating an equivalent amount to DHHS.
- The estimated fiscal impact of allowing freestanding psychiatric hospitals to participate in the Medicaid Healthcare Access and Stabilization Program (HASP) assumes that \$10 million in additional HASP payments will be made each fiscal quarter beginning July 2026.

General Government (GenGov)

- The estimated fiscal impact of creating a paper filing fee is based on the number of paper transactions the Secretary of State's office processed in 2023, adjusted for the expected percentage of current paper filers expected to switch to online filing given the new fee. These revenues are deposited into a Special Fund in the office that supports its operations.

Transportation (DOT)

- The estimated fiscal impact of establishing tolls on previously untolled routes and increasing existing toll rates is based on the bill's toll rates and ridership data from the Ferry Division's monthly traffic report.¹ Revenue collected from ferry tolls is deposited into the Ferry Capital Fund which supports marine vessel replacement.
- The estimated fiscal impact of Motor Vehicle Registration Cards and Stickers is based on current fee collections from duplicate registration cards and affects revenue collected to the Highway Trust Fund and Reserve for Visitor Centers Fund.
- The estimated fiscal impact of changing the Duration of Safety Inspections for Large Volume Rental Companies fee is not known because the number of affected vehicles and companies is unknown; however, FRD anticipates the fiscal impact to be de minimis.

TECHNICAL CONSIDERATIONS

N/A.

¹ The bill would establish tolls on the following ferry routes: Bayview-Aurora, Currituck-Knotts Island, Cherry Branch-Minnesott, Hatteras-Ocracoke. Tolls would be increased on the following routes: Cedar Island-Ocracoke, Swan Quarter-Ocracoke, Southport-Fort Fisher, and the Ocracoke Express.



DATA SOURCES

NC Departments of Health and Human Services; Public Safety, Revenue, Secretary of State, and Transportation. Consensus Revenue Forecast. NC Healthcare Association. Office of State Budget and Management Fee Report. Moody's Analytics. NC Financial System (NCFS). Minnesota Department of Revenue. NC Department of Transportation Enterprise Business System. NC Ferry Division Monthly Ridership Report.

FISCAL ANALYSIS MEMORANDUM – PURPOSE AND LIMITATIONS

This document is a fiscal analysis of a bill, draft bill, amendment, committee substitute, or conference committee report that is confidential under Chapter 120 of the General Statutes. 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. This document is not an official fiscal note. If a formal fiscal note is requested, please email your request to the Fiscal Research Division at FiscalNoteRequests@ncleg.net or call (919) 733-4910.

