

Legislative Update

April 1, 2015



Things are in full swing in Raleigh and Washington, so there is a lot to report. Below you will find state legislative updates in the areas of Strengthening the Nonprofit Sector, Education, Financial Stability and Health. Look for “Calls to Action”!

Update on CHIP Reauthorization—Good News!

Last week, the US House of Representatives passed the Medicare Access and CHIP Reauthorization Act, which would extend the Children’s Health Insurance Program (CHIP) for two years. CHIP provides health insurance coverage to thousands of children in North Carolina who don’t qualify for Medicaid, but can’t afford insurance on the private market. The proposal now moves to the US Senate.

CALL TO ACTION:

1. Thank your Members of the House for passing HR2. All NC Representatives voted in favor except Congressmen Walter Jones and Mark Meadows.
2. Ask Senators Burr and Tillis to extend CHIP as soon as possible.
3. The Capitol Switchboard is 202.224.3121

We are keeping our eye on the following Bills introduced:

Strengthening the Nonprofit Sector:

SB 20, IRC Update/Motor Fuel Tax Changes (Rabon, Rucho, Tillman). Since our update last month, SB 20 was amended in the House to ensure that individuals aged 70 ½ and older who made tax-free (for federal purposes) distributions to nonprofits from their IRAs in 2014 won't have to pay state taxes on these charitable contributions. However, the provision was re-inserted to the House-Senate conference report approved and signed by the Governor this week.

SB 700, Limit Sales Tax Refund for Nonprofits (Wells, Rucho). SB 700 proposes a drastic reduction to nonprofit sales tax refunds. Under current state law, nonprofits must pay sales tax on their purchases, but they can be reimbursed for the first \$45 million in sales taxes they pay each year (which is more than any nonprofits actually pay in sales tax). SB 700 would reduce this cap on sales tax refunds to \$100,000 (\$70,000 state sales + \$30,000 local sales tax) per year, creating new taxes for hundreds of nonprofits. This could be the first step in taxing all 501(c)(3) nonprofits in North Carolina.

CALL TO ACTION:

1. If you or a nonprofit partner receives close to or more than \$100,000 per year in sales tax refunds, let us know by [emailing UWNC lobbyist Annaliese Dolph](#).
2. The North Carolina Center for Nonprofits is looking for nonprofits to sign on to the list of organizations that support the principle that all 501(c)(3) nonprofits should be exempt from state and local taxes. Add your nonprofit’s name to the list [here](#).

SB 369, Tax Fairness Act (Brown, Jackson, Clark) & **SB 608, Simple and Fair Formula for Tax Distribution** (Rucho) propose changes to the way sales tax revenue is distributed to counties. Some urban and coastal counties and cities would stand to lose significant revenue under this proposal.

SB 467, WC Nonprofit Corp. Volunteers & Officers (Hartsell). SB 467 seeks to amend the definition of “employee” under the Workers’ Compensation Act to exclude volunteers and officers of certain nonprofit corporations and associations. Under state law, any employer with three or more employees is required to purchase workers' compensation insurance. The definition of "employee" in the current law includes nonprofit board officers, meaning that small nonprofits with three or more board officers (i.e. almost all nonprofits) are required to take on an often unnecessary expense. The bill would clarify that uncompensated nonprofit board officers and volunteers are not employees for the purpose of the state workers' compensation law. The bill was recommended by the North Carolina Center for Nonprofits.

[SB 526, Job Creation & Tax Relief Act of 2015](#) (Rucho, Rabon, Tillman) would lower individual and corporate tax rates and make a variety of changes to the state tax code. As written, it would reduce state revenue by an estimated \$1 billion – it is unclear whether this would be offset by broadening the sales tax base to include additional services (which include some services offered by non-profits), eliminating other tax expenditures (like the nonprofit tax exemption), or through reduced spending. Right now, the bill maintains the nonprofit exemption from corporate income tax, and corporations would still be eligible for limited state tax deductions for their charitable contributions. However, the charitable deduction would remain the only uncapped itemized deduction on state taxes, but the bill would require North Carolinians to pay a higher effective tax rate if they opted to itemize their state taxes. It is unclear how much of a deterrent this would provide for charitable giving.

[HB 229, Modify Religious Property Exemption](#) (McNeill, Shepard, Riddell, Pierce). HB 229 would expand the definition of religious property that is exempt from tax in North Carolina. Under current law, property owned by religious organizations is generally exempt from local property tax if it is wholly and exclusively used for religious purposes. H.B. 229 would allow religious nonprofits to be exempt from paying property tax on buildings that are under construction but will be used in the future for religious purposes. The bill wouldn't change other similar laws that exempt other types of nonprofits from paying property tax on land and buildings they own and use for nonprofit purposes. It has been approved by the House.

Education

Budget: The Governor released his proposal for the state budget in early March. The full document is [online](#). It includes \$42 mil to raise beginning teacher salary from \$33k to \$35k, and \$65 mil for teachers moving up the salary scale.

[SB 555, Student Reading Act](#) (Tillman, Stein). SB 555 proposes changes to the Read to Achieve 3d grade reading law, including clarifications and modifications to the alternative assessments; the student reading portfolio; required parent information sessions; and reading camps.

Financial Stability

Representatives Pierce, R. Moore and L. Hall have introduced HB 27, reenact EITC, which proposes a 2.5% EITC for 2015, and 5% thereafter, with a sunset in 2019. It remains in the House Finance Committee.

Health

Competing Medicaid Reform Proposals – Four different proposals to reform our state's Medicaid program were proposed last week.

[HB 372](#) (Dollar, Lambeth, B Brown, Jones) and [SB 574](#) (B Jackson, Pate, Tucker), **2015 Medicaid Modernization**, contain a bare bones proposal for Provider-led capitated health plans.

[SB 568, NC Health Care Modernization](#) (Tarte) includes the creation of "At-Risk Provider-Led Organizations," which would expose doctors and hospitals to financial risk in organizations led by the health care providers themselves. Medicaid administration would remain within DHHS.

[SB 696, Medicaid Modernization](#) (Hise) reintroduces proposals discussed during the interim. The bill moves administration of the Medicaid program out from the Department of Health and Human Services and creates a separate Health Benefits Authority with appointed members to oversee the program. That bill would move doctors, clinics and hospitals from getting paid on a fee-for-service system to one that places providers at "full financial risk" for managing costs, while improving their patients' health care outcomes, over a four-year time period.

[SB 703, Medicaid Transformation](#) (Berger) would require the DHHS to convert the existing Medicaid program by Jan. 1, 2017, to one organized as a "capitated, risk-based, managed care" program. It requires the DHHS to enter into "risk contracts with at least three statewide Medicaid physical health managed care organizations (MCO) that assume full risk for all Medicaid benefits." All beneficiaries would have to be enrolled in one of those MCOs. The DHHS would have to present its transfer plan by Oct. 1, as well as estimates on potential cost savings.

Mark your calendar for Advocacy Forum and Hill Day

June 16-18, Alexandria, Virginia—Watch for registration details