

SENATE BILL 257: Finance Provisions in the 2025 Appropriations Act.

2025-2026 General Assembly

Committee: House Finance. If favorable, re-refer to Date: May 20, 2025

Appropriations. If favorable, re-refer to

Pensions and Retirement

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OVERVIEW: The finance provisions in Senate Bill 257, 4th Edition (2025 Appropriations Act), include various fee changes as described in the chart at the end of this summary and the following tax-related changes contained in Part 44 of the bill (p. 526-532):

- Make personal income tax changes that would:
 - Increase the rate reduction trigger amounts, which would reduce the likelihood of an automatic rate reduction in future years.
 - Increase the standard deduction, effective for taxable years beginning on or after January 1, 2026.
 - Create a deduction for the first \$5,000 received as tips, effective for taxable years beginning on or after January 1, 2026.
- Institute a "back-to-school" sales tax holiday for the first weekend in August, effective beginning in August 2026.
- Modify the distribution of sports wagering revenue by reducing the share of revenue received by the General Fund and the North Carolina Major Events, Games, and Attractions Fund while increasing the share of revenue distributed to North Carolina public university athletic departments and the NC Youth Outdoor Engagement Commission, effective July 1, 2025.
- Deduct 85% of annual operating costs of the Voice Interoperability Plan for Emergency Responders (VIPER) System managed by the North Carolina Highway Patrol from local sales tax proceeds, with a cap of 1% on year-over-year growth.
- Make changes related to the Medicaid hospital assessments that would:
 - Make freestanding psychiatric hospitals eligible to receive increased Medicaid reimbursements, known as Healthcare Access and Stabilization Program or "HASP" reimbursements, funded through increased hospital assessments on freestanding psychiatric hospitals, contingent upon federal approval.
 - o Make other Medicaid hospital assessment adjustments.
 - Require gross premiums tax revenue amounts that are used to pay for the State share of costs of NC Health Works Medicaid coverage to be transferred from the Department of Revenue to a Special Fund in the Department of Health and Human Services rather than to the General Fund.

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Tax Policy Provisions

Personal Income Tax Changes					
Section	Description			Effective Date	
44.1	Modify Rate Reduction Trigger Amounts This section would increase the net General Fund revenue threshold amounts required to trigger an automatic reduction in the personal income tax rate between 2027 and 2034. The increases, which are based on estimated population growth and inflationary factors, are as follows:			When law.	
	Fiscal Year	Current Law	Proposed Threshold	Year Beginning	
	FY 2025-2026	\$33,042,000,000	\$36,306,000,000	In 2027	
	FY 2026-2027	\$34,100,000,000	\$37,725,000,000	In 2028	
	FY 2027-2028	\$34,760,000,000	\$39,200,000,000	In 2029	
	FY 2028-2029	\$35,750,000,000	\$40,611,000,000	In 2030	
	FY 2029-2030	\$36,510,000,000	\$41,968,000,000	In 2031	
	FY 2030-2031	\$38,000,000,000	\$43,302,000,000	In 2032	
	FY 2031-2032	\$38,500,000,000	\$44,714,000,000	In 2033	
	FY 2032-2033	\$39,000,000,000	\$46,190,000,000	In 2034	
	trigger. The current law also provides for up to three possible 0.5 percentage point rate reductions between tax years 2027 through 2034 if certain net General Fund revenue thresholds are exceeded. By increasing the threshold amounts, this provision would reduce the likelihood of those rate reductions. The Senate budget did the following with respect to the triggers and personal income tax rate reductions: Reduce the tax rate from 3.99% to 3.49% in tax year 2027 and from 3.49% to 2.99% in tax year 2028 without any triggers. Reduce the tax rate to 2.49%, 2.24%, and 1.99% if total General Fund revenues meet trigger amounts specified for future fiscal				
	years. Th	00	ns would potentially	0 0	
44.1A	Increase Standard Deduction			For taxable years	
			andard deduction an ng on or after Janua		beginning on or after

¹ The federal standard deduction amounts for the 2025 taxable year, based on inflationary adjustments, are as follows: MFJ/SS: \$30,000; HoH: \$22,500; Single/MFS: \$15,000. For taxable year 2026, the federal standard deduction amounts decrease as follows if the Tax Cuts and Jobs Act (TCJA) sunsets as scheduled at the end of 2025: MFJ/SS: \$16,600; HoH: \$9,350; Single/MFS: \$8,300. If Congress takes action to extend or modify the TCJA, the standard deduction amounts could change.

Filing Status	Current Law	Proposed
Married, filing jointly/surviving spouse	\$25,500	\$26,500
Head of Household	\$19,125	\$19,875
Single	\$12,750	\$13,250
Married, filing separately	\$12,750	\$13,250

January 1, 2026.

The last time the standard deduction was increased was in 2021 for tax years beginning in 2022, and it was an 18.6% increase. The increase in this section is a 3.92% increase.

The Senate budget did not contain a similar provision.

44.1B

Create Deduction for the First \$5000 Received as Tips

This section would create a personal income tax deduction for up to \$5,000 in income received as tips. This deduction may be taken by a taxpayer in addition to the standard deduction or itemized deductions.

Tips are discretionary payments determined by a customer that employees receive from customers and include:

- Cash tips received directly from customers.
- Charged tips from customers who leave a tip through a credit card, debit card, gift card or any other electronic payment method.
- The value of any noncash tips, such as tickets or other items of value.
- Tip amounts received from other employees paid out through tip pools, tip splitting, or other formal/informal tip sharing arrangement.

Service charges distributed to employees are not considered tips and must be treated as wages to those employees.

To the extent personal income tax applies to "all income from whatever source derived" unless excluded by law, it applies to tips, including cash tips not reported to an employer. The basic rule is that if a worker earns more than \$20 in tips per month, the worker must report the tip income to their employer, who is then required to withhold FICA tax on it.

The Senate budget did not contain a similar provision.

For taxable years beginning on or after January 1, 2026.

Sales Tax Changes

44.2A

Institute Back-To-School Sales Tax Holiday

This section would institute a "back-to-school" sales tax holiday held the first weekend in August for certain clothing, school supplies, computers, and sports equipment, subject to per item price maximums.

July 1, 2026, and applies to purchases made on or after that date.

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North Carolina previously had a back-to-school sales tax holiday from 2001 to 2013. It was repealed effective July 1, 2014.

Approximately 14 states had a similar "back-to-school" sales tax holiday as of 2024, including South Carolina, Tennessee, and Virginia.

The Senate budget did not contain a similar provision.

Sports Wagering Revenue Distribution Changes

44.5

Modify Sports Wagering Revenue Distribution

This section would modify the distribution of tax proceeds from the tax on sports wagering operators as follows:

July 1, 2025, and applies to net proceeds credited on or after that date.

Recipient & Use of Funds	Current Law Allocation	Proposed Allocation
To Dept. of Revenue for administrative expenses	Up to \$500,000	No change
NC State Lottery Commission	Unreimbursed admin. expenses	No change
DHHS for gambling addiction education and treatment programs	\$2,000,000	No change
NC Amateur Sports for grants	\$1,000,000	No change
To each of the following NCAA Division II institutions to support collegiate athletic departments: Elizabeth City State University. Fayetteville State University. UNC Pembroke. Winston-Salem State University.	\$300,000	No change
To each of the following NCAA Division I non-Football Bowl Subdivision (FBS) institutions to support collegiate athletic departments: NC Agricultural & Technical State University. North Carolina Central University. UNC Asheville. UNC Greensboro. UNC Wilmington. Western Carolina University.	\$300,000	\$1,000,000
NC Youth Outdoor Engagement Commission for grants	\$1,000,000	\$3,000,000
NC Major Events, Games, and Attractions Fund	30% of remaining proceeds	\$10,000,000
To certain UNC System institutions to support collegiate athletic departments	20% of remaining proceeds, split evenly between 13 institutions ²	20% of remaining proceeds, split evenly between the 10

² The current 20% remainder allocation is split evenly between the 10 Division II and Division I non-FBS UNC System institutions listed above, as well as Appalachian State University, East Carolina University, and UNC Charlotte.

			institutions listed above ³ (2% to each)
To the following NCAA Division I FBS institutions to support	Appalachian State University. East Carolina University. UNC Charlotte. NC State.	\$300,000 + 1/13 of 20% of the remaining proceeds ⁴	50% of remaining proceeds, split evenly (10% to each
collegiate athletic departments:	UNC-Chapel Hill.	\$0	institution)
General Fund		50% of remaining proceeds	30% of remaining proceeds

The Senate budget would have done the following with respect to allocating the sports wagering tax revenue:

- Increased amounts to the 13 UNC System institutions currently receiving \$300,000 allocations to the following amounts:⁵
 - o \$500,000 for the Division II schools listed above.
 - \$1,000,000 for the Division I non-FBS schools listed above.
 - o \$1,500,000 for App State, ECU, and UNC Charlotte
- Provided that NC State and UNC-Chapel Hill would each receive 10% of the remaining proceeds (these institutions would also receive 10% of the remaining proceeds in the House budget).
- Reduced the amount to the Major Events, Games, and Attractions Fund from 30% of the remaining proceeds to 10%.

Use Local Sales Tax Proceeds for 85% of VIPER Costs

44.6

<u>Deduct 85% of Operating Costs for VIPER from Local Sales Tax</u> <u>Proceeds, with a Cap on Growth</u>

Certain costs incurred by the State to provide various functions that support local governments are deductible from local sales tax collections. They include the Department of Revenue's costs associated with the Local Government Division, the Property Tax Commission, and for administering the Unauthorized Substances Tax; the State Treasurer's costs for personnel and operations of the Local Government Commission, and the costs associated with the School of Government's property tax appraisal and assessment training program.

This section would add to the list 85% of the annual operating costs for the Voice Interoperability Plan for Emergency Responders (VIPER) System managed by the North Carolina Highway Patrol, with a cap of 1%

³ The proposed allocation would no longer provide a split of the 20% remainder for Appalachian State University, East Carolina University, and UNC Charlotte.

⁴ See Footnote 2.

⁵ TTL C 1

⁵ The Senate budget would not have changed the current law with respect to the schools that receive a portion of the 20% remainder allocation.

	for year-over-year growth. In other words, the amount deducted may not exceed 85% of the previous year's operating costs adjusted by 1% to account for growth.	
	The Senate budget had no similar provision.	
Change	es Related to Medicaid Hospital Assessments	
9E.11	Modify Hospital Health Advancement Assessments to Remove Gross Premium Tax Offset Component	Would expire before taking effect, per
	Section 9E.11 would eliminate the gross premiums tax offset component in the Medicaid hospital health advancement assessments. The gross premiums tax offset component reduces the amount of assessments that hospitals pay under the statutory assessment formula. By eliminating that component, this provision would increase the amount of assessments hospitals pay.	Section 44.7(e)
	This section conflicts with Section 44.7. Under Section 44.7(e) this section would expire when the act becomes law, which is before the section would otherwise become effective.	
	The Senate budget had a provision that differed from this section, but was identical to Section 44.7, with the exception of staff-identified technical corrections.	
9E.12	Continue Medicaid Coverage for Pregnant Women for Twelve Months Postpartum	When the act becomes law
	Section 9E.12 would amend the modernized hospital assessments to remove the sunset date on the postpartum component of those assessments, which collects funding for the nonfederal share of costs to provide Medicaid coverage for pregnant women for twelve months postpartum. The sunset date in current law corresponded with the anticipated end date of temporary federal authority for this coverage as enacted in Sections 9812 and 9822 of the American Rescue Plan Act of 2021 (Pub. L. 117-2); however, the temporary federal authority was later made permanent in Section 5113 of P.L. 117-328. This section would make the North Carolina postpartum coverage permanent and would continue the funding provided through the hospital assessments. <i>The Senate budget had an identical provision</i> .	
9E.13	Ensure Medicaid Receipts for NC Health Works Implementation Costs	July 1, 2026
	Section 9E.13 would collect, through the hospital health advancement assessments, additional one-time hospital receipts to replace the assessment in Section 1.5 of S.L. 2023-7 (Access to Healthcare Options) that would have collected funds to be used for start-up costs of new NC	

	Health Works Medicaid coverage but that expired before it could take effect.	
	The Senate budget had a similar provision that would collect the assessment in the 2026-2027 fiscal year.	
9E.14	Ensure Certain Medicaid Receipts	July 1, 2026
	Section 9E.14 would collect, through the modernized hospital assessments, additional one-time hospital receipts to recover an uncollected quarter (\$10.75M) of the \$43M in annual funding once generated through the State's Disproportionate Share Hospital (DSH) plan, which was suspended due to the greater hospital reimbursements available through HASP and Medicaid expansion. Although the Medicaid hospital health advancement assessments enacted in S.L. 2023-7 provide, under G.S. 108A-147.8, \$10.75M per quarter to replace DSH plan funds, one quarter of anticipated payment could not be collected due to a delay in prerequisite conditions being met.	
	The Senate budget had a similar provision that would collect the assessment in the 2026-2027 fiscal year.	
9E.16	Medicaid HASP Reimbursement for Psychiatric Hospitals	The first day of the next assessment quarter after the act becomes law,
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	Section 9E.16 contains the same provisions that are in H242 and S177 (Medicaid HASP Reimbursement for Psychiatric Hospitals), which are based on a proposal by the Department of Health and Human Services (DHHS) in a recent legislative <u>report</u> ⁶ .	quarter after
	(Medicaid HASP Reimbursement for Psychiatric Hospitals), which are based on a proposal by the Department of Health and Human Services	quarter after the act
	(Medicaid HASP Reimbursement for Psychiatric Hospitals), which are based on a proposal by the Department of Health and Human Services (DHHS) in a recent legislative report. Section 9E.16(a) would authorize freestanding psychiatric hospitals to be added to the Medicaid Healthcare Access and Stabilization Program (HASP), which provides increased Medicaid reimbursements to acute care hospitals for the Medicaid services they provide. Section 9E.16(b) would direct DHHS to request federal approval of this change to the	quarter after the act becomes law, and applies to hospital assessments imposed on or

⁶ The March 1, 2024, DHHS report titled "Proposal for Incorporating Freestanding Psychiatric Hospitals into the Healthcare Access and Stabilization Program (HASP)" is available online at https://www.ncdhhs.gov/sl-2023-134-section-9e27b-haspfreestanding-psych-hospitals/download?attachment.

	Section 9E.16(m) would add to the hospital health advancement assessments a new "freestanding psychiatric hospital health advancement assessment," which would collect funding for the nonfederal share of HASP payment made for Medicaid expansion beneficiaries.	
	Other changes in this section would be conforming changes to the hospital assessment statutes to account for the addition of the assessments on freestanding psychiatric hospitals.	
	The Senate budget had an identical provision.	
44.7	Gross Premiums Tax Offset Changes	July 1, 2025
	S.L. 2023-7 created new NC Health Works Medicaid coverage that began in 2023 and is funded entirely from (i) federal receipts, (ii) hospital assessment proceeds, and (iii) increased revenue from the gross premiums tax due to the addition of the new NC Health Works coverage. To separate the funds that are used to pay for the nonfederal share of NC Health Works costs from other funds used for Medicaid, S.L. 2023-7 created the Health Advancement Receipts Special Fund to hold the State funds for NC Health Works costs.	
	Because gross premiums tax revenue is generally transferred to the General Fund under current law, the amount of that revenue attributable to the addition of NC Health Works coverage must be appropriated from the General Fund to the Health Advancement Receipts Special Fund on an ongoing basis. The amount of gross premiums tax revenue that is attributable to the addition of NC Health Works coverage is called the "gross premiums tax offset amount" in G.S. 108A-147.12(b).	
	Section 44.7(a) would eliminate the need for an appropriation from the General Fund of the gross premiums tax offset amount by directing the Secretary of Revenue to transfer the gross premiums tax offset amount directly to the Health Advancement Receipts Special Fund quarterly rather than transferring the amount to the General Fund. Sections 44.7(b)-(e) would make conforming changes necessary for implementation of the change.	
	The Senate budget contained a provision that was identical to this provision with the exception of staff-identified technical corrections. The Senate provision appeared as Section 9E.11 under Health and Human Services.	

FEE PROVISIONS

Section	Description
DEQ 12.11 and 12.15	ESTABLISH NON-TITLE V FEES IN STATUTE

Section 12.11 would authorize the Department of Environmental Quality (DEQ) to (p. 312 and p. 316) charge the following permit fees for non-Title V facilities: • Application fees of \$800 and annual fees of \$3,070 to facilities seeking federally enforceable limits to avoid Title V permitting. Application fees of \$100 and annual fees of \$400 to facilities with a potential to emit below Title V thresholds. Ownership change fee of \$50. A discount of up to 25% on annual fees may be provided by DEQ. MODIFY PAYMENT OF BROWNFIELDS PROPERTY REUSE ACT FEES Section 12.15 would make various changes to the process and timing of the payment of fees established under current law for the Brownfields program and would add a new fee payable by the prospective developer if they are out of compliance with the statutory requirements regarding the Notice of Brownfields property. LAB LABOR FEES/REGULATORY FLEXIBILITY 13.1 Section 13.1 contains the same provisions that are in H559 (Make Elevators Great (p. 318)Again), which passed the House unanimously on April 16. It would: Increase the maximum caps for fees that may be charged by the Department of Labor, with authority to make annual inflationary adjustments, for the inspection of elevators, amusement devices, and passenger tramways as well as make other fee modifications. Provide regulatory flexibility by allowing the Commissioner of Labor to waive or amend the American National Safety Standards applicable to the qualifications of inspectors to the extent the Commissioner sets alternative standards that are reasonably equivalent. Require the NC Department of Labor to consult with the NC Community College System to develop an in-house training and apprenticeship program for elevator inspectors. AOC MODIFY CIVIL REVOCATION FEE 16.7 and Section 16.7 would increase the Driving While Impaired (DWI) Civil License 16.16B Revocation Fee by \$100 and modifies where the fee revenues are distributed. (p. 330 and ESTABLISH A PROCEDURE FOR COMPLEX FAMILY FINANCIAL CASE p. 334) DISPOSITION Section 16.16B contains provisions of House Bill 770, which is currently in House Judiciary 2. It would establish a new fee of \$1,100 for a judicial claim designated as a complex family financial claim. A complex family financial claim is one involving equitable distribution, alimony, post separation support, child support, or any combination of those claims. SBI ADJUST USER FEE FOR DIVISION OF CRIMINAL INFORMATION 20.6 Section 20.6 would increase the State Bureau of Investigation's fee assessed for users of (p. 370)the Division of Criminal Information Network from \$25 to \$33 for desktop users and

\$12 to \$20 for mobile users per device.

DOA	ADDITIONAL SUPPORT FOR DOMESTIC VIOLENCE CENTER GRANTS
22.1 (p. 375)	Section 22.1 would increase from \$75 to \$125 the fee for filing an action for divorce in district court and from \$60 to \$100 the fee paid to the register of deeds for a marriage license. The entirety of the \$125 fee and \$70 of the marriage license fee would be credited to the Domestic Violence Center Fund.
SEC	PAPER FILING FEE
37.2 and 37.3 (p. 424 and p. 425)	Section 37.2 would authorize the Office of Secretary of State to collect a new fee of up to \$10 for every typewritten or printed document that could be filed electronically. The proceeds of the fee would be used only to: (1) reduce the processing or response time for services provided by the Office, (2) improve the online filing system, and (3) cover costs associated with the handling of mail by the Office.
	SECURITIES SALESMAN DUAL REGISTRATION
	Section 37.3 would authorize securities salesmen to be registered with more than one dealer and would require that the \$125 fee for initial application or renewal apply for each dealer with whom the salesman is registered. The fees derived from the registration of salesman with more than one dealer would be deposited in the Dual Registration Fees Special Fund within the Secretary of State's Office and subject to appropriation by the General Assembly.