

How will the March Primary and 2016 Legislative Session impact businesses operating in North Carolina?

02.17.2016

Given their potential impact on businesses operating in North Carolina, it's important to watch the 2016 primary election results and this year's Legislative session.

I. The March 15 primary

The primary election will be held on March 15. Voters will consider candidates for President, all the statewide Council of State offices (including Governor and Attorney General), and candidates for a number of offices, including the Legislature.

Voters will also consider a \$2B bond package on March 15. About \$1B of this amount is for University of North Carolina projects, \$350M for community colleges, \$310M for water and sewer infrastructure, \$75M for State parks, and \$70M for National Guard buildings. A number of elected officials, business and education groups and others are supporting the package, but whether voters will approve it may depend on the status of the presidential race and which voters turn out to vote.

II. The 2016 Legislative Session

Here are some items to watch during this year's session, which begins April 25:

- *Adjusting the second year of the State budget*

After enacting a two-year budget in 2015, Legislators this year will consider changes to that budget. Revenue collections appear to be running slightly ahead of projections and thus, budget cuts are unlikely. Given that education, health and human services, and justice and public safety account for 92% of State General Fund spending, any impactful adjustments are likely to be in those areas.

- *Increasing K-12 teacher salaries*

Legislators last year raised the starting pay for new teachers to \$35,000. Key leaders have signaled they would like to increase pay for all teachers in 2016 if funds are available.

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- *Changing the State tax code*

The State tax code has undergone substantial change in the past five years with a reduction in corporate and personal income taxes, a broadening of the coverage of the sales tax, and a reduction in the number of tax credits. The corporate income tax rate has been reduced to 4% in 2016 and is likely to drop to 3% in 2017. Legislators are phasing in a move to a single sales factor for corporations paying tax in multiple states. Proponents of the change argue it will incent companies with large payrolls and capital investments to locate in North Carolina. In addition, Legislators this year are expected to discuss a move toward “market sourcing” for multistate business taxpayers apportioning income to North Carolina.

- *Reforming Medicaid*

State spending on Medicaid, which provides health insurance to lower-income citizens, now accounts for 17% of State General Fund spending. Legislators passed a Medicaid reform bill in 2015 to put the State on a path to a capitated system instead of the current fee-for-service system. As a step toward reform, the State is scheduled to file a Medicaid waiver with the federal government by June 1 and Legislators this year may tweak the reform law passed last year.

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