

Policymakers Debate Whether Incentives or a Favorable Tax Climate are More Effective in Attracting Business Investment to NC

Written By **Whitney Campbell Christensen** (wcchristensen@wardandsmith.com)

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Senate Incentives Proposal

Last Wednesday, the Senate took its turn in proposing new economic development policy for the state by introducing Senate Bill 338. In a relatively rare move, Senate leader Phil Berger himself is sponsoring Senate Bill 338 - Economic Development/Tax Modifications, with nearly every Republican in the Senate chamber listed as either primary sponsors or co-sponsors.

The proposal differs from the several economic development bills that already have been introduced by House members this session, focusing more on retooling incentive programs and lowering corporate tax rates than on extending and funding the state's current incentive models.

If enacted, the Senate's bill would modify the way the state distributes Job Development Investment Grant ("JDIG") funds in hopes of fostering more job creation in rural areas. Nearly 86 percent of JDIG awards went to businesses choosing to locate in Mecklenburg, Wake, and Durham Counties from 2013 through 2014, a statistic that has drawn criticism and calls for reform from legislators representing the state's other 97 counties. Senate Bill 338 attempts to distribute JDIG funds more evenly by capping the grants that can be awarded in urban areas through tying the JDIG formula to an area's population.

The bill also repeals language from the General Assembly's 2013 tax overhaul that tied gradual corporate income rate decreases to state revenue growth, opting instead to reduce corporate income tax rates to 4 percent on January 1, 2016 and 3 percent on January 1, 2017, regardless of whether the state's revenue targets are reached. Proponents argue that these additional cuts would help attract and retain businesses in North Carolina, while critics point out that the cuts would cost the state hundreds of millions of dollars in lost revenue.

The House and Senate have had different philosophies regarding incentives in recent years. The House in many ways has supported calls from Governor Pat McCrory to extend and fund the state's existing JDIG program and to retain certain tax credits that are believed to promote business investment. Many Senate members have criticized traditional business incentives and have called instead for a simpler, more business friendly tax code.

In a Senate Finance Committee meeting last Tuesday, Senate leaders asked the state's Commerce Secretary John Skvarla whether he thought lower corporate tax rates or state incentives were more effective in luring businesses to North Carolina. The Secretary replied that while both were important to businesses in the long term, his opinion was that they preferred the incentives. Senator Jerry Tillman was quick to reply with specific examples of how a lower corporate income tax rate would benefit job creators in his district.

All North Carolina lawmakers agree that they want to attract businesses to the state, but the disagreement over the best way to do so likely will dominate the entire 2015 regular session of the General Assembly.

Childhood Vaccines and Prenatal Drug Use

Two other pieces of legislation grabbing headlines last week were aimed at improving the health of some of North Carolina's youngest citizens.

Under legislation filed last Thursday in the Senate, parents no longer would be excused from certain school vaccinations by claiming a religious objection. Senate Bill 346 - Enact Stricter Immunization Requirements repeals a state law that gives parents the ability to object on religious grounds to the requirement that their child be immunized against a group of preventable diseases before enrolling in school. If enacted, parents still would be able to object to the immunizations on medical grounds. The bill has yet to be referred to a committee.

A second Senate bill, Senate Bill 297 - Prenatal Narcotic Drug Use/Criminal Offense, would make it a criminal offense to use narcotic drugs while pregnant, if the child is born either addicted to or harmed by the drug. Interestingly, the bill also creates an affirmative defense for any prosecuted mother who was enrolled in a drug treatment or rehabilitation program throughout her pregnancy. The bill has been referred to the Senate Rules Committee.

For more information on the legislative session, please call:

- Whitney Campbell Christensen, 919.277.9113
- Angie D. Harris, 919.277.9163
- Lee C. Hodge, 252.672.5430
- James W. Norment, 252.672.5453

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