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Fee Increases and Tax Changes

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One of the main sticking points during this year's contentious and drawn out budget process was the debate over whether the "temporary" sales and income tax rates should be allowed to expire. In the end, the top income rate was allowed to return to 7.75 percent, while the remaining 1/4 cent "temporary" sales tax rate was made permanent.

While the sunset of the "temporary" income tax rate on December 31, 2007, will put \$40.8 million into the hands of North Carolina taxpayers for FY2007-08, making the "temporary" sales tax rate permanent equates to a tax increase of \$258 million. Add to this roughly \$64 million in fee increases, and it is easy to see that the cost of living for North Carolinians will go up significantly.

New Fees in the FY2007-08 Budget

Even though mandatory fees are not directly paid by all citizens, the higher costs they impose on businesses are typically passed along to consumers – which is why many economists refer to such fees as "hidden taxes." Most of these fees will impose higher costs on basic services. For example, the "certificate of need" and Health Care Facility Construction Project fee increases will make it more expensive to build new hospitals, nursing homes and adult care facilities – thus driving up healthcare costs for the elderly, retirees, and other vulnerable populations. Still worse, is an insurance regulatory fee that will drive up insurance costs by \$24 million – thus making it more difficult for hardworking families to purchase private insurance. The total price tag for these newly approved fee increases comes to roughly \$64 million for FY2007-08. The new fees include:

- An increase in a wide variety of judicial fees. Estimated cost: \$35.6 million. (More details on these fee increases can be found in the JPS legislative recap.)
- A new insurance regulatory fee of 5.5 percent of total tax liability on all insurance companies. The money from this fee will be used to finance the creation of an Insurance Regulatory Fund. Based on taxes paid by insurance companies in FY2005-06, this fee effectively amounts to a \$24 million tax increase on insurance customers in North Carolina.
- An increase in permit and renewal fees imposed on landfills, as mandated in S1492. Estimated cost: \$1.1 million.
- An increase of 20 percent in the water quality fee assessed on water treatment facilities. Estimated cost: \$997,945.
- Fees will more than double on "certificate of need" applications. Such applications are used to request permission from the state to construct an institutional health service facility. Estimated cost: \$852,687.
- Significant increases in the Health Care Facility Construction Project Fee. Estimated cost: \$789,720. This mandatory fee is used to pay HHS expenses related to the review and approval of project plans and construction.
- An increase of 25 percent for the Secretary of State Corporate Annual Report Fee. Estimated cost: \$563,016. This is a fee imposed when corporations file their annual reports. An increase in this fee further increases the cost of doing business in North Carolina.

- An increase in the Sediment and Erosion Control Plan Fee from \$50 to \$65 per acre of “disturbed land.” Estimated cost: \$472,500.
- An increase in mining permit fees. Estimated cost: \$286,088.

PROPOSED TAX CHANGES

Local Option Taxes

With the inclusion of the “Medicaid swap” in the approved budget, counties are now authorized to levy a vote of their citizens on two potential local option taxes. Voters will decide on an increase of 1/4 cent in the local sales tax, or a tripling of the land transfer tax from 0.2 percent to 0.6 percent.

Several counties had already requested authority for a vote to increase any of a variety of local taxes, including the sales tax and the land transfer tax. With the passage of the budget, many of these bills will now become moot. All told, nearly 50 bills were submitted in the House and Senate requesting local authority to raise taxes (subject to voter approval).

- The most common request was for a local sales tax increase. Eighteen counties were represented in a total of 22 bills.
- Nine counties and one city submitted a total of 12 bills requesting authority to increase the occupancy tax.
- Eight counties were represented in a total of 10 bills requesting authority to impose a land transfer tax.
- Two bills in the House and two in the Senate were introduced that would have authorized all counties to hold a vote on either a land transfer tax of 1 percent or an increase in the local sales tax. Another bill, HB 153, offered up a menu of local tax increases that counties could choose from: including the sales tax, land transfer tax, occupancy tax, income tax, impact tax and meals tax.

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