



# HOUSE BILL 966: 2019 Appropriations Act - Miscellaneous Finance Provisions.

2019-2020 General Assembly

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|-----------------------|--|---------------------|---------------------------------|
| <b>Committee:</b>     |  | <b>Date:</b>        | May 29, 2019                    |
| <b>Introduced by:</b> | Reps. Johnson, Lambeth, Saine, McGrady | <b>Prepared by:</b> | Cindy Avrette<br>Staff Attorney |
| <b>Analysis of:</b>   | Fifth Edition                          |                     |                                 |

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**OVERVIEW:** *The Senate Committee Substitute for House Bill 966 makes the following finance-related changes:*

- *Provides that scholarship awards for students with certain disabilities, held in a personal education student account, may be deducted from adjusted gross income (AGI), to the extent they are included in AGI, for State income tax purposes, effective for taxable years beginning on or after January 1, 2020. {Section 8A.9}*
- *Extends the sunset on the dry-cleaning solvent tax for 10 years, from January 1, 2020 to January 1, 2030. {Sections 12.14}*
- *Encourages interlocal cooperation between public water and wastewater systems. The provision is substantially similar to Senate Bill 536, except it does not include a surcharge on all customers of public water and public wastewater systems. {Section 12.15}*
- *Sets the insurance regulatory charge at 6.5% for the 2020 calendar year. {Section 29.1}*
- *Expands the category of vehicles eligible for a historic vehicle special license plate by reducing the age of an eligible vehicle from at least 35 years old to 25 years old. This modification would have the effect of broadening the scope of the property tax benefit available to "antique automobiles." Antique automobiles that meet certain additional criteria are assessed at the lower of its true value or \$500. {Section 40.14}*
- *Increases registration fees for electric vehicles and authorizes a registration fee for plug-in hybrid vehicles effective January 1, 2020. The provision is identical to the provisions passed by Senate Finance on April 16, 2019 in Senate Bill 446. {Section 40.18A}*
- *Increases various fees.*

## SECTION 8A.9: COMBINE K-12 SCHOLARSHIP PROGRAMS FOR CHILDREN WITH DISABILITIES

**Section 8A.9** would combine the Children with Disabilities Grant and the Personal Education Savings Account (PESA) programs in the North Carolina Personal Education Student Accounts for Children with Disabilities Program to provide the option for a parent to better meet the individual education needs of the parent's child.

In 2017, the General Assembly provided a State income tax deduction from AGI for amounts deposited in a PESA, to the extent those funds are included in federal AGI. By allowing additional scholarship awards to be included in the PESA, renamed by this section to Personal Education

Karen Cochrane-Brown  
Director



Legislative Analysis  
Division  
919-733-2578

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Student Account, the provision would allow scholarship awards from the Children with Disabilities Grant program to also be deducted for State income tax purposes to the extent they are included in federal AGI.

Scholarship grants used for purposes allowed under the Internal Revenue Code are not included in federal AGI, and therefore are not included in State taxable income. However, the State programs allow some uses of the grant proceeds for purposes not authorized under the Code. To the extent these amounts are included in federal AGI, they may be deducted for purposes of determining State taxable income.

*The House budget included an identical provision.*

## **SECTION 12.14: DRY CLEANING SOLVENT PROGRAM EXTENSION**

State sales tax applies to the gross receipts derived from dry cleaning, laundering services, and linen rentals. Sixty percent (60%) of the revenue attributable to the State's sales tax on these services is transferred to the Dry Cleaning Solvent Cleanup Fund. The total annual transfer is estimated to be \$8 million. This transfer will sunset as of July 1, 2020.

There is also an additional State sales tax on each gallon of dry cleaning solvent sold by a retailer to a dry cleaning facility. The rate is \$10 per gallon of halogenated hydrocarbon-based dry cleaning solvent and \$1.35 per gallon of hydrocarbon-based dry cleaning solvent. The net proceeds of this tax are also credited to the Dry Cleaning Solvent Cleanup Fund. This tax will sunset on January 1, 2020.

The Fund is used to assess and clean up dry-cleaning solvent contamination at dry-cleaning and wholesale distribution facilities and to prevent dry-cleaning solvent releases at operating facilities. The Dry Cleaning Solvent Cleanup Act program is wholly funded by receipts from taxes on dry-cleaning sales and dry-cleaning solvents.

**Section 12.14** would extend the tax and the corresponding transfer of funds from the State sales tax on dry cleaning services for an additional 10 years, from 2020 to 2030.

*The House budget did not include a similar provision.*

## **SECTION 12.15: WATER/WASTEWATER PUBLIC ENTERPRISE REFORM**

**Section 12.15** is substantially similar to Senate Bill 536, currently in the Senate Agriculture/Environment/Natural Resources Committee, except it does not include a surcharge on all customers of public water and public wastewater systems. The Viable Utility Reserve, created by this provision, is funded by an appropriation of \$7.5 million for FY19-20 and \$10 million for FY20-21.

This section would do all of the following:

- Establish a process for identifying distressed public water systems and wastewater systems.
- Establish the Viable Utility Fund, within the Department of Environmental Quality, to be used for assisting public water and wastewater systems to become self-sustaining.
- Establish a process for a water or wastewater system created under Chapter 162 of the General Statutes to request merger or dissolution of that system.
- Encourage interlocal cooperation between public water and wastewater systems.

For a more detailed summary of the provision, please see the summary for [Senate Bill 536](#).

*The House budget did not include a similar provision.*

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## SECTION 29.1: INSURANCE REGULATORY FEE

**Section 29.1** would set the percentage rate of the insurance regulatory charge at 6.5% for the 2020 calendar year. The charge has been set at 6.5% each year since the 2015 calendar year.

North Carolina law requires an annual insurance regulatory charge be levied on each insurance company, other than a captive insurance company. The percentage rate for each taxable year must be established by the General Assembly. The charge levied is in addition to all other fees and taxes and is applied to the company's premium tax liability for the taxable year. The proceeds of the charge go to the Insurance Regulatory Fund which is under the control of the Office of State Budget and Management. All money credited to the Fund must be used to reimburse the General Fund for the appropriations identified in G.S. 58-6-25(d).

*The House budget included an identical provision.*

## SECTION 40.14: DMV/REDUCE NUMBER OF YEARS FOR A VEHICLE TO QUALIFY FOR AN ANTIQUE REGISTRATION PLATE

**Section 40.14** would expand the category of vehicles eligible for a historic vehicle special license plate by reducing the age of an eligible vehicle from at least 35 years old to 25 years old. This modification would have the effect of broadening the scope of the property tax benefit available to "antique automobiles." Antique automobiles that meet certain additional criteria are assessed at the lower of its true value or \$500.

*The House budget included an identical provision.*

## SECTION 40.18A: ELECTRIC/PLUG-IN HYBRID VEHICLE REGISTRATION FEES

**Section 40.18A** would increase registration fees for electric vehicles and authorize a registration fee for plug-in hybrid vehicles effective January 1, 2020, as follows:

- *Electric vehicles.* For plug-in electric vehicles that operate solely on electric power, the current add on registration fee of \$130 would be increased to \$230.
- *Plug-in hybrid vehicles.* For plug-in hybrid vehicles, defined as a vehicle that is capable of being propelled **solely** by electricity drawn from a battery that can be recharged from an external source of electricity but is also capable of using motor fuel to propel the vehicle, there would be a new add on registration fee of \$115.

Beginning January 1, 2021, and every year thereafter, the fees would be adjusted using the same formula currently used to adjust the motor fuel tax rate. The provision is identical to Senate Bill 446, passed by Senate Finance on April 16, 2019, and currently in the Senate Rules Committee. For a more detailed summary of the provision, please see the summary for [Senate Bill 446](#).

*The House budget did not include a similar provision.*

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## VARIOUS SECTIONS: VARIOUS FEE INCREASES

**Section 15.11** increases the following fees, used in support of the General Court of Justice, effective January 1, 2020:

- Performing a marriage ceremony, from \$20 to \$50. This fee amount was last increased in 2002.
- Hearing a petition in a special proceeding for year's allowance to a surviving spouse or child, from \$8 to \$20. This fee amount was last increased in 2002.
- Imposing a fee of \$20 when an estate is administered or settled under G.S. 28A-25-6. There is currently no fee imposed. G.S. 28A-25-6 is an alternative to the small estate settlement procedures. There is a \$20 fee imposed on each annual and final account filing of other small estate settlement procedures.

It also increases the fee for *in rem* foreclosures conducted for failure to pay property tax, if the property is sold under execution, from \$250 to \$300, effective October 1, 2019. This fee amount was last increased in 2011. The fee is added to the amount of taxes that are a lien on the real property, and are paid by the taxpayer to the taxing unit at the time the taxes are collected or the property is sold.

*The House budget did not include a similar provision.*

**Section 16.3** would increase court costs in criminal cases, effective December 1, 2019, as follows:

- Increase the appointment fee in criminal cases from \$60 to \$75, effective December 1, 2019. This fee amount was last increased in 2010. The increased fee amount is credited to the Indigent Persons' Attorney Fee Fund.
- Increase the court costs in criminal actions by \$2; the revenue generated by the fee would be used for legal representation to indigent defendants. The current court costs in criminal actions varies, depending upon the action. The least amount of court costs in a criminal action is for a district court infraction, and that costs is \$178.

*The House budget did not include a similar provision.*

**Section 18.21** would change the fee for radiological emergency planning imposed on an entity licensed to construct or operate a fixed nuclear facility for the production of electricity from a flat fee of \$36,000 to a fee of "at least \$36,000." The fee is payable to the Department of Public Safety for planning and implementing FEMA-required emergency response activities. Duke Energy is the only entity licensed to do this work, and currently has a voluntary agreement with the State under which it pays approximately \$2.2 million.

*The House budget included an identical provision.*