



HOUSE BILL 947: Municipal Local Option Sales Tax.

2017-2018 General Assembly

Committee:	House State and Local Government II. If favorable, re-refer to Finance	Date:	May 30, 2018
Introduced by:	Rep. Fraley	Prepared by:	Trina Griffin
Analysis of:	PCS to First Edition H947-CSSVxfr-48		Staff Attorney

OVERVIEW: House Bill 947 authorizes the Town of Mooresville to conduct a referendum to authorize the levy of a 1/4% local sales and use tax for the purposes of street improvement.

The PCS would further allow the City of Mt. Airy to hold a similar referendum and would allow the City of Hendersonville to hold a referendum, but the purpose of the funds, if levied, would be for public facilities and infrastructure.

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%.¹ 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.

Cities also have the authority to levy special assessments for building and improving streets. Voter petitions are required, and the assessment must be levied after the project is complete.

BILL ANALYSIS: The Proposed Committee Substitute for House Bill 947 would, for the first time, authorize a municipality to levy a city-only sales tax. The bill would allow the Town of Mooresville² and the City of Mt. Airy³ to each hold a referendum on the question of whether to levy a municipal sales tax at the rate of one-quarter percent (1/4%) and would restrict the use of the proceeds for street improvements. Street improvements are defined to mean grading, surfacing, widening, or paving a street; acquiring one or more rights of way for a street; and constructing a sidewalk, curb, or gutter.

The bill would also authorize the City of Hendersonville⁴ to hold a referendum on the question of whether to levy a municipal sales tax at the rate of one-quarter percent (1/4%) and would restrict the use of the

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.

² The Town of Mooresville is located in Iredell County, which levies a 2% local sales and use tax.

³ The City of Mt. Airy is located in Surry County, which levies a 2.25% local sales and use tax.

⁴ The City of Hendersonville is located in Henderson County, which levies a 2% local sales and use tax.

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proceeds for public facilities and infrastructure. The term is broad and would include expenditures for things like parks, fire stations, police stations, storm drainage repairs, roads, and greenways.

For all municipalities covered by the bill, 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, which may only be held as follows:

- (1) At the same time as any other State or county general election.
- (2) At the same time as the primary election in any even-numbered year.
- (3) At the same time as any other election requiring all the precincts in the county to be open.
- (4) At the same time as a municipal general election, if the special election is within the jurisdiction of the municipality only.

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

BACKGROUND: There may be some administrative issues to be resolved 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 cities that share a zip code or for 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 without sufficient notice to retailers.⁵

⁵ Under current law and under this bill, a rate increase may only go into effect on the first day of a calendar quarter after retailers have been given 60 days' notice; also, the local government must give the Department of Revenue 90 days' notice of the rate increase.