



SENATE BILL 607: Taxpayer Bill of Rights

2015-2016 General Assembly

Committee:	Senate Finance	Date:	August 6, 2015
Introduced by:	Sens. Rucho, Meredith, Brock	Prepared by:	Heather Fennell
Analysis of:	PCS to First Edition S607-CSTD-39		Committee Counsel

SUMMARY: *The PCS to Senate Bill 607 would propose the following three changes to the State Constitution:*

- *Modifies Section 2 of Article V to cap the tax on income at 5% (currently capped at 10%).*
- *Creates a new constitutionally required Emergency Savings Reserve Fund. Bills appropriating money from the Emergency Savings Reserve Fund require a vote of two-thirds of both houses.*
- *Creates a new limit on the growth of State spending in the annual budget. The growth is limited to the percentage of inflation plus population growth. The General Assembly may vote to increase the spending limit with a vote of two-thirds of both houses.*

CURRENT LAW: The State Constitution may be amended by either a constitutional convention or by legislative action. An amendment proposed by legislative action must be approved by a vote of three-fifths of each house and submitted to the voters of the State. If a majority of the voters of the State approve the amendment, the amendment will become effective either the January following the public vote, or the date provided in the legislative proposal.

BILL ANALYSIS:

PART I: Maximum Tax Rate on Income

Section 2 of Article V of the North Carolina Constitution provides the tax rate imposed on income cannot exceed 10%. The current rate for corporate income tax is 5%. The current rate for personal income tax is 5.75%.

If enacted by the General Assembly, and approved by a majority of voters, this Part would limit the tax on income to 5% for tax years beginning on or after January 1, 2020.

PART II: Emergency Savings Reserve Fund

North Carolina is one of 48 states with a savings reserve account that can help balance the state budget during an economic downturn or an unforeseen event. The State’s goal is to maintain a reserve equal to 8% of the prior year’s General Fund operating budget. By statute, the North Carolina Savings Reserve Account receives one-fourth of any unreserved fund balance remaining in the General Fund at the end of a fiscal year. Funds in the Savings Reserve Account remain part of the unappropriated General Fund balance until appropriated by the General Assembly.

If enacted by the General Assembly, and approved by a majority of the voters, effective for fiscal years beginning in 2016, this Part would create an Emergency Savings Reserve Fund in the State treasury. The

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General Assembly may only appropriate funds from the Savings Reserve Fund with a vote of two-thirds of both houses. Bills appropriating funds from the Reserve Fund are not subject to veto by the Governor.

PART III: Limit Spending Growth

If enacted by the General Assembly, and approved by a majority of the voters, effective for fiscal years beginning in 2017, this Part would limit growth in State spending to the growth in inflation and population of the State. The General Assembly may vote to increase the spending limit for a fiscal year with a vote of two-thirds of both houses. Bills increasing the spending limit for a fiscal year are not subject to veto by the Governor.

- Fiscal year spending includes General Fund expenditures, excluding General Fund receipts.
- Inflation growth means the growth in the Consumer Price Index, excluding energy and food.
- Population includes all residents of the State, excluding Armed Forces living overseas, as determined by the Census Bureau and estimated annually by the State's Data Center.

EFFECTIVE DATE: The modification for the maximum tax rate on income tax is effective for tax years beginning on or after January 1, 2020. The new amendments creating the Emergency Savings Reserve Fund are effective for fiscal years beginning on or after July 1, 2016. The new amendments limiting the growth on State spending are effective for fiscal years beginning on or after July 1, 2017.