

April 5 2001

**S 1088. TAX RESTRUCTURING ACT OF 2001.** *TO CREATE AN EARNED INCOME TAX CREDIT, PHASE OUT THE REMAINING SALES TAX ON FOOD, REDUCE THE MARRIAGE TAX PENALTY, EXPAND THE PROPERTY TAX HOMESTEAD EXEMPTION, PROVIDE ADDITIONAL SALES TAX REVENUE FOR LOCAL GOVERNMENTS, AUTHORIZE ADDITIONAL REVENUE OPTIONS FOR LOCAL GOVERNMENTS, AND REPEAL CERTAIN REIMBURSEMENTS FOR REPEALED TAXES.* Adds new GS 105-151.29 permitting person claiming an earned income tax credit under the Internal Revenue Code to claim credit against NC tax in amount of 10 percent of federal credit; requires state to refund to taxpayer any amount of credit larger than taxpayer's state tax liability. Amends GS 105-134.6(c), which lists amounts to be added to federal taxable income in calculating NC income tax, to require adding back, for married couple filing joint return, the amount by which federal standard deduction exceeds \$6000, and for married person filing separate return, the amount by which federal standard deduction exceeds \$3000. Makes income tax changes effective for taxable years beginning on or after Jan. 1, 2001.

Amends various local government sales and use taxes to remove purchases of food from taxed transactions on following schedule: food removed from Art. 40 and 42 taxes effective Oct. 1, 2001; food removed from Art. 39 tax effective Oct. 1, 2002. Amends GS 105-277.1 (homestead exemption) to increase value of excluded portion of residence to greater of \$25,000 or an amount equal to one-half of the median appraised value of owner-occupied single-family homes in the county in which the residence is located. Increases income threshold for qualifying for homestead exemption to greater of "index amount" or 50% of median household income for the county in which the residence is located. Sets "index amount" at \$25,000 until July 1, 2003; thereafter amount is increased each year by same percentage by which federal government increased benefits under Titles II and XVI of Social Security Act during calendar year preceding year in which determination of new index amount is made. Makes homestead exemption changes effective for taxable years beginning on or after July 1, 2002.

Effective Oct. 1, 2001, increases state sales tax by one-half percent and directs Department of Revenue, beginning Jan. 2002, to distribute proceeds to local governments in an amount 50% of the amount each local government receives from Article 40 and 42 sales taxes combined. (This is a per capita distribution among the 100 counties.) Adds new article 44 to GS Chapter 105, permitting boards of county commissioners, on their own motion or after referendum approval, to levy an additional one-half percent local sales and use tax. Provides that such a tax is to be returned to the county of collection and distributed between the county and each city and town on the same basis as other sales and use taxes. There is no earmarking of the proceeds of either the additional state sales tax or the optional new local sales tax.

Includes a menu of new revenue sources for local government, as follows:

*Meals tax.* Permits board of county commissioners to levy one percent tax on prepared food, on own option or after voter approval; provides that such authority is not in addition to existing local act authorizations for such taxes. Requires that tax proceeds be shared with cities within county on per capita basis, and permits use of proceeds for any lawful purpose.

*Occupancy tax.* Permits city council or board of county commissioners to levy three percent occupancy tax, on own motion or after voter approval; provides that such authority is not in addition to existing local act authorizations for such taxes. Permits taxing unit to use proceeds for any lawful purpose.

*Vehicle tag tax.* Permits board of county commissioners to levy tax of \$5 upon any vehicle resident in county. Requires that tax proceeds be shared with cities on same basis that sales tax is shared, and permits proceeds to be used for any lawful purpose.

*Excise tax on conveyances.* Permits board of county commissioners to levy excise tax on conveyances of one percent of value; provides that such authority is not in addition to existing local act authorizations. Requires that tax proceeds be shared with cities on same basis that sales tax is shared, and permits proceeds to be used for any lawful purpose.

Effective July 1, 2001, repeals statutes providing following repealed-tax reimbursements to counties and cities: sales tax on food stamps; manufacturer's inventories; intangibles tax; retailers' and wholesalers' inventories; and homestead exemption.

Makes local option sales tax and other local option tax provisions effective when they become law.

**Intro. by Clodfelter.**

Ref. to Finance	GS 20, 105, 153A, 160A
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