

GENERAL ASSEMBLY OF NORTH CAROLINA
SESSION 2001

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HOUSE BILL 571
Committee Substitute Favorable 4/4/01

Short Title: Simplify Taxes on Telecommunications.

(Public)

Sponsors:

Referred to:

March 12, 2001

A BILL TO BE ENTITLED

AN ACT TO SIMPLIFY THE COLLECTION OF TELECOMMUNICATIONS
TAXES.

The General Assembly of North Carolina enacts:

SECTION 1. G.S. 105-164.3 is amended by adding the following new subdivisions in the correct alphabetical order to read:

"§ 105-164.3. Definitions.

The following definitions apply in this Article, except when the context clearly indicates a different meaning:

...

(8b) Mobile telecommunications service. – A radio communication service carried on between mobile stations or receivers and land stations and by mobile stations communicating among themselves and includes all of the following:

- a. Both one-way and two-way radio communication services.
- b. A mobile service that provides a regularly interacting group of base, mobile, portable, and associated control and relay stations for private one-way or two-way land mobile radio communications by eligible users over designated areas of operation.
- c. Any service for which a federal license is required in a personal communications service.

...

(11a) Prepaid telephone calling arrangement. – A right that meets all of the following requirements:

- a. Authorizes the exclusive purchase of telecommunications service.
- b. Must be paid for in advance.

1 c. Enables the origination of calls by means of an access number,
2 authorization code, or another similar means, regardless of
3 whether the access number or authorization code is manually or
4 electronically dialed.

5 d. Is sold in units or dollars whose number or dollar value declines
6 with use and is known on a continuous basis.

7 ...

8 (16b) Service address. – The location of the telecommunications equipment
9 from which a customer originates or receives telecommunications
10 service. In the case of mobile telecommunications service, maritime
11 systems, third-number calls, calling card calls, and other similar
12 services for which the location of the equipment cannot be determined
13 as part of the billing process, the telecommunications service provider
14 may determine the location of the equipment based upon the
15 customer's telephone number, the mailing address to which the bills
16 are sent, or a street address provided by the customer if the street
17 address is within the licensed service area of the service provider. In
18 the case of telecommunications service paid through a payment
19 mechanism that does not relate to the location of the equipment, such
20 as a bank, travel, debit, or credit card, the service address is the address
21 of the central office as determined by the area code and the first three
22 digits of the seven-digit originating telephone number.

23 ...

24 (21a) Telecommunications service. – The transmission, conveyance, or
25 routing of voice, data, audio, video, or any other information or signals
26 to a point, or between or among points, by or through any electronic,
27 radio, satellite, optical, microwave, or other medium, regardless of the
28 protocol used for the transmission, conveyance, or routing. The term
29 includes mobile telecommunications service and vertical services.
30 Vertical services are switch-based services offered in connection with
31 a telecommunications service, such as call forwarding services, caller
32 ID services, and three-way calling services."

33 **SECTION 2.** G.S. 105-164.3(25) is repealed.

34 **SECTION 3.** G.S. 105-164.4(a)(4a) reads as rewritten:

35 "(4a) The rate of three percent (3%) applies to the gross receipts derived by
36 ~~a utility from sales of electricity or local telecommunications service~~
37 ~~as defined by G.S. 105-120(e), electricity,~~ other than sales of
38 electricity subject to tax under another subdivision in this section.
39 ~~Gross receipts from sales of local telecommunications service do not~~
40 ~~include receipts from service provided by means of public coin-~~
41 ~~operated pay telephone instruments and paid for by coin.~~ A person

1 who ~~operates a utility~~ sells electricity is considered a retailer under this
2 Article."

3 **SECTION 4.** G.S. 105-164.4(a)(4c) reads as rewritten:

4 "(4c) The rate of ~~six and one-half percent (6 1/2%)~~ four and one-half percent
5 (4.5%) applies to the gross receipts derived from providing ~~toll~~
6 ~~telecommunications services or private telecommunications services as~~
7 ~~defined by G.S. 105-120(e) that both originate from and terminate in~~
8 ~~the State and are not subject to the privilege tax under G.S. 105-~~
9 ~~120.~~ service. A person who provides telecommunications service is
10 considered a retailer under this Article. Telecommunications service is
11 taxed in accordance with G.S. 105-164.4B. Any business entity that
12 provides these services is considered a retailer under this Article. This
13 subdivision does not apply to telephone membership corporations as
14 described in Chapter 117 of the General Statutes."

15 **SECTION 5.** G.S. 105-164.4(a) is amended by adding a new subdivision to

16 read:

17 "(4d) The sale or recharge of prepaid telephone calling arrangements is
18 taxable at the general rate of tax. The tax applies regardless of whether
19 tangible personal property, such as a card or a telephone, is transferred.
20 Prepaid telephone calling arrangements taxed under this subdivision
21 are not subject to tax as a telecommunications service.

22 Prepaid telephone calling arrangements are taxable at the point of
23 sale instead of at the point of use. If the sale or recharge of a prepaid
24 telephone calling arrangement does not take place at a retailer's place
25 of business, the sale or recharge is considered to have taken place at
26 one of the following:

- 27 a. The customer's shipping address, if an item of tangible personal
28 property is shipped to the customer as part of the transaction.
29 b. The customer's billing address or, for mobile
30 telecommunications service, the customer's service address, if
31 no tangible personal property is shipped to the customer as part
32 of the transaction."

33 **SECTION 6.** Part 2 of Article 5 of Chapter 105 of the General Statutes is
34 amended by adding a new section to read:

35 "**§ 105-164.4B. Tax on telecommunications.**

36 (a) General. – The gross receipts derived from providing telecommunications
37 service in this State are taxed at the rate set in G.S. 105-164.4(a)(4c). Mobile
38 telecommunications service is provided in this State if the customer's service address is
39 in this State and the call originates or terminates in this State.

40 (b) Included in Gross Receipts. – Gross receipts derived from
41 telecommunications service include the following:

- 1 (1) Receipts from local, intrastate, interstate, toll, private, and mobile
2 telecommunications service.
- 3 (2) Charges for directory assistance, directory listing that is not yellow-
4 page classified listing, call forwarding, call waiting, three-way calling,
5 caller ID, and other similar services.
- 6 (3) Customer access line charges billed to subscribers for access to the
7 intrastate or interstate interexchange network.
- 8 (4) Charges billed to a pay telephone provider who uses the
9 telecommunications service to provide pay telephone service.
- 10 (c) Excluded From Gross Receipts. – Gross receipts derived from
11 telecommunications service do not include any of the following:
 - 12 (1) Charges for telecommunications services that are a component part of
13 or are integrated into a telecommunications service that is resold.
14 Examples of services that are resold include carrier charges for access
15 to an intrastate or interstate interexchange network, interconnection
16 charges paid by a provider of mobile telecommunications service, and
17 charges for the sale of unbundled network elements. An unbundled
18 network element is a network element, as defined in 47 U.S.C. §
19 153(29), to which access is provided on an unbundled basis pursuant
20 to 47 U.S.C. § 251(c)(3).
 - 21 (2) Telecommunications services that are resold as part of a prepaid
22 telephone calling arrangement.
 - 23 (3) 911 charges imposed under G.S. 62A-4 or G.S. 62A-23 and remitted to
24 the Emergency Telephone System Fund under G.S. 62A-7 or the
25 Wireless Fund under G.S. 62A-24.
 - 26 (4) Allowable surcharges imposed to recoup assessments for the Universal
27 Service Fund.
 - 28 (5) Receipts of a pay telephone provider from the sale of pay telephone
29 service.
 - 30 (6) Charges for commercial, cable, mobile, broadcast, or satellite video or
31 audio service unless the service provides two-way communication,
32 other than the customer's interactive communication in connection
33 with the customer's selection or use of the video or audio service.
 - 34 (7) Paging service, unless the service provides two-way communication.
 - 35 (8) Charges for telephone service made by a hotel, motel, or another entity
36 whose gross receipts are taxable under G.S. 105-164.4(a)(3) when the
37 charges are incidental to the occupancy of the entity's
38 accommodations.
 - 39 (9) Receipts from the sale, installation, maintenance, or repair of tangible
40 personal property.
 - 41 (10) Directory advertising and yellow-page classified listings.
 - 42 (11) Voicemail services.

- 1 (12) Information services. – An information service is a service that can
2 generate, acquire, store, transform, process, retrieve, use, or make
3 available information through a communications service. Examples of
4 an information service include an electronic publishing service and a
5 web hosting service.
- 6 (13) Internet access service, electronic mail service, electronic bulletin
7 board service, or similar on-line services.
- 8 (14) Billing and collection services.
- 9 (15) Charges for bad checks or late payments.
- 10 (d) Bundled Services. – When a taxable telecommunications service is bundled
11 with a service that is not taxable, the tax applies to the gross receipts from the taxable
12 service in the bundle as follows:
- 13 (1) If the service provider offers all the services in the bundle on an
14 unbundled basis, tax is due on the unbundled price of the taxable
15 service, less the discount resulting from the bundling. The discount for
16 a service as the result of bundling is the proportionate price decrease of
17 the service, determined on the basis of the total unbundled price of all
18 the services in the bundle compared to the bundled price of the
19 services.
- 20 (2) If the service provider does not offer one or more of the services in the
21 bundle on an unbundled basis, tax is due on the taxable service based
22 on a reasonable allocation of revenue to that service. If the service
23 provider maintains an account for revenue from a taxable service, the
24 service provider's allocation of revenue to that service for the purpose
25 of determining the tax due on the service must reflect its accounting
26 allocation of revenue to that service.
- 27 (e) Interstate Private Line. – The gross receipts derived from interstate private
28 telecommunications service are taxable as follows:
- 29 (1) One hundred percent (100%) of the charge imposed at each channel
30 termination point in this State.
- 31 (2) One hundred percent (100%) of the charge imposed for the total
32 channel mileage between each channel termination point in this State.
- 33 (3) Fifty percent (50%) of the charge imposed for the total channel
34 mileage between the first channel termination point in this State and
35 the nearest channel termination point outside this State.
- 36 (f) Call Center Cap. – The gross receipts tax on interstate telecommunications
37 service that originates outside this State, terminates in this State, and is provided to a
38 call center that has a direct pay certificate issued by the Department under G.S. 105-
39 164.27A may not exceed fifty thousand dollars (\$50,000) a calendar year. This cap
40 applies separately to each legal entity.

1 (g) Credit. – A taxpayer who pays a tax legally imposed by another state on a
2 telecommunications service taxable under this section is allowed a credit against the tax
3 imposed in this section.

4 (h) Definitions. – The following definitions apply in this section:

5 (1) Call center. – Defined in G.S. 105-164.27A.

6 (2) Interstate telecommunications service. – Telecommunications service
7 that originates or terminates in this State, but does not both originate
8 and terminate in this State, and is charged to a service address in this
9 State.

10 (3) Intrastate telecommunications service. – Telecommunications service
11 that both originates and terminates in this State.

12 (4) Local telecommunications service. – Telecommunications service that
13 provides access to a local telephone network and enables a user to
14 communicate with substantially everyone who has a telephone or
15 radiotelephone station that is part of the local telephone network.

16 (5) Mobile telecommunications service. – Defined in G.S. 105-164.3.

17 (6) Private telecommunications service. – Telecommunications service
18 that entitles a subscriber of the service to exclusive or priority use of a
19 communications channel or group of channels.

20 (7) Service address. – Defined in G.S. 105-164.3.

21 (8) Telecommunications service. – Defined in G.S. 105-164.3.

22 (9) Toll telecommunications service. – Any of the following:

23 a. A service for which there is a toll charge that varies in amount
24 with the distance or elapsed transmission time of each
25 individual communication.

26 b. A service that entitles the subscriber, upon payment of a
27 periodic charge, determined as a flat amount or on the basis of
28 total elapsed transmission time, to an unlimited number of
29 communications to or from all or a substantial portion of those
30 who have a telephone or radiotelephone station in an area
31 outside the local telephone network."

32 **SECTION 7.** G.S. 105-164.16(c) reads as rewritten:

33 "(c) Sales Tax on Utility Services.–Electricity and Telecommunications. – A return
34 for taxes levied under G.S. 105-164.4(a)(4a) and G.S. 105-164.4(a)(4c) is due ~~quarterly~~
35 ~~or monthly as specified in this subsection.~~ A utility that is allowed to pay tax under G.S.
36 ~~105-120 on a quarterly basis shall file a quarterly return. All other utilities shall file a~~
37 ~~monthly return. A quarterly return is due by the last day of the month following the~~
38 ~~quarter covered by the return. A monthly.~~ The monthly return is due by the last day of
39 the month following the month in which the taxes accrue, except the return for taxes
40 that accrue in May. A return for taxes that accrue in May is due by June 25.

41 A ~~utility-retailer~~ that is required to file a monthly return may file an estimated return
42 for the first month, the second month, or both the first and second months in a quarter.

1 A ~~utility-retailer~~ is not subject to interest on or penalties for an underpayment submitted
2 with an estimated monthly return if the ~~utility-retailer~~ timely pays at least ninety-five
3 percent (95%) of the amount due with a monthly return and includes the underpayment
4 with the ~~company's~~ retailer's return for the third month in the same quarter."

5 **SECTION 8.** G.S. 105-164.20 reads as rewritten:

6 "**§ 105-164.20. Cash or accrual basis of reporting.**

7 Any retailer, except a ~~utility-~~retailer who sells electricity or telecommunications
8 service, may report sales on either the cash or accrual basis of accounting upon making
9 application to the Secretary for permission to use the basis selected. Permission granted
10 by the Secretary to report on a selected basis continues in effect until revoked by the
11 Secretary or the taxpayer receives permission from the Secretary to change the basis
12 selected. A ~~utility-retailer~~ who sells electricity or telecommunications service must
13 report its sales on an accrual basis. A sale ~~by a utility-~~of electricity or ~~intrastate~~
14 ~~telephone-~~telecommunications service is considered to accrue when the ~~utility-retailer~~
15 bills its customer for the sale."

16 **SECTION 9.** G.S. 105-164.27A reads as rewritten:

17 "**§ 105-164.27A. Direct pay ~~certificate-~~permit.**

18 (a) ~~Requirements-~~Tangible Personal Property. – A direct pay permit for tangible
19 personal property authorizes its holder to purchase any tangible personal property
20 without paying tax to the seller and authorizes the seller to not collect any tax on a sale
21 to the permit holder. A person who purchases tangible personal property under a direct
22 pay permit issued under this subsection is liable for use tax due on the purchase. The tax
23 is payable when the property is placed in use. A direct pay permit issued under this
24 subsection does not apply to taxes imposed under G.S. 105-164.4(a)(1f) or G.S. 105-
25 164.4(a)(4a).

26 A person who purchases tangible personal property whose tax status cannot be
27 determined at the time of the purchase because of one of the reasons listed below may
28 apply to the Secretary for a direct pay ~~certificate-~~permit for tangible personal property:

- 29 (1) The place of business where the property will be used is not known at
30 the time of the purchase and a different tax consequence applies
31 depending on where the property is used.
32 (2) The manner in which the property will be used is not known at the
33 time of the purchase and one or more of the potential uses is taxable
34 but others are not taxable.

35 (b) ~~Procedure.~~—An application for a direct pay ~~certificate~~ Secretary and contain
36 the information required by the Secretary. The Secretary may grant the application if the
37 Secretary finds that the applicant complies with the sales and use tax laws and that the
38 applicant's compliance burden will be greatly reduced by use of the certificate.

39 (c) ~~Effect.~~—A direct pay ~~certificate~~ authorizes its holder to purchase any tangible
40 personal property without paying tax to the seller and authorizes the seller to not collect
41 any tax on a sale to the certificate holder. A person who purchases tangible personal
42 property under a direct pay ~~certificate~~ is liable for use tax due on the purchase. The tax

1 is payable when the property is placed in use. A direct pay certificate does not apply to
2 taxes imposed under G.S. 105-164.4(a)(1f) or G.S. 105-164.4(a)(4a).

3 (b) Telecommunications Service. – A direct pay permit for telecommunications
4 service authorizes its holder to purchase telecommunications service without paying tax
5 to the seller and authorizes the seller to not collect any tax on a sale to the permit holder.
6 A person who purchases telecommunications service under a direct pay permit must file
7 a return and pay the tax due monthly to the Secretary. A direct pay permit issued under
8 this subsection does not apply to any tax other than the tax on telecommunications
9 service.

10 A call center that purchases interstate telecommunications service that originates
11 outside this State and terminates in this State may apply to the Secretary for a direct pay
12 permit for telecommunications service. A call center is a business that is primarily
13 engaged in providing support services to customers by telephone to support products or
14 services of the business. A business is primarily engaged in providing support services
15 by telephone if at least sixty percent (60%) of its calls are incoming.

16 (c) Application. – An application for a direct pay permit must be made on a form
17 provided by the Secretary and contain the information required by the Secretary. The
18 Secretary may grant the application if the Secretary finds that the applicant complies
19 with the sales and use tax laws and that the applicant's compliance burden will be
20 greatly reduced by use of the permit.

21 (d) Revocation. – A direct pay ~~certificate-permit~~ is valid until the holder returns it
22 to the Secretary or ~~it is revoked by the Secretary.~~ the Secretary revokes it. The Secretary
23 may revoke a direct pay ~~certificate-permit~~ if the holder of the ~~certificate-permit~~ does not
24 file a sales and use tax return on time, does not pay sales and use on time, or otherwise
25 fails to comply with the sales and use tax laws."

26 **SECTION 10.** Part 8 of Article 5 of Chapter 105 of the General Statutes is
27 amended by adding a new section to read:

28 "**§ 105-164.44F. Distribution of part of telecommunications taxes to cities.**

29 (a) Amount. – The Secretary must distribute to the cities part of the taxes
30 imposed by G.S. 105-164.4(a)(4c) on telecommunications service. The Secretary must
31 make the distribution within 75 days after the end of each calendar quarter. The amount
32 the Secretary must distribute is twenty-four and four-tenths percent (24.4%) of the net
33 proceeds of the taxes collected during the quarter, minus two million six hundred twenty
34 thousand nine hundred forty-eight dollars (\$2,620,948). This deduction is one-fourth of
35 the annual amount by which the distribution to cities of the gross receipts franchise tax
36 on telephone companies, imposed by former G.S. 105-120, was required to be reduced
37 beginning in fiscal year 1995-96 as a result of the 'freeze deduction.' The Secretary
38 must distribute the specified percentage of the proceeds, less the 'freeze deduction'
39 among the cities in accordance with this section.

40 (b) Share of Cities Incorporated on or After January 1, 2001. – The share of a
41 city incorporated on or after January 1, 2001, is its per capita share of the amount to be
42 distributed to all cities incorporated on or after this date. This amount is the proportion

1 of the total to be distributed under this section that is the same as the proportion of the
2 population of cities incorporated on or after January 1, 2001, compared to the
3 population of all cities. In making the distribution under this subsection, the Secretary
4 must use the most recent annual population estimates certified to the Secretary by the
5 State Planning Officer.

6 (c) Share of Cities Incorporated Before January 1, 2001. – The share of a city
7 incorporated before January 1, 2001, is its proportionate share of the amount to be
8 distributed to all cities incorporated before this date. A city's proportionate share for a
9 quarter is based on the amount of telephone gross receipts franchise taxes attributed to
10 the city under G.S. 105-116.1 for the same quarter that was the last quarter in which
11 taxes were imposed on telephone companies under repealed G.S. 105-120. The amount
12 to be distributed to all cities incorporated before January 1, 2001, is the amount
13 determined under subsection (a) of this section, minus the amount distributed under
14 subsection (b) of this section.

15 The following changes apply when a city incorporated before January 1, 2001, alters
16 its corporate structure. When a change described in subdivision (2) or (3) occurs, the
17 resulting cities are considered to be cities incorporated before January 1, 2001, and the
18 distribution method set out in this subsection rather than the method set out in
19 subsection (b) of this section applies.

20 (1) If a city dissolves and is no longer incorporated, the proportional
21 shares of the remaining cities incorporated before January 1, 2001,
22 must be recalculated to adjust for the dissolution of that city.

23 (2) If two or more cities merge or otherwise consolidate, their proportional
24 shares are combined.

25 (3) If a city divides into two or more cities, the proportional share of the
26 city that divides is allocated among the new cities on a per capita basis.

27 (d) Ineligible Cities. – An ineligible city is disregarded for all purposes under this
28 section. A city incorporated on or after January 1, 2000, is not eligible for a distribution
29 under this section unless it meets both of the following requirements:

30 (1) It is eligible to receive funds under G.S. 136-41.2.

31 (2) A majority of the mileage of its streets are open to the public."

32 **SECTION 11.** G.S. 105-116.1 reads as rewritten:

33 **"§ 105-116.1. Distribution of gross receipts taxes to cities.**

34 (a) **Definitions. – The following definitions apply in this section:**

35 (1) **Freeze deduction. – The amount by which the percentage distribution**
36 **amount of a city was required to be reduced in fiscal year 1995-96 in**
37 **determining the amount to distribute to the city.**

38 (2) **Percentage distribution amount. – Three and nine hundredths percent**
39 **(3.09%) of the gross receipts derived by an electric power company**
40 **and a telephone company from sales within a city that are taxable**
41 **under G.S. 105-116 or G.S. 105-120. G.S. 105-116.**

1 (b) Distribution. – The Secretary must distribute to the cities part of the taxes
2 collected under this Article on electric power ~~companies and telephone~~ companies. Each
3 city's share for a calendar quarter is the percentage distribution amount for that city for
4 that quarter minus one-fourth of the city's hold-back amount and one-fourth of the city's
5 proportionate share of the annual cost to the Department of administering the
6 distribution. The Secretary must make the distribution within 75 days after the end of
7 each calendar quarter.

8 (c) Limited Hold-Harmless Adjustment. – The hold-back amount for a city that,
9 in the 1995-96 fiscal year, received from gross receipts taxes on electric power
10 companies and natural gas companies less than ninety-five percent (95%) of the amount
11 it received in the 1990-91 fiscal year but at least sixty percent (60%) of the amount it
12 received in the 1990-91 fiscal year is the amount determined by the following
13 calculation:

- 14 (1) Adjust the city's 1995-96 distribution by adding the city's freeze
15 deduction attributable to receipts from electric power companies and
16 natural gas companies to the amount distributed to the city for that
17 year.
- 18 (2) Compare the adjusted 1995-96 amount with the city's 1990-91
19 distribution.
- 20 (3) If the adjusted 1995-96 amount is less than or equal to the city's
21 1990-91 distribution, the hold-back amount for the city is zero.
- 22 (4) If the adjusted 1995-96 amount is more than the city's 1990-91
23 distribution, the hold-back amount for the city is the city's freeze
24 deduction attributable to receipts from electric power companies and
25 natural gas companies minus the difference between the city's 1990-91
26 distribution and the city's 1995-96 distribution.

27 (c1) Additional Limited Hold-Harmless Adjustment. – The hold-back amount for
28 a city that, in the 1995-96 fiscal year, received from gross receipts taxes on electric
29 power companies and natural gas companies less than sixty percent (60%) of the
30 amount it received in the 1990-91 fiscal year is the amount determined by the following
31 calculation:

- 32 (1) Adjust the city's 1999-2000 distribution by adding the city's freeze
33 deduction attributable to receipts from electric power companies and
34 natural gas companies to the amount distributed to the city for that
35 year.
- 36 (2) Compare the adjusted 1999-2000 amount with the city's 1990-91
37 distribution.
- 38 (3) If the adjusted 1999-2000 amount is less than or equal to the city's
39 1990-91 distribution, the hold-back amount for the city is zero.
- 40 (4) If the adjusted 1999-2000 amount is more than the city's 1990-91
41 distribution, the hold-back amount for the city is the city's freeze
42 deduction attributable to receipts from electric power companies and

1 natural gas companies minus the difference between the city's 1990-91
2 distribution and the city's 1999-2000 distribution.

3 (d) Allocation of Hold-Harmless Adjustment. – The hold-back amount for a city
4 that, in the 1995-96 fiscal year, received from gross receipts taxes on electric power
5 companies and natural gas companies at least ninety-five percent (95%) of the amount it
6 received in the 1990-91 fiscal year is the amount determined by the following
7 calculation:

8 (1) Determine the amount by which the freeze deduction attributable to
9 receipts from electric power companies and natural gas companies is
10 reduced for all cities whose hold-back amount is determined under
11 subsections (c) and (c1) of this section. This amount is the total
12 hold-harmless adjustment.

13 (2) Determine the amount of gross receipts taxes that would be distributed
14 for the quarter to cities whose hold-back amount is determined under
15 this subsection if these cities received their percentage distribution
16 amount minus one-fourth of their freeze ~~deduction~~ deduction
17 attributable to receipts from electric power companies and natural gas
18 companies.

19 (3) For each city included in the calculation in subdivision (2) of this
20 subsection, determine that city's percentage share of the amount
21 determined under that subdivision.

22 (4) Add to the city's freeze deduction attributable to receipts from electric
23 power companies and natural gas companies an amount equal to the
24 city's percentage share under subdivision (3) of this subsection
25 multiplied by the total hold-harmless adjustment.

26 (e) Disqualification. – No municipality may receive any funds under this section
27 if it was incorporated with an effective date of on or after January 1, 2000, and is
28 disqualified from receiving funds under G.S. 136-41.2. No municipality may receive
29 any funds under this section, incorporated with an effective date on or after January 1,
30 2000, unless a majority of the mileage of its streets are open to the public. The previous
31 sentence becomes effective with respect to distribution of funds on or after July 1,
32 1999."

33 **SECTION 12.** G.S. 105-120 is repealed.

34 **SECTION 13.** G.S. 105-467 is amended by adding a new subdivision to
35 read:

36 "(6) The sales price of prepaid telephone calling arrangements taxed as
37 tangible personal property under G.S. 105-164.4(a)(4d)."

38 **SECTION 14.** The first paragraph of Section 4 of Chapter 1096 of the 1967
39 Session Laws, as amended, is amended as follows:

40 (1) By deleting the word "and" before subdivision (5).

41 (2) By changing the period at the end of subdivision (5) to a semicolon
42 and adding the word "and".

1 (3) By adding a new subdivision to read:

2 "(6) The sales price of prepaid telephone calling arrangements taxed as
3 tangible personal property under G.S. 105-164.4(a)(4d)."

4 **SECTION 15.** The Department of Revenue must report to the Revenue
5 Laws Study Committee by October 1, 2003, on the amounts collected under this act and
6 on the distributions made to local governments, including the amounts received by them
7 from the sales and use tax on prepaid calling arrangements. On or before October 1,
8 2007, the Department must report to the Revenue Laws Study Committee any
9 recommendations it has, if any, to adjust the distributions made to local governments.
10 The Department must consult with the North Carolina League of Municipalities in
11 developing its recommendations.

12 **SECTION 16.** G.S. 153A-152 reads as rewritten:

13 "**§ 153A-152. Privilege license taxes.**

14 (a) Authority. – A county may levy privilege license taxes on trades,
15 occupations, professions, businesses, and franchises to the extent authorized by Article
16 2 of Chapter 105 of the General Statutes and any other acts of the General Assembly. A
17 county may levy privilege license taxes to the extent formerly authorized by the
18 following sections of Article 2 of Chapter 105 of the General Statutes before they were
19 repealed:

20 G.S. 105-50 Pawnbrokers.

21 G.S. 105-53 Peddlers, itinerant merchants, and specialty market operators.

22 G.S. 105-55 Installing elevators and automatic sprinkler systems.

23 G.S. 105-58 Fortune tellers, palmists, etc.

24 G.S. 105-65 Music machines.

25 G.S. 105-66.1 Electronic video games.

26 G.S. 105-80 Firearms dealers and dealers in other weapons.

27 G.S. 105-89 Automobiles, wholesale supply dealers and service stations.

28 G.S. 105-89.1 Motorcycle dealers.

29 G.S. 105-90 Emigrant and employment agents.

30 G.S. 105-102.5 General business license.

31 (b) Telecommunications Restriction. – A county may not impose a license,
32 franchise, or privilege tax on a company taxed under G.S. 105-164.4(a)(4c)."

33 **SECTION 17.** G.S. 160A-211 is amended by adding a new subsection to
34 read:

35 "(d) Telecommunications Restriction. – A city may not impose a license,
36 franchise, or privilege tax on a company taxed under G.S. 105-164.4(a)(4c)."

37 **SECTION 18.** Pursuant to G.S. 62-31 and G.S. 62-32, the Utilities
38 Commission must lower the rate set for local telecommunications service to reflect the
39 repeal of G.S. 105-120 and the resulting liability of local telecommunications
40 companies for the tax imposed under G.S. 105-122.

1 **SECTION 19.** The Revenue Laws Study Committee shall recommend to the
2 2002 Regular Session of the 2001 General Assembly any changes necessary to this act
3 to conform with the federal Mobile Telecommunications Sourcing Act.

4 **SECTION 20.** This act becomes effective January 1, 2002, and applies to
5 taxable services reflected on bills dated on or after January 1, 2002.