



SENATE BILL 105: 2021 Appropriations Act - Finance Provisions.

2021-2022 General Assembly

Committee: Senate Finance	Date: June 22, 2021
Introduced by: Sens. B. Jackson, Harrington, Hise	Prepared by: Finance Team
Analysis of: Second Edition	

OVERVIEW: *Senate Bill 105 incorporates the tax provisions passed by the Senate in House Bill 334¹, with one modification. The Senate CS for House Bill 334 reduced the personal income tax rate from 5.25% to 4.99% for taxable years beginning on or after January 1, 2022. Section 42.1(a), on page 388, would continue to reduce the rate from 4.99% to 3.99% over the following four taxable years.*

Senate Bill 105 includes a few other finance-related provisions noted in the bill summary below.

BILL ANALYSIS: Senate Bill 105 contains the following finance-related provisions:

Section 9D.9 would suspend the Medicaid Provider Enrollment fee of \$100 above the federally required fee for Medicaid and NC Health Choice provider enrollment or revalidation for two years. The fee suspension expires June 30, 2023. The section appropriates non-recurring funds to pay the administrative costs related to these programs to backfill the revenue loss from the temporary suspension.

Section 9D.13 would add a component to the Modernized Hospital Assessment calculation² that would increase it by an amount to cover the cost of providing additional coverage for pregnant women during pregnancy and through the 12-month postpartum, as allowed under the American rescue Plan federal legislation. The additional coverage and the additional assessment component would be effective for a 5-year period beginning April 1, 2022, consistent with the authority for the coverage under the American Rescue Plan.

Section 9E.1 would increase the capital cost threshold for Health Care Projects that require a Certificate of Need (CON). The CON application fees range from \$5,000 to \$14,000. Fiscal Research Division does not have the information to determine how many projects would become exempt from the fees because of this change, but it does not anticipate many. The State collects between \$2 and \$3 million dollars in CON fees.

Section 10.2 would give the Board of Agriculture the authority to create a fee for phytosanitary certificates. Phytosanitary relates to measures for the control of plant diseases especially in agricultural crops.

Section 30.1 would temporarily reduce the insurance regulatory fee from 6.5% to 5% for the 2022 calendar year. The revenue from the insurance regulatory fee supports the operation of the Department of Insurance. The balance in the Insurance Regulatory Fund exceeds what is necessary to defray the Department's cost of operations, including a reasonable margin for a reserve. The temporary rate reduction will spend down the excessive cash balance.

¹ The Senate CS for H334 passed 2nd reading on June 9th, 36-14; and passed 3rd reading on June 10th, 34-13.

² The House concurred in the Senate Committee Substitute for House Bill 383, Medicaid Modernized Hospital Assessments, on June 22, 2021. The bill remains on the House calendar for concurrence on 3rd reading.

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Section 41.9(c) is a revenue-neutral change to various license fees. The section would change the term of the licenses from a single year to a three-year term. Accordingly, this subsection triples the annual fee amount, taking into consideration the quadrennial fee adjustment authorized by G.S. 20-40.2 and imposed by the Division of Motor Vehicles, effective July 1, 2020.

Part XLII, beginning on page 388 of the bill, contains the tax-related changes. The changes are identical to the changes the Senate passed on June 9th and 10th in House Bill 334, with one modification: House Bill 334 reduced the personal income tax rate from 5.25% to 4.99% for taxable years beginning on or after January 1, 2022. Section 42.1(a) would continue to reduce the rate from 4.99% to 3.99% as follows:

Taxable Years Beginning	Rate
In 2022	4.99%
In 2023	4.7%
In 2024	4.6%
In 2025	4.5%
After 2025	3.99%

A more extensive summary of Part XLII of the bill is available in the [summary for the Senate committee substitute for House Bill 334](#). Here is an abbreviated summary of the provisions:

Section 42.1 reduces the personal income tax rate from 5.25% to 3.99% over 5 years, beginning in 2022; increases the standard deduction to match the 2022 federal standard deduction amounts; and increases the child deduction by \$500 and expands eligibility for the child deduction to more families, beginning in 2022.

Section 42.2 phases out the Corporate Income tax over 5 years, beginning in 2024.

Section 42.3 simplifies the franchise tax base calculation and, for some taxpayers, reduces the amount of franchise tax due, by eliminating the two tax bases calculated using property values. This change is effective for taxable years beginning on or after January 1, 2023 and applicable to the calculation of franchise tax reported on the 2022 and later corporate income tax returns.

Section 42.4 updates the reference to the Internal Revenue Code to April 1, 2021, which includes a permanent reduction in the medical expense deduction threshold from 10% of AGI to 7.5%.

Section 42.5 reduces the impact of federal SALT cap by allowing certain pass-throughs to elect to pay the State income taxes at the entity level, which is not subject to the federal state and local tax cap of \$10,000. This change is effective for taxable years beginning on or after January 1, 2021.

Section 42.6 creates a separate North Carolina NOL calculation to align more closely to the calculation of North Carolina taxable income, effective for taxable years beginning on or after January 1, 2021.

Section 42.7 extends by two years the time to complete eligible mill rehabilitation projects and eligible rehabilitation railroad station projects. It also extends the time a railroad station project must be designated as a local landmark; the effect of this change is to allow another railroad station project to qualify for the credit.

Section 42.8 limits the gross premiums tax on surety bonds for bail bonds to the amount remitted by the surety bondsman to the bond insurer, effective for taxable years beginning on or after January 1, 2022.

Section 42.9 subjects all cigars, whether sold online or in-person, to the existing rate of excise tax, which is 12.8% of the cost price per cigar, and places a cap on the excise tax in the amount of 30¢ per cigar. The section also adjusts the percentage of Other Tobacco Product tax revenue that goes to the University Cancer Research Fund to hold that Fund's revenue stable. This section would become effective July 1, 2022 and would apply to sales or purchases occurring on or after that date.

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Section 42.10 imposes the State and local sales tax on peer-to-peer car rentals, applicable to sales occurring on or after October 1, 2021, and directs \$500,000 of sales tax revenue to be credited annually from the General Fund to the Highway fund in recognition of the fact that peer-to-peer rentals exercise the privilege of using highways in this State. This section also credits to the Highway Fund the proceeds from the alternate highway use tax that is levied on short-term rentals and vehicle subscriptions. Currently, only the first \$10 million of these proceeds goes to the Highway Fund, and the remainder goes to the General Fund.

Section 42.11 replaces the flat penalty amount assessed for failure to pay a tax when due to a graduated amount.

Section 42.12 exempts the following two properties from property tax, effective for taxes imposed for taxable years beginning on or after July 1, 2022:

- Vaccines.
- Burial property owned and held for purposes of sale or rental, or sale of burial rights therein.

Section 42.13 makes technical, clarifying, and administrative changes to the tax laws, as recommended by the Department of Revenue.