

What Businesses Should Know About the 2018 North Carolina Legislative Session



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The North Carolina General Assembly left Raleigh after adjusting the second year of the biennial budget and considering a number of policy issues during a six-week session. Legislators now return to their districts to campaign and are expected to be in Raleigh only periodically this fall for occasional committee meetings. Here are some items of interest to businesses from this year's session:

Some tax laws were changed.

In response to changes in federal tax law, legislators made changes to the state tax code. These include: following federal changes on limiting the net interest deduction; disallowing certain business losses; and repealing the deduction for some fringe benefits. They did not follow other federal changes, including those on bonus depreciation, the standard deduction, and itemized deductions.

Legislators left in place tax changes enacted last year that are effective January 1, 2019. On that date, personal income tax rates will fall from 5.499 percent to 5.25 percent, the corporate income tax rate will fall from 3 percent to 2.5 percent, and the franchise tax rate for S corporations will be reduced. The standard deduction (the amount on which people pay no income taxes unless they itemize) will also be increased.

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New transportation bonds were authorized.

Legislators approved a new funding source – Build NC bonds (S 758). The new bonds are similar to federal GARVEE bonds and will be serviced based on future tax revenues. The new law allows the state to borrow up to \$3 billion over 10 years and the new funds will be directed to regional and local projects.

Medicaid reform advances.

North Carolina is moving toward a managed care system for Medicaid. Two bills (H 156 and H 403) were enacted to spur this move. They create

a system for licensing provider health plans (the entities that will compete to be Medicaid managed care organizations) and outline additional details on how the system will work once implemented. An RFP for this move is expected in the next couple of months.

School safety funds were appropriated.

Legislators appropriated \$35 million for school safety to be used for a grant program to hire more school resource officers and school-based mental health workers. The appropriation also includes funding to create a statewide tip line.

Educator and state employee salaries were increased.

Legislators increased educator salaries by an average of 6.5 percent. Most state employees will receive a raise of at least 2 percent and the minimum pay rate for many employees was raised to \$15 per hour.

Constitutional amendments were placed on the November ballot.

Legislators put a number of constitutional amendments on the November 6, 2018 ballot:

Change maximum income tax rate from 10 percent to 7 percent (S 75)

Protect right to hunt and fish (S 677)

Create a Judicial Merit Commission to evaluate candidates for judicial vacancies and submit evaluations to the legislature, which would then recommend at least two nominees for the Governor to choose from (S 814)

Enumerate crime victims' rights (H 551)

Establish the Board of Ethics and Elections with the legislature appointing its members (H 913)

Require photo identification to vote in person (H 1092)

Some changes were made on economic development.

The Jobs Development Investment Grant (JDIG) incentive was altered to encourage more large companies to locate in North Carolina. Ten million dollars was appropriated for a new rural broadband grant program, and a new state office in India was funded.

Opioid penalties were strengthened.

A new law (S 616)—the HOPE (Heroin & Opioid Prevention & Enforcement) Act—creates new criminal penalties for medical workers who embezzle or divert patient pain medicines for their personal use or sale. It also grants certain police investigators easier access to prescription records and provides more funding for opioid abuse treatment. This law supplements last year's actions that improved prescribing practices, strengthened the controlled substances reporting system, and allocated funds for treatment and the purchase of antidote drugs.

Some judicial districts were altered.

Two bills impacting the judicial system became law after legislators overrode vetoes by the Governor. H 717, among other things, revises judicial divisions and limits rotations of Superior Court judges. S 757 changes judicial districts in

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Wake and Mecklenburg counties.

The Farm Act is enacted.

This year's Farm Act (S 711) became law when legislators overrode a veto by the Governor. Among its provisions is one directing the Department of Agriculture and Consumer Services to enforce mislabeling of plant-based products as "milk" (such as almond milk) when a number of other states adopt laws on this matter. The provision that generated the most debate amends the law related to when a farm (including hog farms) is considered a nuisance.

All legislative seats will be contested in November.

For the first time in recent memory, all 170 legislative seats have contested races. Republicans currently hold veto-proof majorities in both houses and Democrats are seeking to gain enough seats in November to break these supermajorities.



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