



# HOUSE BILL 333: Local Option Sales Tax Flexibility.

2017-2018 General Assembly

<b>Committee:</b>	House Finance	<b>Date:</b>	May 23, 2017
<b>Introduced by:</b>	Reps. S. Martin, Hunter, Watford, Saine	<b>Prepared by:</b>	Trina Griffin
<b>Analysis of:</b>	First Edition		Committee Co-Counsel

**OVERVIEW:** *House Bill 333 would do the following:*

- Create a new local option sales tax for public education that may be levied at a rate of either 1/4-cent or 1/2-cent.
- Modify the existing Article 46 local option sales tax such that it could be levied at a rate of either 1/4-cent or 1/2-cent.
- Cap the overall total local sales and use tax rate at the current maximum, which is two and one-half percent (2½%) for 94 counties and two and three-quarters (2.75%) for 6 counties.

**CURRENT LAW:**

**Generally.** – The local sales and use tax rate varies among the counties, ranging from 2% to 2.75%.<sup>1</sup> Under current law, there are 6 counties that *could* have a total local sales and use tax rate of two and three-quarters (2.75%), for a total State and local rate of 7.5%. Those counties are: Durham, Forsyth, Guilford, Mecklenburg, Orange, and Wake.<sup>2</sup> Only 2 counties are levying at that rate. The maximum that may be levied in the other 94 counties is two and one-half percent (2½%). The reason for the difference is that those 94 counties may only levy a one-quarter cent (1/4%) tax for public transportation. The remaining local taxes for those counties are the same.

**Public Transportation (Article 43).** – Counties may levy, upon referendum, a local sales and use tax to be used only for public transportation if the county or at least one unit of local government in the county operates a public transportation system. "Public transportation system" is broadly defined as any combination of real and personal property established for purposes of public transportation, but specifically excludes streets, roads, and highways (except to the extent they are dedicated to public transportation vehicles).

The rate of tax that may be levied for this purpose is 1/2% for the following six counties: Durham, Forsyth, Guilford, Mecklenburg, Orange, and Wake.<sup>3</sup> The rate of tax that may be levied in all other counties is 1/4%. Currently, the only counties levying a tax under this Article are Mecklenburg,<sup>4</sup> Durham,<sup>5</sup> Orange,<sup>6</sup> and Wake<sup>7</sup> Counties. None of the 94 counties levy the 1/4¢ tax under this Article.

<sup>1</sup>See Table #2 in the **BACKGROUND** section of this Bill Analysis for a listing of current local option sales and use tax rates in all 100 counties.

<sup>2</sup> To reach the maximum, a county would have to levy the first cent, the first one-half cent, the second one-half cent, the one-half cent public transportation tax, and the one-quarter cent tax. To date, only 2 of these 6 counties levy the maximum: Durham and Orange.

<sup>3</sup> Of these six counties, Durham and Orange are the only ones that also levy the quarter-cent tax under Article 46.

<sup>4</sup> Mecklenburg County passed a one-half cent sales tax for transit, with 58% of the voters in favor, in November 1998. The county began levying the tax April 1, 1999.

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**"General Purpose" Quarter-Cent Tax (Article 46).** – In 2007, the General Assembly gave counties a local-option, quarter-cent sales tax. The tax must be approved by voters in a referendum before it can be adopted. The proceeds of the tax are not shared with the cities and may be used for any general purpose. Food is not included in the base to which the tax applies. Since the enactment of the authorization, 127 referendums have been held in approximately 70 counties. Of those, 31 were approved.

## **BILL ANALYSIS:**

### **New Article 43A: County Sales Tax for Public Education**

**Section 1** would give counties the authority to levy a local sales and use tax at a rate of up to one-half percent (1/2%) if the majority of voters approve the levy of the tax in a referendum. The rate of tax must be in an increment of 1/4% and must be at a rate that, if levied, would not result in a total local rate in the county in excess of two and one-half percent (2 1/2%) for most counties or in excess of two and three-quarters (2 3/4%) for the 6 counties currently authorized to levy at that rate.

The proceeds of the tax are not shared with the cities and may only be used as follows:

- Public school capital outlay purposes or to retire any indebtedness incurred by the county for these purposes.
- Supplements of classroom teacher salaries. A classroom teacher is an employee of a local board of education employed as a teacher who spends at least seventy percent (70%) of his or her work time in classroom instruction.
- Financial support of community colleges, including funds to supplement State financial support of community colleges.

### **Changes to Article 43: Local Government Sales and Use Tax for Public Transportation**

**Section 2** does not make any substantive changes to the Article 43 tax other than to provide that the maximum rate that a county may levy under any combination of local option sales taxes is 2 1/2 % for most counties and 2 3/4% for the 6 counties that currently have that maximum.

### **Changes to Article 46: One-Quarter Cent (1/4¢) County Sales and Use Tax**

**Section 3** modifies the current Article 46 as follows:

- It increases from 1/4% to 1/2% the maximum rate of tax that may be levied under this Article.
- It also provides that the maximum rate that a county may levy under any combination of local option sales taxes is 2 1/2 % for most counties and 2 3/4% for the 6 counties that currently have that maximum.

**BACKGROUND:** The following tables set out details of each of the local option sales tax authorizations, including the purposes for which the proceeds may be used, whether the proceeds are shared with the cities, which articles are currently subject to the adjustment factor, and the various taxes that the counties are currently levying.

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<sup>5</sup> Durham County passed a one-half cent sales tax for transit, with 60% of the voters in favor, in November 2011. The county began levying the tax April 1, 2013.

<sup>6</sup> Orange County passed a one-half cent sales tax for transit, with 59% of the voters in favor, in November 2012. The county began levying the tax April 1, 2013.

<sup>7</sup> Wake County passed a one-half cent sales tax for transit, with 53% of the voters in favor in November 2016. The county began levying the tax April 1, 2017.

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Table #1

Art.	Rate	Purpose	Enacted	Distribution	Adjustment Factor	Levied By	Shared w/ Municipals
39	1¢	General	1969	Point of Destination	No	100 counties	Yes
40	½¢	70% General; 30% School Capital	1983	Per Capita	Yes	100 counties	Yes
42	½¢	40% General; 60% School Capital	1986	Point of Destination	Yes, on food only	100 counties	Yes
43	¼¢ or ½¢	Transit	1997	Point of Destination	No	Durham, Mecklenburg, Orange, Wake	Yes
46	¼ ¢	General	2007	Point of Destination	No	31 counties	No

Table 2: County Sales Tax Rates

County	Rate	Articles Levied
<b>67 Counties Have a Total Sales &amp; Use Tax Rate of 6.75%</b>		
Alamance Chatham Gaston Lenoir Pender Transylvania Alleghany Chowan Gates Lincoln Perquimans Tyrrell Avery Clay Graham Macon Person Union Beaufort Cleveland Granville Madison Polk Vance Bertie Columbus Guilford McDowell Richmond Warren Bladen Craven Henderson Mitchell Rockingham Washington Brunswick Currituck Hoke Moore Rutherford Watauga Burke Dare Hyde Nash Scotland Wayne Caldwell Davie Iredell Northampton Stanly Wilson Camden Forsyth Johnston Pamlico Stokes Yadkin Carteret Franklin Jones Pasquotank Swain Yancey Caswell	2.00% local + <u>4.75% State</u> <b>6.75% Tax</b>	- Articles 39, 40, & 42
<b>29 Counties Have a Total Sales &amp; Use Tax Rate of 7.00%</b>		
Alexander Catawba Edgecombe Hertford Jackson New Hanover Rowan Anson Cherokee Greene Lee Onslow Sampson Ashe Cumberland Halifax Martin Pitt Surry Buncombe Davidson Harnett Montgomery Randolph Wilkes Cabarrus Duplin Haywood Robeson	2.25% local + <u>4.75% State</u> <b>7.00% Tax</b>	- Articles 39, 40, & 42 - Article 46
<b>2 Counties Have a Total Sales &amp; Use Tax Rate of 7.25%</b>		
Mecklenburg Wake	2.50% local + <u>4.75 State</u> <b>7.25% Tax</b>	- Articles 39, 40, & 42 - Article 43 at ½¢
<b>2 Counties Have a Total Sales &amp; Use Tax Rate of 7.50%</b>		
Durham Orange	2.75% local + <u>4.75% State</u> <b>7.50% Tax</b>	- Articles 39, 40, & 42 - Article 43 at ½¢ - Article 46