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HOUSE DRH10338-MCx-76 (02/20)

Short Title: Tax Modernization and Simplification. (Public)

Sponsors: Representatives Alexander and R. Moore (Primary Sponsors).

Referred to:

1 A BILL TO BE ENTITLED
2 AN ACT TO MODERNIZE AND SIMPLIFY THE TAX CODE OF NORTH CAROLINA.
3 The General Assembly of North Carolina enacts:
4

5 **PART I. FRANCHISE TAX**

6 **SECTION 1.1.** Article 3 of Subchapter I of Chapter 105 of the General Statutes is
7 repealed.

8 **SECTION 1.2.** G.S. 58-6-7(a) reads as rewritten:

9 "**§ 58-6-7. Licenses; perpetual licensing; annual license continuation fees for insurance**
10 **companies.**

11 (a) In order to do business in this State, an insurance company shall apply for and
12 obtain a license from the Commissioner. The license shall be perpetual and shall continue in
13 full force and effect, subject to timely payment of the annual license continuation fee in
14 accordance with this Chapter and subject to any other applicable provision of the insurance
15 laws of this State. The insurance company shall pay a fee for each year the license is in effect,
16 as follows:

17	For each domestic farmer's mutual assessment fire	
18	insurance company.....	\$ 25.00
19	For each fraternal order.....	500.00
20	For each of all other insurance companies companies,	
21	except mutual burial associations taxed under	
22	G.S. 105-121.1	2,500.00

23 The fees levied in this subsection are in addition to those specified in G.S. 58-6-5."

24 **SECTION 1.3.** G.S. 105-130.6A(a) reads as rewritten:

25 "(a) Definitions. – The provisions of G.S. 105-130.6 govern the determination of
26 whether a corporation is a subsidiary or an affiliate of another corporation. In addition, the
27 following definitions apply in this section:

- 28 (1) Affiliated group. – A group that includes a corporation, all other
29 corporations that are affiliates or subsidiaries of that corporation, and all
30 other corporations that are affiliates or subsidiaries of another corporation in
31 the group.
- 32 (2) Bank holding company. – A holding company with an affiliate that is subject
33 to the privilege tax on banks levied in G.S. 105-102.3.
- 34 (3) Dividends. – Dividends received that are not taxed under this Part.
- 35 (4) Electric power holding company. – A holding company with an affiliate or a
36 subsidiary that is ~~subject to the franchise tax on electric power companies~~



~~levied in G.S. 105-116~~ an electric power company engaged in the business of furnishing electricity, electric lights, current, or power.

- (5) Expense adjustment. – The adjustment required by G.S. 105-130.5(c)(3) for expenses related to dividends not taxed under this Part.
- (6) Holding company. – ~~Defined in G.S. 105-120.2~~ A corporation that receives during its taxable year more than eighty percent (80%) of its gross income from corporations in which it owns directly or indirectly more than fifty percent (50%) of the outstanding voting stock or voting capital interests."

SECTION 1.4. G.S. 105-241(b) reads as rewritten:

"(b) Electronic Funds Transfer. – Payment by electronic funds transfer is required as provided in this subsection.

- (1) Corporate estimated taxes. – A corporation that is required under the Code to pay its federal-estimated corporate income tax by electronic funds transfer must pay its State-estimated corporate income tax by electronic funds transfer as provided in G.S. 105-163.40.
- (2) Prepayment taxes. – A taxpayer that is required to prepay tax under ~~G.S. 105-116~~ or G.S. 105-164.16 must pay the tax by electronic funds transfer.
- (2a) Motor fuel taxes. – A taxpayer that files an electronic return under Subchapter V of this Chapter or Article 3 of Chapter 119 of the General Statutes must pay the tax by electronic funds transfer.
- (3) Large tax payments. – Except as otherwise provided in this subsection, the Secretary shall not require a taxpayer to pay a tax by electronic funds transfer unless, during the applicable period for that tax, the average amount of the taxpayer's required payments of the tax was at least twenty thousand dollars (\$20,000) a month. The twenty thousand dollar (\$20,000) threshold applies separately to each tax. The applicable period for a tax is a 12-month period, designated by the Secretary, preceding the imposition or review of the payment requirement. The requirement that a taxpayer pay a tax by electronic funds transfer remains in effect until suspended by the Secretary. Every 12 months after requiring a taxpayer to pay a tax by electronic funds transfer, the Secretary must determine whether, during the applicable period for that tax, the average amount of the taxpayer's required payments of the tax was at least twenty thousand dollars (\$20,000) a month. If it was not, the Secretary must suspend the requirement that the taxpayer pay the tax by electronic funds transfer and must notify the taxpayer in writing that the requirement has been suspended."

SECTION 1.5. G.S. 105-259 reads as rewritten:

"(b) Disclosure Prohibited. – An officer, an employee, or an agent of the State who has access to tax information in the course of service to or employment by the State may not disclose the information to any other person except as provided in this subsection. Standards used or to be used for the selection of returns for examination and data used or to be used for determining the standards may not be disclosed for any purpose. All other tax information may be disclosed only if the disclosure is made for one of the following purposes:

- ...
- (5b) To furnish to the finance officials of a city a list of the utility taxable gross receipts and piped natural gas tax revenues attributable to the city under ~~G.S. 105-116.1~~ and ~~G.S. 105-187.44~~ or under former ~~G.S. 105-116~~ G.S. 105-116, G.S. 105-116.1, and G.S. 105-120.

...."

SECTION 1.6. G.S. 159B-27 reads as rewritten:

"§ 159B-27. Taxes; payments in lieu of taxes.

(a) A project jointly owned by municipalities or owned by a joint agency shall be exempt from property taxes; provided, however, that each municipality possessing an ownership share of a project, and a joint agency owning a project, shall, in lieu of property taxes, pay to any governmental body authorized to levy property taxes the amount which would be assessed as taxes on real and personal property of a project if such project were otherwise subject to valuation and assessment by the Department of Revenue. Such payments in lieu of taxes shall be due and shall bear interest if unpaid, as in the cases of taxes on other property. Payments in lieu of taxes made hereunder shall be treated in the same manner as taxes for purposes of all procedural and substantive provisions of law. Any administrative building and associated land shall be deemed a project for purposes of this paragraph.

~~(b) Each municipality having an ownership share in a project shall pay to the State in lieu of an annual franchise or privilege tax an amount equal to three and twenty two hundredths percent (3.22%) of that percentage of all moneys expended by said municipality on account of its ownership share, including payment of principal and interest on bonds issued to finance such ownership share, which is equal to the percentage of such city or town's total entitlement that is used or sold by it to any person, firm or corporation exempted by law from the payment of the tax on gross receipts pursuant to G.S. 105-116.~~

~~(c) In lieu of an annual franchise or privilege tax, each joint agency shall pay to the State an amount equal to three and twenty two hundredths percent (3.22%) of the gross receipts from sales of electric power or energy, less receipts from sales of electric power or energy to a vendee subject to tax under G.S. 105-116.~~

~~(d) The State shall distribute to cities and towns which receive electric power and energy from their ownership share of a project or to which electric power and energy is sold by a joint agency an amount equal to a tax of three and nine hundredths percent (3.09%) of all moneys expended by a municipality on account of its ownership share of a project, including payment of principal and interest on bonds issued to finance such ownership share, or an amount equal to a tax of three and nine hundredths percent (3.09%) of the gross receipts from all sales of electric power and energy to such city or town by a joint agency, as the case may be. The General Assembly finds that the revenue distributed under this section is local revenue, not a State expenditure, for the purpose of Section 5(3) of Article III of the North Carolina Constitution. Therefore, the Governor may not reduce or withhold the distribution.~~

~~(e) The reporting, payment and collection procedures contained in G.S. 105-116 shall apply to the levy herein made.~~

~~(f) Except as herein expressly provided with respect to jointly owned projects or projects owned by a joint agency, no other property of a municipality used or useful in the generation, transmission and distribution of electric power and energy shall be subject to payments in lieu of taxes."~~

SECTION 1.7. G.S. 160A-675 reads as rewritten:

"§ 160A-675. Tax exemption.

A district, and its property, bonds and notes, and income, are exempt from property taxes and income taxes to the same extent as if it were a city. ~~A district is subject to gross receipts tax under G.S. 105-116."~~

SECTION 1.8. This Part becomes effective for taxable years beginning on or after January 1, 2014.

PART II. SALES TAX MODIFICATIONS

SECTION 2.1. G.S. 105-164.3 is amended by adding a new subdivision to read:

"§ 105-164.3. Definitions.

The following definitions apply in this Article:

...

1 (38a) Service contract. – A warranty agreement, a maintenance agreement, a repair
2 contract, or a similar agreement or contract by which the seller agrees to
3 maintain or repair tangible personal property.

4 "

5 **SECTION 2.2.** G.S. 105-164.4(a) reads as rewritten:

6 "**§ 105-164.4. Tax imposed on retailers.**

7 (a) A privilege tax is imposed on a retailer at the following percentage rates of the
8 retailer's net taxable sales or gross receipts, as appropriate. The general rate of tax is ~~four and~~
9 ~~three-quarters percent (4.75%)~~, three and one-half percent (3.5%).

10 "

11 **SECTION 2.3.** G.S. 105-164.4A is reenacted and is rewritten to read:

12 "**§ 105-164.4A. Tax imposed on service providers.**

13 (a) Tax. – A privilege tax is imposed on a service provider at a percentage rate of its
14 gross receipts. The rate of tax is the general rate set in G.S. 105-164.4. For purposes of this
15 Article, a service provider is considered a retailer and a service contract is considered a service.

16 (b) Exemptions. – A tax imposed by this section does not apply to any of the following:

17 (1) A service that is provided to a business for use in that business.

18 (2) Services taxed under G.S. 105-164.4.

19 (3) Medical services."

20 **SECTION 2.4.** G.S. 105-467 reads as rewritten:

21 "**§ 105-467. Scope of sales tax.**

22 (a) Sales Tax. – The sales tax that may be imposed under this Article is limited to a tax
23 at the rate of one percent (1%) of the following:

24 (1) A retailer's net taxable sales and gross receipts that are subject to the general
25 rate of sales tax imposed by the State under ~~G.S. 105-164.4~~, G.S. 105-164.4
26 or G.S. 105-164.4A.

27 ...

28 (b) Exemptions and Refunds. – The State exemptions and exclusions contained in
29 G.S. 105-164.4A, the State sales tax imposed on service providers, G.S. 105-164.13, the State
30 sales and use tax holidays contained in G.S. 105-164.13C and G.S. 105-164.13D, and the State
31 refund provisions contained in G.S. 105-164.14 through G.S. 105-164.14B apply to the local
32 sales and use tax authorized to be levied and imposed under this Article. Except as provided in
33 this subsection, a taxing county may not allow an exemption, exclusion, or refund that is not
34 allowed under the State sales and use tax. A local school administrative unit and a joint agency
35 created by interlocal agreement among local school administrative units pursuant to
36 G.S. 160A-462 to jointly purchase food service-related materials, supplies, and equipment on
37 their behalf is allowed an annual refund of sales and use taxes paid by it under this Article on
38 direct purchases of tangible personal property and services, other than electricity,
39 telecommunications service, and ancillary service. Sales and use tax liability indirectly incurred
40 by the entity on building materials, supplies, fixtures, and equipment that become a part of or
41 annexed to any building or structure that is owned or leased by the entity and is being erected,
42 altered, or repaired for use by the entity is considered a sales or use tax liability incurred on
43 direct purchases by the entity for the purpose of this subsection. A request for a refund shall be
44 in writing and shall include any information and documentation required by the Secretary. A
45 request for a refund is due within six months after the end of the entity's fiscal year. Refunds
46 applied for more than three years after the due date are barred.

47 "

48 **SECTION 2.5.** This Part becomes effective January 1, 2014, and applies to sales
49 made on or after that date.

50
51 **PART III. PERSONAL INCOME TAX CHANGES**

SECTION 3.1. G.S. 105-134.2(a) reads as rewritten:

(a) A tax is imposed at the rate of six percent (6%) upon the North Carolina taxable income of every individual. The tax shall be levied, collected, and paid ~~annually and shall be computed at the following percentages of the taxpayer's North Carolina taxable income annually.~~

(1) ~~For married individuals who file a joint return under G.S. 105-152 and for surviving spouses, as defined in section 2(a) of the Code:~~

Over	Up To	Rate
-0-	\$21,250	6%
\$21,250	\$100,000	7%
\$100,000	NA	7.75%

(2) ~~For heads of households, as defined in section 2(b) of the Code:~~

Over	Up To	Rate
-0-	\$17,000	6%
\$17,000	\$80,000	7%
\$80,000	NA	7.75%

(3) ~~For unmarried individuals other than surviving spouses and heads of households:~~

Over	Up To	Rate
-0-	\$12,750	6%
\$12,750	\$60,000	7%
\$60,000	NA	7.75%

(4) ~~For married individuals who do not file a joint return under G.S. 105-152:~~

Over	Up To	Rate
-0-	\$10,625	6%
\$10,625	\$50,000	7%
\$50,000	NA	7.75%"

SECTION 3.2. G.S. 105-134.6 reads as rewritten:

"§ 105-134.6. Modifications to adjusted gross income.

(a) S Corporations. – Each shareholder's pro rata share of an S Corporation's income is subject to the adjustments provided in this section.

(a1) Personal Exemption. – In calculating North Carolina taxable income, a taxpayer may deduct an exemption amount equal to six thousand dollars (\$6,000) ~~the amount listed in the table below based on the taxpayer's filing status and adjusted gross income. The taxpayer is allowed the same personal exemptions allowed under section 151 of the Code for the taxable year.~~

Filing Status	Adjusted Gross Income	Personal Exemption
Married, filing jointly	Up to \$100,000	\$2,500
	Over \$100,000	\$2,000
Head of Household	Up to \$80,000	\$2,500
	Over \$80,000	\$2,000
Single	Up to \$60,000	\$2,500
	Over \$60,000	\$2,000
Married, filing separately	Up to \$50,000	\$2,500
	Over \$50,000	\$2,000

(a2) Deduction Amount. – In calculating North Carolina taxable income, a taxpayer may deduct either the North Carolina standard deduction amount for that taxpayer's filing status or the itemized deductions amount claimed under the Code. ~~The North Carolina standard deduction amount is the lesser of the amount shown in the table below or the amount allowed under the Code. In the case of a married couple filing separate returns, a taxpayer may not~~

deduct the standard deduction amount if the taxpayer or the taxpayer's spouse claims itemized deductions for State purposes.

A taxpayer that deducts the standard deduction amount under this subsection and is entitled to an additional deduction amount under section 63(f) of the Code for the aged or blind may deduct an additional amount under this subsection. The additional amount the taxpayer may deduct is six hundred dollars (\$600.00) in the case of an individual who is married and seven hundred fifty dollars (\$750.00) in the case of an individual who is not married and is not a surviving spouse. The taxpayer is allowed the same number of additional amounts that the taxpayer claimed under the Code for the taxable year.

Filing Status	Standard Deduction
Married, filing jointly	\$6,000
Head of Household	4,400
Single	3,000
Married, filing separately	3,000.

(b) Other Deductions. – In calculating North Carolina taxable income, a taxpayer may deduct any of the following items to the extent those items are included in the taxpayer's adjusted gross income.

- (1) Interest upon the obligations of any of the following:
 - a. The United States or its possessions.
 - b. This State, a political subdivision of this State, or a commission, an authority, or another agency of this State or of a political subdivision of this State.
 - c. ~~A nonprofit educational institution organized or chartered under the laws of this State.~~
- (2) Gain from the disposition of obligations issued before July 1, 1995, to the extent the gain is exempt from tax under the laws of this State.
- (3) ~~Benefits~~ Ten thousand dollars (\$10,000) of benefits received under Title II of the Social Security Act and amounts received from retirement annuities or pensions paid under the provisions of the Railroad Retirement Act of 1937.
- ...
- (6) a. ~~An amount, not to exceed four thousand dollars (\$4,000), equal to the sum of the amount calculated in subparagraph b. plus the amount calculated in subparagraph c.~~
- b. ~~The amount calculated in this subparagraph is the amount received during the taxable year from one or more state, local, or federal government retirement plans.~~
- c. ~~The amount calculated in this subparagraph is the amount received during the taxable year from one or more retirement plans other than state, local, or federal government retirement plans, not to exceed a total of two thousand dollars (\$2,000) in any taxable year.~~
- d. ~~In the case of a married couple filing a joint return where both spouses received retirement benefits during the taxable year, the maximum dollar amounts provided in this subdivision for various types of retirement benefits apply separately to each spouse's benefits.~~
- ...
- (11) ~~Severance wages received by a taxpayer from an employer as the result of the taxpayer's permanent, involuntary termination from employment through no fault of the employee. The amount of severance wages deducted as the result of the same termination may not exceed thirty five thousand dollars (\$35,000) for all taxable years in which the wages are received.~~

- 1 ...
- 2 (14) ~~The amount paid to the taxpayer by the State under G.S. 148-84 as~~
- 3 ~~compensation for pecuniary loss suffered by reason of erroneous conviction~~
- 4 ~~and imprisonment.~~
- 5 (15) ~~Interest, investment earnings, and gains of a trust, the settlors of which are~~
- 6 ~~two or more manufacturers that signed a settlement agreement with this~~
- 7 ~~State to settle existing and potential claims of the State against the~~
- 8 ~~manufacturers for damages attributable to a product of the manufacturers, if~~
- 9 ~~the trust meets all of the following conditions:~~
- 10 a. ~~The purpose of the trust is to address adverse economic~~
- 11 ~~consequences resulting from a decline in demand of the~~
- 12 ~~manufactured product potentially expected to occur because of~~
- 13 ~~market restrictions and other provisions in the settlement agreement.~~
- 14 b. ~~A court of this State approves and retains jurisdiction over the trust.~~
- 15 e. ~~Certain portions of the distributions from the trust are made in~~
- 16 ~~accordance with certifications that meet the criteria in the agreement~~
- 17 ~~creating the trust and are provided by a nonprofit entity, the~~
- 18 ~~governing board of which includes State officials.~~
- 19 (16) ~~The amount paid to the taxpayer during the taxable year from the Hurricane~~
- 20 ~~Floyd Reserve Fund in the Office of State Budget and Management for~~
- 21 ~~hurricane relief or assistance, but not including payments for goods or~~
- 22 ~~services provided by the taxpayer.~~
- 23 (17) ~~In each of the taxpayer's first five taxable years beginning on or after~~
- 24 ~~January 1, 2005, an amount equal to twenty percent (20%) of the amount~~
- 25 ~~added to taxable income in a previous year as accelerated depreciation under~~
- 26 ~~subdivision (c)(8) of this section.~~
- 27 ...
- 28 (18) ~~The amount paid to the taxpayer during the taxable year from the Disaster~~
- 29 ~~Relief Reserve Fund in the Office of State Budget and Management for~~
- 30 ~~hurricane relief or assistance, but not including payments for goods or~~
- 31 ~~services provided by the taxpayer.~~
- 32 (19) ~~Five percent (5%) of the gross purchase price of a qualified sale of a~~
- 33 ~~manufactured home community. A qualified sale is a transfer of land~~
- 34 ~~comprising a manufactured home community in a single purchase to a group~~
- 35 ~~composed of a majority of the manufactured home community leaseholders~~
- 36 ~~or to a nonprofit organization that represents such a group. To be eligible for~~
- 37 ~~this deduction, a taxpayer must give notice of the sale to the North Carolina~~
- 38 ~~Housing Finance Agency under G.S. 42-14.3.~~
- 39 ...
- 40 (22) ~~An amount not to exceed fifty thousand dollars (\$50,000) of net business~~
- 41 ~~income the taxpayer receives during the taxable year. In the case of a~~
- 42 ~~married couple filing a joint return where both spouses receive or incur net~~
- 43 ~~business income, the maximum dollar amounts apply separately to each~~
- 44 ~~spouse's net business income, not to exceed a total of one hundred thousand~~
- 45 ~~dollars (\$100,000). For purposes of this subdivision, the term "business~~
- 46 ~~income" does not include income that is considered passive income under~~
- 47 ~~the Code.~~
- 48 (23) An amount not to exceed five thousand dollars (\$5,000) paid by the taxpayer
- 49 during the taxable year for costs incurred for funeral services and for
- 50 tangible personal property used for human burial purposes or as a repository
- 51 for human remains.

(c) Additions. – In calculating North Carolina taxable income, a taxpayer must add any of the following items to the extent those items are not included in the taxpayer's adjusted gross income. For a taxpayer who deducts the itemized deductions amount under subsection (a2) of this section, the taxpayer must add any of the following items to the extent those items are included in the itemized deductions amount.

...
 (2) ~~Any amount allowed as a deduction from gross income under the Code that is taxed under the Code by a separate tax other than the tax imposed in section 1 of the Code.~~

(3) ~~Any amount deducted from gross income under section 164 of the Code as state, local, or foreign income tax, as state or local general sales tax, or as qualified motor vehicle tax to the extent that the taxpayer's total itemized deductions deducted under the Code for the taxable year exceed the standard deduction allowable to the taxpayer under subsection (a2) of this section.~~

...
 (5) ~~The market price of the gleaned crop for which the taxpayer claims a credit for the taxable year under G.S. 105-151.14.~~

(5a) ~~The market price of the oyster shells for which the taxpayer claims a credit for the taxable year under G.S. 105-151.30.~~

(5b) ~~The amount of a donation made to a nonprofit organization or a unit of State or local government for which a credit is claimed under G.S. 105-129.16H.~~

...
 (7) ~~The amount of federal estate tax that is attributable to an item of income in respect of a decedent and is deducted from gross income under section 691(c) of the Code.~~

(8) ~~For taxable years 2002-2005, the applicable percentage of the amount allowed as a special accelerated depreciation deduction under section 168(k) or section 1400L of the Code, as set out in the table below. In addition, a taxpayer who was allowed a special accelerated depreciation deduction under section 168(k) or section 1400L of the Code in a taxable year beginning before January 1, 2002, and whose North Carolina taxable income in that earlier year reflected that accelerated depreciation deduction must add to federal taxable income in the taxpayer's first taxable year beginning on or after January 1, 2002, an amount equal to the amount of the deduction allowed in the earlier taxable year. These adjustments do not result in a difference in basis of the affected assets for State and federal income tax purposes. The applicable percentage is as follows:~~

Taxable Year	Percentage
2002	100%
2003	70%
2004	70%
2005	0%

(8a) ~~The applicable percentage of the amount allowed as a special accelerated depreciation deduction under section 168(k) or 168(n) of the Code for property placed in service after December 31, 2007, but before January 1, 2010. The applicable percentage under this subdivision is eighty five percent (85%).~~

~~In addition, a taxpayer who was allowed a special accelerated depreciation deduction in taxable year 2007 or 2008 for property placed in service during that year, and whose North Carolina taxable income for that year reflected that accelerated depreciation deduction must make the~~

- 1 adjustments set out below. These adjustments do not result in a difference in
2 basis of the affected assets for State and federal income tax purposes.
- 3 a. ~~A taxpayer must add to federal taxable income in the taxpayer's 2008~~
4 ~~taxable year an amount equal to the applicable percentage of the~~
5 ~~accelerated depreciation deduction reflected in the taxpayer's 2007~~
6 ~~North Carolina taxable income.~~
- 7 b. ~~A taxpayer must add to federal taxable income in the taxpayer's 2009~~
8 ~~taxable year an amount equal to the applicable percentage of the~~
9 ~~accelerated depreciation deduction reflected in the taxpayer's 2008~~
10 ~~North Carolina taxable income.~~
- 11 ...
- 12 (10) The amount excluded from gross income under section 199 of the Code.
- 13 ...
- 14 (14) ~~The amount allowed as a deduction under section 163(e)(5)(F) of the Code~~
15 ~~for an original issue discount on an applicable high yield discount obligation.~~
- 16 ...
- 17 (d) ~~Other Adjustments.—In calculating North Carolina taxable income, a taxpayer must~~
18 ~~make the following adjustments to adjusted gross income.~~
- 19 (1) ~~The amount of inheritance or estate tax attributable to an item of income in~~
20 ~~respect of a decedent required to be included in gross income under the~~
21 ~~Code, adjusted as provided in G.S. 105-134.5, 105-134.6, and 105-134.7,~~
22 ~~may be deducted in the year the item of income is included. The amount of~~
23 ~~inheritance or estate tax attributable to an item of income in respect of a~~
24 ~~decedent is (i) the amount by which the inheritance or estate tax paid under~~
25 ~~Article 1 or 1A of this Chapter on property transferred to a beneficiary by a~~
26 ~~decedent exceeds the amount of the tax that would have been payable by the~~
27 ~~beneficiary if the item of income in respect of a decedent had not been~~
28 ~~included in the property transferred to the beneficiary by the decedent, (ii)~~
29 ~~multiplied by a fraction, the numerator of which is the amount required to be~~
30 ~~included in gross income for the taxable year under the Code, adjusted as~~
31 ~~provided in G.S. 105-134.5, 105-134.6, and 105-134.7, and the denominator~~
32 ~~of which is the total amount of income in respect of a decedent transferred to~~
33 ~~the beneficiary by the decedent. For an estate or trust, the deduction allowed~~
34 ~~by this subdivision shall be computed by excluding from the gross income of~~
35 ~~the estate or trust the portion, if any, of the items of income in respect of a~~
36 ~~decedent that are properly paid, credited, or to be distributed to the~~
37 ~~beneficiaries during the taxable year.~~
- 38 ~~The Secretary may provide to a beneficiary of an item of income in~~
39 ~~respect of a decedent any information contained on an inheritance or estate~~
40 ~~tax return that the beneficiary needs to compute the deduction allowed by~~
41 ~~this subdivision.~~
- 42 (2) ~~The taxpayer may deduct the amount by which the taxpayer's deductions~~
43 ~~allowed under the Code were reduced, and the amount of the taxpayer's~~
44 ~~deductions that were not allowed, because the taxpayer elected a federal tax~~
45 ~~credit in lieu of a deduction. This deduction is allowed only to the extent that~~
46 ~~a similar credit is not allowed by this Chapter for the amount.~~
- 47 (3) ~~The taxpayer shall add to taxable income the amount of any recovery during~~
48 ~~the taxable year not included in taxable income, to the extent the taxpayer's~~
49 ~~deduction of the recovered amount in a prior taxable year reduced the~~
50 ~~taxpayer's tax imposed by this Part but, due to differences between the Code~~
51 ~~and this Part, did not reduce the amount of the taxpayer's tax imposed by the~~

Code. The taxpayer may deduct from taxable income the amount of any recovery during the taxable year included in taxable income under section 111 of the Code, to the extent the taxpayer's deduction of the recovered amount in a prior taxable year reduced the taxpayer's tax imposed by the Code but, due to differences between the Code and this Part, did not reduce the amount of the taxpayer's tax imposed by this Part.

(4) A taxpayer may deduct from taxable income the amount, not to exceed two thousand five hundred dollars (\$2,500), contributed to an account in the Parental Savings Trust Fund of the State Education Assistance Authority established pursuant to G.S. 116-209.25. In the case of a married couple filing a joint return, the maximum dollar amount of the deduction is five thousand dollars (\$5,000).

(5) The taxpayer shall add to taxable income the amount deducted from taxable income in a prior taxable year under subdivision (4) of this subsection to the extent this amount was withdrawn from the Parental Savings Trust Fund of the State Education Assistance Authority established pursuant to G.S. 116-209.25 and not used to pay for the qualified higher education expenses of the designated beneficiary, unless the withdrawal was made without penalty under section 529 of the Code due to the death or permanent disability of the designated beneficiary.

(6) A taxpayer who is an eligible firefighter or an eligible rescue squad worker may deduct from taxable income the sum of two hundred fifty dollars (\$250.00). In the case of a married couple filing a joint return, each spouse may qualify separately for the deduction allowed under this subdivision. In order to claim the deduction allowed under this subdivision, the taxpayer must submit with the tax return any documentation required by the Secretary. An individual may not claim a deduction as both an eligible firefighter and as an eligible rescue squad worker in a single taxable year. The following definitions apply in this subdivision:

a. Eligible firefighter.— An unpaid member of a volunteer fire department who attended at least 36 hours of fire department drills and meetings during the taxable year.

b. Eligible rescue squad worker.— An unpaid member of a volunteer rescue or emergency medical services squad who attended at least 36 hours of rescue squad training and meetings during the taxable year.

(7) The taxpayer shall add to taxable income the amounts listed in this subdivision. An addition is not required under this subdivision for a net operating loss deduction of an eligible small business as defined under section 172(b)(1)(H) of the Code. The amounts are:

a. For taxable years 2003, 2004, and 2005, the amount of any 2008 net operating loss deduction claimed on a federal return under section 172(b)(1)(H) or section 810(b)(4) of the Code.

b. For taxable years 2004, 2005, and 2006, the amount of any 2009 net operating loss deduction claimed on a federal return under section 172(b)(1)(H) or section 810(b)(4) of the Code.

(8) For taxable years 2011 through 2013, a taxpayer who made an addition under subdivision (7) of this subsection may deduct the following amounts:

a. For a taxpayer who made an addition under sub-subdivision (7)a. of this subsection, one third of the taxpayer's net operating loss absorbed on the taxpayer's 2003, 2004, and 2005 federal returns under section 172(b)(1)(H) or section 810(b)(4) of the Code, with the

1 ~~exception of the portion of the net operating loss of an eligible small~~
 2 ~~business absorbed on the taxpayer's 2003, 2004, and 2005 federal~~
 3 ~~returns.~~

4 ~~b. For a taxpayer who made an addition under sub subdivision (7)b. of~~
 5 ~~this subsection, one third of the taxpayer's net operating loss~~
 6 ~~absorbed on the taxpayer's 2004, 2005, and 2006 federal returns~~
 7 ~~under section 172(b)(1)(H) or section 810(b)(4) of the Code, with the~~
 8 ~~exception of the portion of the net operating loss of an eligible small~~
 9 ~~business absorbed on the taxpayer's 2004, 2005, and 2006 federal~~
 10 ~~returns.~~

11 ~~(9) To the extent a deduction has not been claimed for educator expenses in~~
 12 ~~determining federal adjusted gross income, an eligible educator may deduct~~
 13 ~~an amount not to exceed two hundred fifty dollars (\$250.00) paid or incurred~~
 14 ~~in connection with items listed in this subdivision. This deduction is allowed~~
 15 ~~only to the extent the expense has not been claimed under section 162 of the~~
 16 ~~Code for the taxable year. For purposes of this subdivision, the term~~
 17 ~~"eligible educator" has the same meaning as defined in section 62 of the~~
 18 ~~Code, as it existed on December 31, 2011. In the case of a married couple~~
 19 ~~filing a joint return where both spouses are eligible educators, the maximum~~
 20 ~~dollar amount is five hundred dollars (\$500.00).~~

21 ~~a. Books.~~

22 ~~b. Supplies, other than nonathletic supplies for courses of instruction in~~
 23 ~~health or physical education.~~

24 ~~c. Computer equipment, including related software and services.~~

25 ~~d. Supplementary materials used by the eligible educator in the~~
 26 ~~classroom."~~

27 **SECTION 3.3.** The following statutes are repealed:

28 G.S. 105-134.7

29 G.S. 105-151.1

30 G.S. 105-151.11

31 G.S. 105-151.12

32 G.S. 105-151.13

33 G.S. 105-151.14

34 G.S. 105-151.18

35 G.S. 105-151.20

36 G.S. 105-151.21

37 G.S. 105-151.24

38 G.S. 105-151.25

39 G.S. 105-151.26

40 G.S. 105-151.31(c)

41 G.S. 105-151.33

42 **SECTION 3.4.** This Part is effective for taxable years beginning on or after
 43 January 1, 2014.

44 **PART IV. ECONOMIC INCENTIVES TAX CHANGES**

45 **SECTION 4.1.** Article 3C of Chapter 105 of the General Statutes is repealed.

46 **SECTION 4.2.** G.S. 105-129.39 reads as rewritten:

47 **"§ 105-129.39. Sunset.**

48 This Article expires for qualified rehabilitation expenditures and rehabilitation expenses
 49 incurred on or after January 1, ~~2015, 2014.~~"

50 **SECTION 4.3.** G.S. 105-129.51(b) reads as rewritten:
 51

"(b) This Article is repealed for taxable years beginning on or after January 1, 2014.~~2016.~~"

SECTION 4.4. G.S. 105-129.75 reads as rewritten:

"§ 105-129.75. Sunset.

This Article expires January 1, ~~2015,2014,~~ for rehabilitation projects for which an application for an eligibility certification is submitted on or after that date."

SECTION 4.5. G.S. 105-129.99 reads as rewritten:

"§ 105-129.99. Sunset.

This Article is repealed effective for taxable years beginning on or after January 1, ~~2038,2014.~~"

SECTION 4.6. This Part is effective when it becomes law.

PART V. CORPORATE INCOME TAX CHANGES

SECTION 5.1. G.S. 105-130.3 reads as rewritten:

"§ 105-130.3. Corporations.

A tax is imposed on the State net income of every C Corporation doing business in this State. An S Corporation is not subject to the tax levied in this section. The tax is a ~~percentage~~four percent (4%) of the taxpayer's State net ~~income computed as follows:~~income.

Income Years Beginning	Tax
In 1997	7.5%
In 1998	7.25%
In 1999	7%
After 1999	6.9%."

SECTION 5.2. G.S. 105-130.5 reads as rewritten:

"§ 105-130.5. Adjustments to federal taxable income in determining State net income.

(a) The following additions to federal taxable income shall be made in determining State net income:

- ...
- ~~(3) The contributions deduction allowed by the Code.~~
- ...
- ~~(10) The total amounts allowed under this Chapter during the taxable year as a credit against the taxpayer's income tax. This subdivision does not apply to a credit allowed under G.S. 105-130.47. A corporation that apportions part of its income to this State shall make the addition required by this subdivision after it determines the amount of its income that is apportioned and allocated to this State and shall not apply to a credit taken under this Chapter the apportionment factor used by it in determining the amount of its apportioned income.~~
- ~~(11) The amount by which the percentage depletion allowance allowed by sections 613 and 613A of the Code for mines, oil and gas wells, and other natural deposits exceeds the cost depletion allowance for these items under the Code, except as otherwise provided herein. This subdivision does not apply to depletion deductions for clay, gravel, phosphate rock, lime, shells, stone, sand, feldspar, gemstones, mica, talc, lithium compounds, tungsten, coal, peat, olivine, pyrophyllite, and other solid minerals or rare earths extracted from the soil or waters of this State. Corporations required to apportion income to North Carolina shall first add to federal taxable income the amount of all percentage depletion in excess of cost depletion that was subtracted from the corporation's gross income in computing its federal income taxes and shall then subtract from the taxable income apportioned to North Carolina the amount by which the percentage depletion allowance~~

allowed by sections 613 and 613A of the Code for solid minerals or rare earths extracted from the soil or waters of this State exceeds the cost depletion allowance for these items.

...
 (15) For taxable years 2002-2005, the applicable percentage of the amount allowed as a special accelerated depreciation deduction under section 168(k) or section 1400L of the Code, as set out in the table below. In addition, a taxpayer who was allowed a special accelerated depreciation deduction under section 168(k) or section 1400L of the Code in a taxable year beginning before January 1, 2002, and whose North Carolina taxable income in that earlier year reflected that accelerated depreciation deduction must add to federal taxable income in the taxpayer's first taxable year beginning on or after January 1, 2002, an amount equal to the amount of the deduction allowed in the earlier taxable year. These adjustments do not result in a difference in basis of the affected assets for State and federal income tax purposes. The applicable percentage is as follows:

Taxable Year	Percentage
2002	100%
2003	70%
2004	70%
2005	0%

(15a) The applicable percentage of the amount allowed as a special accelerated depreciation deduction under section 168(k) or 168(n) of the Code for property placed in service after December 31, 2007, but before January 1, 2010. The applicable percentage under this subdivision is eighty five percent (85%).

In addition, a taxpayer who was allowed a special accelerated depreciation deduction in taxable year 2007 or 2008 for property placed in service during that year, and whose North Carolina taxable income for that year reflected that accelerated depreciation deduction must make the adjustments set out below. These adjustments do not result in a difference in basis of the affected assets for State and federal income tax purposes:

- a. A taxpayer must add to federal taxable income in the taxpayer's 2008 taxable year an amount equal to the applicable percentage of the accelerated depreciation deduction reflected in the taxpayer's 2007 North Carolina taxable income.
- b. A taxpayer must add to federal taxable income in the taxpayer's 2009 taxable year an amount equal to the applicable percentage of the accelerated depreciation deduction reflected in the taxpayer's 2008 North Carolina taxable income.

...
 (20) The amount of a donation made to a nonprofit organization or a unit of State or local government for which a credit is claimed under G.S. 105-129.16H.

...
 (22) The amount allowed as a deduction under section 163(e)(5)(F) of the Code for an original issue discount on an applicable high yield discount obligation.

...
 (b) The following deductions from federal taxable income shall be made in determining State net income:

- (1) Interest upon the obligations of the United States or its possessions, to the extent included in federal taxable income: Provided, interest upon the

- 1 obligations of the United States shall not be an allowable deduction unless
2 interest upon obligations of the State of North Carolina or any of its political
3 subdivisions is exempt from income taxes imposed by the United States.
- 4 (1a) Interest upon the obligations of ~~any of the following, net of related expenses,~~
5 ~~to the extent included in federal taxable income:~~
- 6 a. ~~This this State, a political subdivision of this State, or a commission,~~
7 ~~an authority, or another agency of this State or of a political~~
8 ~~subdivision of this State.~~State, to the extent included in federal
9 taxable income.
- 10 b. ~~A nonprofit educational institution organized or chartered under the~~
11 ~~laws of this State.~~
- 12 (3a) Dividends treated as received from sources outside the United States as
13 determined under section 862 of the Code, net of related expenses, to the
14 extent included in federal taxable income. ~~Notwithstanding the proviso in~~
15 ~~subdivision (c)(3) of this section, the netting of related expenses shall be~~
16 ~~calculated in accordance with subdivision (c)(3) of this section and~~
17 ~~G.S. 105-130.6A.~~
- 18 ...
- 19 (5) ~~Contributions or gifts made by any corporation within the income year to the~~
20 ~~extent provided under G.S. 105-130.9.~~
- 21 ...
- 22 (7) ~~Depreciation of emergency facilities acquired prior to January 1, 1955. Any~~
23 ~~corporation shall be permitted to depreciate any emergency facility, as such~~
24 ~~is defined in section 168 of the Code, over its useful life, provided such~~
25 ~~facility was acquired prior to January 1, 1955, and no amortization has been~~
26 ~~claimed on such facility for State income tax purposes.~~
- 27 (8) ~~The amount of losses realized on the sale or other disposition of assets not~~
28 ~~allowed under section 1211(a) of the Code. All losses recognized on the sale~~
29 ~~or other disposition of assets must be included in determining State net~~
30 ~~income or loss in the year of disposition.~~
- 31 ...
- 32 (12) ~~Reasonable expenses, in excess of deductions allowed under the Code, paid~~
33 ~~for reforestation and cultivation of commercially grown trees; provided, that~~
34 ~~this deduction shall be allowed only to those corporations in which the real~~
35 ~~owners of all the shares of such corporation are natural persons actively~~
36 ~~engaged in the commercial growing of trees, or the spouse, siblings, or~~
37 ~~parents of such persons. Provided, further, that in no case shall a corporation~~
38 ~~be allowed a deduction for the same reforestation or cultivation expenditure~~
39 ~~more than once.~~
- 40 (13) ~~The eligible income of an international banking facility to the extent~~
41 ~~included in determining federal taxable income, determined as follows:~~
- 42 a. ~~"International banking facility" shall have the same meaning as is set~~
43 ~~forth in the laws of the United States or regulations of the board of~~
44 ~~governors of the federal reserve system.~~
- 45 b. ~~The eligible income of an international banking facility for the~~
46 ~~taxable year shall be an amount obtained by multiplying State taxable~~
47 ~~income as determined under G.S. 105-130.3 (determined without~~
48 ~~regard to eligible income of an international banking facility and~~
49 ~~allocation and apportionment, if applicable) for such year by a~~
50 ~~fraction, the denominator of which shall be the gross receipts for~~
51 ~~such year derived by the bank from all sources, and the numerator of~~

- 1 which shall be the adjusted gross receipts for such year derived by
 2 the international banking facility from:
- 3 1. Making, arranging for, placing or servicing loans to foreign
 4 persons substantially all the proceeds of which are for use
 5 outside the United States;
 - 6 2. Making or placing deposits with foreign persons which are
 7 banks or foreign branches of banks (including foreign
 8 subsidiaries or foreign branches of the taxpayer) or with other
 9 international banking facilities; or
 - 10 3. Entering into foreign exchange trading or hedging
 11 transactions related to any of the transactions described in this
 12 paragraph.
- 13 e. The adjusted gross receipts shall be determined by multiplying the
 14 gross receipts of the international banking facility by a fraction the
 15 numerator of which is the average amount for the taxable year of all
 16 assets of the international banking facility which are employed
 17 outside the United States and the denominator of which is the
 18 average amount for the taxable year of all assets of the international
 19 banking facility.
- 20 d. For the purposes of this subsection the term "foreign person" means:
- 21 1. An individual who is not a resident of the United States;
 - 22 2. A foreign corporation, a foreign partnership or a foreign trust,
 23 as defined in section 7701 of the Code, other than a domestic
 24 branch thereof;
 - 25 3. A foreign branch of a domestic corporation (including the
 26 taxpayer);
 - 27 4. A foreign government or an international organization or an
 28 agency of either, or
 - 29 5. An international banking facility.
- 30 For purposes of this paragraph, the terms "foreign" and
 31 "domestic" shall have the same meaning as set forth in section 7701
 32 of the Code.
- 33 ...
- 34 (15) The amount paid during the income year, pursuant to 7 U.S.C. § 1445-2, as
 35 marketing assessments on tobacco grown by the corporation in North
 36 Carolina.
- 37 ...
- 38 (19) To the extent included in federal taxable income, the amount paid to the
 39 taxpayer during the taxable year from the Hurricane Floyd Reserve Fund in
 40 the Office of State Budget and Management for hurricane relief or
 41 assistance, but not including payments for goods or services provided by the
 42 taxpayer.
- 43 ...
- 44 (21) In each of the taxpayer's first five taxable years beginning on or after
 45 January 1, 2005, an amount equal to twenty percent (20%) of the amount
 46 added to taxable income in a previous year as accelerated depreciation under
 47 subdivision (a)(15) of this section.
- 48 ...
- 49 (22) To the extent included in federal taxable income, the amount paid to the
 50 taxpayer during the taxable year from the Disaster Relief Reserve Fund in
 51 the Office of State Budget and Management for hurricane relief or

1 assistance, but not including payments for goods or services provided by the
2 taxpayer.

3 ...

4 (24) ~~Five percent (5%) of the gross purchase price of a qualified sale of a
5 manufactured home community. A qualified sale is a transfer of land
6 comprising a manufactured home community in a single purchase to a group
7 composed of a majority of the manufactured home community leaseholders
8 or to a nonprofit organization that represents such a group. To be eligible for
9 this deduction, a taxpayer must give notice of the sale to the North Carolina
10 Housing Finance Agency under G.S. 42-14.3.~~

11 ...

12 (c) The following other adjustments to federal taxable income shall be made in
13 determining State net income:

14 (1) ~~In determining State net income, no deduction shall be allowed for annual
15 amortization of bond premiums applicable to any bond acquired prior to
16 January 1, 1963. The amount of premium paid on any such bond shall be
17 deductible only in the year of sale or other disposition.~~

18 ...

19 (5) ~~A savings and loan association may deduct interest earned on deposits at the
20 Federal Home Loan Bank of Atlanta, or its successor, to the extent included
21 in federal taxable income.~~

22 (d) Repealed by Session Laws 1987, c. 778, s. 3.

23 (e) Notwithstanding any other provision of this section, any recapture of depreciation
24 required under the Code must be included in a corporation's State net income to the extent
25 required for federal income tax purposes.

26 (f) Expired."

27 **SECTION 5.3.** The following statutes are repealed:

28 G.S. 105-130.9

29 G.S. 105-130.22

30 G.S. 105-130.25

31 G.S. 105-130.34

32 G.S. 105-130.36

33 G.S. 105-130.37

34 G.S. 105-130.39

35 G.S. 105-130.43

36 G.S. 105-130.44

37 G.S. 105-130.45

38 G.S. 105-130.46.

39 **SECTION 5.4.** This Part is effective for taxable years beginning on or after
40 January 1, 2014.

41 **PART VI. MOTOR FUELS TAX CHANGES**

42 **SECTION 6.1.** G.S. 105-449.80(a) reads as rewritten:

43 "(a) Rate. – The motor fuel excise tax rate is a flat rate of ~~seventeen and one-half cents~~
44 ~~(17 1/2¢)~~ thirteen and one-eighth cents (13 1/8¢) a gallon plus a variable wholesale component.
45 The variable wholesale component is either ~~three and one-half cents (3 1/2¢)~~ two and
46 five-eighths cents (2 5/8¢) a gallon or ~~seven percent (7%)~~ five and one-quarter percent (5.25%)
47 of the average wholesale price of motor fuel for the applicable base period, whichever is
48 greater.
49

50 The two base periods are six-month periods; one ends on September 30 and one ends on
51 March 31. The Secretary must set the tax rate twice a year based on the wholesale price for

1 each base period. A tax rate set by the Secretary using information for the base period that ends
2 on September 30 applies to the six-month period that begins the following January 1. A tax rate
3 set by the Secretary using information for the base period that ends on March 31 applies to the
4 six-month period that begins the following July 1."

5 **SECTION 6.2.** This Part becomes effective January 1, 2014.

6
7 **PART VII. TAX CREDIT FOR DEPARTMENT OF LABOR APPRENTICE HIRES**

8 **SECTION 7.1.** Article 3B of Subchapter I of Chapter 105 of the General Statutes
9 is amended by adding a new section to read:

10 **"§ 105-129.16K. Credit for employing apprentices.**

11 (a) Credit. – A taxpayer who employs an apprentice pursuant to an apprenticeship
12 agreement registered with the Apprenticeship and Training Bureau of the North Carolina
13 Department of Labor is allowed a credit equal to one thousand dollars (\$1,000) for each
14 apprentice employed. A credit is allowed if the apprentice was in the employ of the taxpayer
15 for at least seven full months of the taxable year. A credit is allowed for an individual
16 apprentice for up to four taxable years.

17 (b) Documentation. – In order to claim the credit allowed by this section, the taxpayer
18 must make available to the Department a written certification from the Apprenticeship and
19 Training Bureau of the Department of Labor containing the name and taxpayer identification
20 number of each registered apprentice employed by the taxpayer during the taxable year."

21 **SECTION 7.2.** This Part is effective for taxable years beginning on or after
22 January 1, 2014.

23
24 **PART VIII. EFFECTIVE DATE**

25 **SECTION 8.** Except as otherwise provided in this act, this act is effective when it
26 becomes law. This act does not affect the rights or liabilities of the State, a taxpayer, or another
27 person arising under a statute amended or repealed by this act before the effective date of its
28 amendment or repeal; nor does it affect the right to any refund or credit of a tax that accrued
29 under the amended or repealed statute before the effective date of its amendment or repeal.