OVERVIEW: The Proposed Committee Substitute for House Bill 900 would authorize cities to levy a local sales and use tax of one-quarter percent (1/4%), if approved by a majority of the voters in a referendum, the proceeds of which could be used only for the construction and improvement of public infrastructure or for economic development. The bill would also direct the Revenue Laws Study Committee to study existing property tax programs and benefits.

CURRENT LAW: No city in the State of North Carolina has the authority to levy a local sales and use tax. Counties are authorized to levy a local sales and use tax at a rate that varies from 2% to 2.75%. The counties must distribute a portion of the first 2% to the cities. The distribution between a county and its municipalities is based upon one of two methods: ad valorem or per capita. Cities have authority to levy the property tax, the rental car gross receipts tax, the heavy equipment rental tax, and vehicle taxes. Cities also receive a distribution of beer and wine excise taxes and a portion of the sales taxes on electric utilities, piped natural gas, telecommunications services, and video programming services.

BILL ANALYSIS: The PCS for House Bill 900 would, for the first time, authorize municipalities in North Carolina to levy a city-only sales tax. The bill sets the rate at one-quarter percent (.25%) and restricts its use for the construction and improvement of public infrastructure and facilities or for economic development. The tax would be administered in the same manner as the county local option sales tax. A city council may not levy the tax unless a majority of the voters approve the levy in a referendum.

The bill would also direct the Revenue Laws Study Committee to study existing property tax exemptions, exclusions, deferrals, and other benefits for the purpose of determining whether those benefits continue to serve their purpose. The Committee must report its findings and any legislative recommendations to the 2018 Regular Session of the 2017 General Assembly.

BACKGROUND: There would be some administrative issues to be considered if a city-level sales tax were implemented. For example, under the Streamlined Sales Tax Agreement, the State must apply the lowest combined tax rate imposed in a zip code area if the area includes more than one tax rate. This requirement would need to be taken into consideration for those cities that lie in multiple counties and across zip code areas. It could also present challenges for sellers when trying to identify the applicable rate. Also, an annexation or deannexation would potentially have the effect of changing the tax rate in a jurisdiction.

1 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. 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.
EFFECTIVE DATE: This act is effective when it becomes law.