# GENERAL ASSEMBLY OF NORTH CAROLINA SESSION 2007

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## **HOUSE DRH50370-LYx-8D\*** (12/10)

Short Title: Sales Tax Medicaid Swap. (Public)

Sponsors: Representative Gibson.

Referred to:

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1 A BILL TO BE ENTITLED

AN ACT TO SHIFT THE ENTIRE NONFEDERAL SHARE OF MEDICAID TO THE STATE AND TO MAKE CORRESPONDING CHANGES TO STATE AND LOCAL REVENUE STREAMS.

5 The General Assembly of North Carolina enacts:

#### PART I. MEDICAID CHANGES

**SECTION 1.1.** Effective July 1, 2007, the nonfederal share of Medical Assistance Program costs, excluding administrative costs, shall be borne by the State.

**SECTION 1.2.** This part is effective when it becomes law.

### PART II. SALES AND USE TAX CHANGES

**SECTION 2.1.** The lead-in language of G.S. 105-164.4(a) reads as rewritten:

"(a) A privilege tax is imposed on a retailer at the following percentage rates of the retailer's net taxable sales or gross receipts, as appropriate. The general rate of tax is four percent (4%).(4%) plus any amount converted to a State tax under Articles 39 and 40 of this Chapter.

...."

**SECTION 2.2.** Article 39 of Chapter 105 of the General Statutes is amended by adding a new section to read:

### "§ 105-475. Conversion to State tax; hold harmless.

- (a) Conversion. Effective July 1, 2007, a portion of a tax levied under this Article is converted to a State sales and use tax. The portion of the tax that is converted to a State tax is equal to fifty percent (50%) of the tax imposed. On or after that date, a county has the authority to enact or repeal the local portion of the tax only.
- (b) City Hold Harmless. A county shall ensure that the municipalities within the county receive the same distribution that they received from a tax levied under this Article for the 2006-2007 fiscal year."

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**SECTION 2.3.** Chapter 1096 of the 1967 Session Laws is amended by adding a new section to read:

"Section 10.4. Effective July 1, 2007, a portion of a tax levied under this act is converted to a State sales and use tax. The portion of the tax that is converted to a State tax is equal to fifty percent (50%) of the tax imposed. On or after that date, Mecklenburg County has the authority to enact or repeal the local portion of the tax only. Mecklenburg County shall ensure that the municipalities within the County receive the same distribution that they received from a tax levied under this act for the 2006-2007 fiscal year."

**SECTION 2.4.** G.S. 105-481 is repealed.

**SECTION 2.5.** G.S. 105-486 is repealed.

**SECTION 2.6.** G.S. 105-487 is repealed.

**SECTION 2.7.** Article 40 of Chapter 105 of the General Statutes is amended by adding a new section to read:

## "§ 105-487.1. Conversion to State tax; hold harmless.

- (a) Conversion. Effective July 1, 2007, a tax levied under this Article is converted to a State sales and use tax. On or after that date, a county has no authority to enact or repeal the tax.
- (b) City Hold Harmless. A county shall ensure that the municipalities within the county receive the same distribution that they received from a tax levied under this Article for the 2006-2007 fiscal year."

**SECTION 2.8.** Chapter 105 of the General Statutes is amended by adding a new Article to read:

"Article 46.

"Second One-Cent (1¢) Local Government Sales and Use Tax.

#### "§ 105-535. Short title.

This Article is the Second One-Cent (1¢) Local Government Sales and Use Tax Act. "\$ 105-536. Limitations.

This Article applies only to counties that levy the first one-cent  $(1\phi)$  local sales and use tax under Article 39 of this Chapter or under Chapter 1096 of the 1967 Session Laws, the first one-half cent  $(1/2\phi)$  local sales and use tax under Article 40 of this Chapter, the second one-half cent  $(1/2\phi)$  local sales and use tax under Article 42 of this Chapter, and the third one-half cent  $(1/2\phi)$  local sales and use tax under Article 44 of this Chapter.

#### "§ 105-537. Levv.

The board of county commissioners may, by resolution and after 10 days' public notice, levy a local sales and use tax under this Article. The board of county commissioners must specify the rate of tax in the resolution levying the tax. The rate of a tax levied under this Article may not exceed one percent (1%) and must be an increment of one-quarter percent (1/4%). A county may levy multiple taxes under this Article so long as the total rate of all taxes levied under this Article does not exceed one percent (1%).

43 "<u>§ 105-538. Administration.</u>

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Except as provided in this Article, the adoption, levy, collection, administration, distribution, and repeal of the additional taxes authorized by this Article shall be in accordance with Article 39 of this Chapter. Notwithstanding the provisions of G.S. 105-466, a tax may be imposed under this Article as early as July 1, 2007. The provisions of Article 39 regarding advisory referenda do not apply to a tax levied under this Article. The provisions of G.S. 105-472 requiring counties to share the proceeds of a tax with municipalities in the county do not apply to a tax levied under this Article."

**SECTION 2.9.** A tax levied under Article 46 of Chapter 105 of the General Statutes, as enacted by this act, does not apply to construction materials purchased to fulfill a lump-sum or unit-price contract entered into or awarded before the effective date of the levy or entered into or awarded pursuant to a bid made before the effective date of the levy when the construction materials would otherwise be subject to the tax levied under Article 46 of Chapter 105 of the General Statutes.

## **SECTION 2.10.** G.S. 105-269.14(b) reads as rewritten:

"(b) Distribution. – The Secretary must distribute a portion of the net use tax proceeds collected under this section to counties and cities. The portion to be distributed to all counties and cities is the total net use tax proceeds collected under this section multiplied by a fraction. The numerator of the fraction is the local use tax proceeds collected under this section. The denominator of the fraction is the total use tax proceeds collected under this section. The Secretary must distribute this portion to the counties and cities in proportion to their total distributions under Articles 39, 40, 42, 43, and 444, 45, and 46 of this Chapter and Chapter 1096 of the 1967 Session Laws for the most recent period for which data are available. The provisions of G.S. 105-472, 105-486, and 105-501, 105-501, 105-510, 105-520, 105-531, and 105-538 do not apply to tax proceeds distributed under this section."

**SECTION 2.11.** Sections 2.1, 2.4, 2.5, and 2.6 of this part become effective July 1, 2007, and apply to sales made on or after that date. Section 2.10 of this part is effective for taxable years beginning on or after January 1, 2008. The remainder of this part is effective when it becomes law.

### PART III. EFFECTIVE DATE

**SECTION 3.1.** Except as otherwise provided, this act is effective when it becomes law.

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