

Issue: SB 394 – Lower Tax Rates for a Stronger NC Economy

BACKGROUND:

SB 394 is a bipartisan tax modernization bill that would reduce personal and corporate income tax rates, but also would eliminate at least \$320 million in existing municipal revenue while providing an unspecified amount of new revenue through an expanded sales tax base. The bill does not hold cities and towns harmless if the proposed reductions in municipal revenues are not replaced by additional revenues flowing from an expanded sales tax base.

The bill would make the following changes that reduce municipal revenues:

- Reduce the local sales tax on food from 2% to 1% effective July 1, 2015, thereby decreasing municipal revenues by over \$40 million.
- Eliminate the State and local franchise taxes on electricity and natural gas, and subject sales of those items to the full state and local sales tax rates. As a result, cities would no longer receive over \$200 million in utility franchise tax revenue from those items. While additional revenue would be provided from the sales tax on electricity and natural gas, cities would share those new sales tax revenues with counties. Cities would continue to be prohibited from levying local privilege taxes on companies providing these services. The change would be effective January 1, 2014.
- Eliminate all State and local business privilege license taxes, including local beer and wine privilege taxes, effective for fiscal years beginning July 1, 2014. Beer and wine permits would still need to get a local license, but municipalities could only charge a reasonable fee. The loss of privilege license tax authority would reduce municipal revenues by over \$60 million.
- Eliminate the \$22 million local distribution from beer and wine excise taxes.

The bill would replace an as-yet undetermined amount of this revenue through the expansion of the state and local sales tax base to include the following:

- Alteration, repair, maintenance, cleaning, and installation services for any item of personal property that is subject to the sales tax.

- Entertainment and recreation services.
- Property care and maintenance services including cleaning, extermination, and landscaping.
- Security services including guards, patrols, armored car transportation, remote monitoring of security systems, locksmiths, and vehicle tracking and assistance.

The bill also would eliminate all preferential State sales tax rates, and several tax exemptions, which also would expand the State and local sales tax base.

MESSAGE POINTS FOR YOUR USE

- + Expanding the North Carolina sales tax to include more services would have the benefit of creating a general consumption tax that does not favor some types of businesses over others. The revenue generated by expanding the sales tax base would not be even across the state, however. It is expected that urban counties would gain more revenue from service taxation than rural counties.
- + The amount of revenue that a city or town would gain from expanding the sales tax base may be less than the amount of revenue it would lose from eliminating the excise taxes on electricity and natural gas, the local share of the beer and wine taxes, half of the local sales tax on food, and the local privilege license tax.
- + Any effort to modernize the state tax system should ensure that all municipalities are held harmless from any changes to their tax structure, and that the new structure provides enough revenue to meet municipal service needs during all phases of the economic cycle.
- + Cities and towns must have more locally-levied revenue sources than just the property tax. The privilege tax currently is one of these sources and should be reformed, but retained as significant revenue source. Authorizing cities and towns to levy a sales tax that applies only within their borders would provide additional locally controlled revenue.

ACTION: Ask your legislators, “Will you commit to holding municipalities harmless from changes to their tax structure, by jurisdiction?”