

**GENERAL ASSEMBLY OF NORTH CAROLINA
SESSION 2007**

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HOUSE BILL 1140*

Short Title: Sales Tax Medicaid Swap. (Public)

Sponsors: Representative Gibson.

Referred to: Finance.

March 28, 2007

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.

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."

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

1 G.S. 105-466, a tax may be imposed under this Article as early as July 1, 2007. The
2 provisions of Article 39 regarding advisory referenda do not apply to a tax levied under
3 this Article. The provisions of G.S. 105-472 requiring counties to share the proceeds of
4 a tax with municipalities in the county do not apply to a tax levied under this Article."

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

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

12 "(b) Distribution. – The Secretary must distribute a portion of the net use tax
13 proceeds collected under this section to counties and cities. The portion to be distributed
14 to all counties and cities is the total net use tax proceeds collected under this section
15 multiplied by a fraction. The numerator of the fraction is the local use tax proceeds
16 collected under this section. The denominator of the fraction is the total use tax
17 proceeds collected under this section. The Secretary must distribute this portion to the
18 counties and cities in proportion to their total distributions under Articles 39, 40, 42, 43,
19 ~~and 4444, 45, and 46~~ of this Chapter and Chapter 1096 of the 1967 Session Laws for the
20 most recent period for which data are available. The provisions of G.S. 105-472,
21 ~~105-486, and 105-501~~ 105-501, 105-510, 105-520, 105-531, and 105-538 do not apply
22 to tax proceeds distributed under this section."

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

27 **PART III. EFFECTIVE DATE**

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