GENERAL ASSEMBLY OF NORTH CAROLINA
SESSION 2013

H **2**

HOUSE BILL 998
Committee Substitute Favorable 6/4/13

Short Title:	Tax Simplification and Reduction Act.	(Public)
Sponsors:		
Referred to:		

April 18, 2013

A BILL TO BE ENTITLED

AN ACT TO REDUCE INDIVIDUAL AND BUSINESS TAX RATES AND TO EXPAND THE SALES TAX BASE TO INCLUDE SERVICES COMMONLY TAXED IN OTHER STATES.

The General Assembly of North Carolina enacts:

PART I. GENERAL FINDINGS AND INTENT

SECTION 1.(a) The General Assembly finds the following:

(1) North Carolina's current tax structure has not been comprehensively revised since the Great Depression. The tax structure adopted then, while amended extensively over the years in a piecemeal fashion, no longer reflects North Carolina's 21st Century economy.

(2) Over the years, the multiplication of credits, allowances, special rates, and exemptions has progressively narrowed the base of the State's individual and corporate income taxes, with the result that the rates for those income taxes are now among the highest in our region and among our peer states.

(3) North Carolina's current tax structure undermines the State's competitive position and acts as a deterrent to new business investment and the creation of new jobs.

(4) The State's reliance on temporary and expedient tax changes to meet budget shortfalls has created a tax structure that is unpredictable for taxpayers and a revenue stream that is unstable for the State.

SECTION 1.(b) It is the intent of this legislation to do the following:

(1) Begin the implementation of comprehensive tax reform.

(2) Simplify the process of tax preparation and tax administration.

(3) Lower tax rates to make them more competitive with our neighboring states and to make the tax system more economically efficient.

(4) Increase the State's reliance on consumption taxes by expanding the sales tax base to include services commonly taxed in other states.

SECTION 1.(c) It is the intent of the General Assembly to do the following:

(1) Phase out the State's reliance on income taxes.

(2) Increase the State's reliance on consumption taxes.

(3) Evaluate the changes made by this act and their impact on the State's revenue structure.

PART II. SIMPLE, FLAT TAX RATE FOR INDIVIDUAL INCOME TAX

SECTION 2.1.(a) G.S. 105-134.6(b)(22) reads as rewritten:

"(b) Deductions. – The following deductions from taxable income shall be made in calculating North Carolina taxable income, to the extent each item is included in taxable income:

…

(22) An amount not to exceed ~~fifty thousand dollars ($50,000)~~ twenty-five thousand dollars ($25,000) of net business income the taxpayer receives during the taxable year. In the case of a married couple filing a joint return where both spouses receive or incur net business income, the maximum dollar amounts apply separately to each spouse's net business income, not to exceed a total of ~~one hundred thousand dollars ($100,000).~~ fifty thousand dollars ($50,000). For purposes of this subdivision, the term "business income" does not include income that is considered passive income under the Code."

SECTION 2.1.(b) This section is effective for taxable years beginning on or after January 1, 2013.

SECTION 2.2.(a) G.S. 105-134.2 reads as rewritten:

"**§ 105-134.2. Individual income tax imposed.**

(a) Tax. – A tax is imposed ~~upon~~ for each taxable year on 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~~ paid annually. The tax is five and nine-tenths percent (5.9%) of the taxpayer's North Carolina taxable income.

~~(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%~~

(b) Withholding Tables. – In lieu of the tax imposed by subsection (a) of this section, there is imposed for each taxable year upon the North Carolina taxable income of every individual a tax determined under tables, applicable to the taxable year, which may be prescribed by the Secretary. The amounts of the tax determined under the tables shall be computed on the basis of the ~~rates~~ rate prescribed by subsection (a) of this section. This subsection does not apply to an individual making a return under section 443(a)(1) of the Code for a period of less than 12 months on account of a change in the individual's annual accounting period, or to an estate or trust. The tax imposed by this subsection shall be treated as the tax imposed by subsection (a) of this section."

SECTION 2.2.(b) G.S. 105-134.6, as amended by S.L. 2013-10 and by Section 2.1 of this act, reads as rewritten:

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

…

~~(a1) Personal Exemption. – In calculating North Carolina taxable income, a taxpayer may deduct an exemption amount equal to 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~~ listed in the table below based on the taxpayer's filing status or the itemized deductions amount allowed under subsection (a3) of this section for interest paid or accrued with respect to any qualified residence, for property taxes paid on real estate, and for charitable contributions. In the case of a married couple filing separate returns, a taxpayer may not deduct the standard deduction amount under this subsection if the taxpayer or the taxpayer's spouse claims the itemized deductions amount under subsection (a3) of this section.

~~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~~$12,000
Head of Household	~~4,400~~ 9,600
Single	~~3,000~~ 6,000
Married, filing separately	~~3,000.~~ 6,000.

(a3) Itemized Deductions Amount. – In calculating North Carolina taxable income, a taxpayer may deduct either the North Carolina standard deduction amount allowed under subsection (a2) of this section or the itemized deduction amount allowed under this subsection. In the case of a married couple filing separate returns, a taxpayer may not deduct the standard deduction amount under subsection (a2) of this section if the taxpayer or the taxpayer's spouse claims the itemized deductions amount under this subsection. The itemized deductions amount allowed under this subsection is the sum of the following:

(1) The amount claimed by the taxpayer as a deduction for interest paid or accrued during the taxable year under section 163(h) of the Code with respect to any qualified residence.

(2) The amount claimed by the taxpayer for charitable contributions deductible under section 170 of the Code for that taxable year.

(3) The amount claimed by the taxpayer under the Code for State and local property taxes paid on real estate for that taxable year.

(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.

…

~~(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.~~

…

~~(17) In each of the taxpayer's first five taxable years beginning on or after January 1, 2005, an amount equal to twenty percent (20%) of the amount added to taxable income in a previous year as accelerated depreciation under subdivision (c)(8) of this section.~~

~~(17a) An amount equal to twenty percent (20%) of the amount added to federal taxable income as accelerated depreciation under subdivision (c)(8a) of this section. For a taxpayer who made the addition for accelerated depreciation in the 2008 taxable year, the deduction allowed by this subdivision applies to the first five taxable years beginning on or after January 1, 2009. For a taxpayer who made the addition for accelerated depreciation in the 2009 taxable year, the deduction allowed by this subdivision applies to the first five taxable years beginning on or after January 1, 2010.~~

~~(17b) An amount equal to twenty percent (20%) of the amount added to federal taxable income as accelerated depreciation under subdivision (c)(8b) of this section. For the amount added to adjusted gross income in the 2010 taxable year, the deduction allowed by this subdivision applies to the first five taxable years beginning on or after January 1, 2011. For the amount added to taxable income in the 2011 taxable year, the deduction allowed by this subdivision applies to the first five taxable years beginning on or after January 1, 2012. For the amount added to taxable income in the 2012 taxable year, the deduction allowed by this subdivision applies to the first five taxable years beginning on or after January 1, 2013.For the amount added to adjusted gross income in the 2013 taxable year, the deduction allowed by this subdivision applies to the first five taxable years beginning on or after January 1, 2014.~~

…

~~(21) An amount equal to twenty percent (20%) of the amount added to federal taxable income under subdivision (c)(15) of this section. For the amount added to taxable income in the 2010 taxable year, the deduction allowed by this subdivision applies to the first five taxable years beginning on or after January 1, 2011. For the amount added to taxable income in the 2011 taxable year, the deduction allowed by this subdivision applies to the first five taxable years beginning on or after January 1, 2012.~~

~~(21a) An amount equal to twenty percent (20%) of the amount added to adjusted gross income under subdivision (c)(15a) of this section. For the amount added to adjusted gross income in the 2012 taxable year, the deduction allowed by this subdivision applies to the first five taxable years beginning on or after January 1, 2013. For the amount added to adjusted gross income in the 2013 taxable year, the deduction allowed by this subdivision applies to the first five taxable years beginning on or after January 1, 2014.~~

~~(22) An amount not to exceed twenty-five thousand dollars ($25,000) of net business income the taxpayer receives during the taxable year. In the case of a married couple filing a joint return where both spouses receive or incur net business income, the maximum dollar amounts apply separately to each spouse's net business income, not to exceed a total of fifty thousand dollars ($50,000). For purposes of this subdivision, the term "business income" does not include income that is considered passive income under the Code.~~

<u>(23) The amount allowed as a deduction under G.S. 105-134.6A as a result of an add-back for federal accelerated depreciation and expensing.</u>

(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)~~ <u>(a3)</u> of this section, the taxpayer must add any of the following items to the extent those items are included in the itemized deductions amount.

…

~~(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 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.~~

~~(8b)~~ ~~For taxable years 2010 through 2013, eighty-five percent (85%) 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 during the taxable year. In addition, for taxable year 2010, a taxpayer who placed property in service during the 2009 taxable year and whose North Carolina taxable income for the 2009 taxable year reflected a special accelerated depreciation deduction allowed for the property under section 168(k) of the Code must add eighty-five percent (85%) of the amount of the special accelerated depreciation deduction. These adjustments do not result in a difference in basis of the affected assets for State and federal income tax purposes.~~

…

~~(15)~~ ~~For taxable years 2010 and 2011, eighty-five percent (85%) of the amount by which the taxpayer's expense deduction under section 179 of the Code for property placed in service in taxable year 2010 or 2011 exceeds the amount that would have been allowed for the respective taxable year under section 179 of the Code as of May 1, 2010. For purposes of this subdivision, the definition of section 179 property has the same meaning as under section 179 of the Code as of January 1, 2011. These adjustments do not result in a difference in basis of the affected assets for State and federal income tax purposes.(15a) For taxable years 2012 and 2013, eighty-five percent (85%) of the amount by which the taxpayer's expense deduction under section 179 of the Code for property placed in service in taxable year 2012 or 2013 exceeds the amount that would have been allowed for the respective taxable year under section 179 of the Code as of May 1, 2010. For purposes of this subdivision, the definition of section 179 property has the same meaning as under section 179 of the Code as of January 2, 2013. These adjustments do not result in a difference in basis of the affected assets for State and federal income tax purposes.~~

~~(15a)~~ ~~For taxable years 2012 and 2013, eighty five percent (85%) of the amount by which the taxpayer's expense deduction under section 179 of the Code for property placed in service in taxable year 2012 or 2013 exceeds the amount that would have been allowed for the respective taxable year under section 179 of the Code as of May 1, 2010. For purposes of this subdivision, the definition of section 179 property has the same meaning as under section 179 of the Code as of January 2, 2013. These adjustments do not result in a difference in basis of the affected assets for State and federal income tax purposes.~~

…

(20) The amount required to be added under G.S. 105-134.6A when the State decouples from federal accelerated depreciation and expensing.

…."

SECTION 2.2.(c) Part 2 of Article 4 of Chapter 105 of the General Statutes is amended by adding a new section to read:

"**§ 105-134.6A. Adjustments when State decouples from federal accelerated depreciation and expensing.**

(a) Special Accelerated Depreciation. – A taxpayer who places property in service during a taxable year listed in the table below and who takes a special accelerated depreciation deduction for that property under section 168(k) or 168(n) of the Code must add to the taxpayer's federal taxable income or adjusted gross income, as appropriate, eighty-five percent (85%) of the amount taken for that year under those Code provisions. For taxable years before 2012, the taxpayer must add the amount to the taxpayer's federal taxable income. For taxable year 2012 and after, the taxpayer must add the amount to the taxpayer's adjusted gross income.

A taxpayer who made the addition is allowed to deduct twenty percent (20%) of the add-back in each of the first five taxable years following the year the taxpayer is required to include the add-back in income. The table below indicates the applicable five-year period.

Taxable Year of 85% Add-Back	**Five Taxable Years of 20% Deduction**
2010	2011 through 2015
2011	2012 through 2016
2012	2013 through 2017
2013	2014 through 2018

(b) 2009 Depreciation Exception. – A taxpayer who placed property in service during the 2009 taxable year and whose North Carolina taxable income for the 2009 taxable year reflected a special accelerated depreciation deduction allowed for the property under section 168(k) of the Code must add eighty-five percent (85%) of the amount of the special accelerated depreciation deduction to its federal taxable income for the 2010 taxable year. A taxpayer who made the addition is allowed to deduct this add-back under subsection (a) of this section as if it were for property placed in service in 2010.

(c) Section 179 Expense. – For purposes of this subdivision, the definition of section 179 property has the same meaning as under section 179 of the Code as of January 1, 2011. A taxpayer who places section 179 property in service during a taxable year listed in the table below must add to the taxpayer's federal taxable income or adjusted gross income as appropriate, eighty-five percent (85%) of the amount by which the taxpayer's expense deduction under section 179 of the Code exceeds the amount that would have been allowed for that taxable year under section 179 of the Code as of May 1, 2010. For taxable years before 2012, the taxpayer must add the amount to the taxpayer's federal taxable income. For taxable year 2012 and after, the taxpayer must add the amount to the taxpayer's adjusted gross income.

A taxpayer who made the addition is allowed to deduct twenty percent (20%) of the add-back in each of the first five taxable years following the year the taxpayer is required to include the add-back in income. The table in subsection (a) of this section indicates the applicable five-year period.

(d) Asset Basis. – The adjustments made in this section do not result in a difference in basis of the affected assets for State and federal income tax purposes."

SECTION 2.2.(d) G.S. 105-151.26 is repealed.

SECTION 2.2.(e) G.S. 105-151.24(a) reads as rewritten:

"(a) Credit. – ~~An individual~~ A taxpayer who is allowed a federal child tax credit under section 24 of the Code for the taxable year ~~and whose adjusted gross income (AGI), as calculated under the Code, is less than the amount listed below~~ is allowed a credit against the tax imposed by this Part ~~in an amount equal to one hundred dollars ($100.00)~~ for each dependent child for whom the ~~individual~~ taxpayer is allowed the federal ~~credit for the taxable year:~~credit. The amount of credit allowed is equal to the amount listed in the table below based on the taxpayer's adjusted gross income.

~~Filing Status~~	~~AGI~~
~~Married, filing jointly~~	~~$100,000~~
~~Head of Household~~	~~80,000~~
~~Single~~	~~60,000~~
~~Married, filing separately~~	~~50,000.~~

Filing Status	AGI	Credit Amount
Married, filing jointly	Up to $100,000	$250.00
	Over $100,000	$125.00
Head of Household	Up to $80,000	$250.00
	Over $80,000	$125.00
Single	Up to $50,000	$250.00
	Over $50,000	$125.00
Married, filing separately	Up to $50,000	$250.00
	Over $50,000	$125.00."

SECTION 2.2.(f) This section becomes effective for taxable years beginning on or after January 1, 2014.

SECTION 2.3.(a) G.S. 105-160.2 reads as rewritten:

"**§ 105-160.2. Imposition of tax.**

(a) Tax Imposed. – The tax imposed by this Part ~~shall apply~~ applies to the taxable income of estates and trusts as determined under the provisions of the Code ~~except as otherwise~~ and adjusted as provided in this Part. The tax is computed on the amount of the taxable income of the estate or trust that is for the benefit of a resident of this State or for the benefit of a nonresident to the extent that the income (i) is derived from North Carolina sources and is attributable to the ownership of any interest in real or tangible personal property in this State or (ii) is derived from a business, trade, profession, or occupation carried on in this State.

(b) Taxable Income. – The taxable income of an estate or trust ~~shall be the~~ is the same as taxable income for such an estate or trust under the provisions of the ~~Code,~~ Code and adjusted as provided in G.S. 105-134.6 and G.S. 105-134.7, ~~except that~~ except as follows:

(1) The ~~the~~ adjustments provided in G.S. 105-134.6 and G.S. 105-134.7 ~~shall~~ must be apportioned between the estate or trust and the beneficiaries based on the distributions made during the taxable year.

(2) The itemized deductions amount allowed under G.S. 105-134.6(a3) is not limited when computing tax under this Part. ~~The tax shall be computed on the amount of the taxable income of the estate or trust that is for the benefit of a resident of this State, or for the benefit of a nonresident to the extent that the income (i) is derived from North Carolina sources and is attributable to the ownership of any interest in real or tangible personal property in this State or (ii) is derived from a business, trade, profession, or occupation carried on in this State. For purposes of the preceding sentence, taxable income and gross income shall be computed subject to the adjustments provided in G.S. 105-134.6 and G.S. 105-134.7.~~

(c) Tax Rate. – The tax on the amount computed ~~above~~ under this Part shall be at the rates levied in G.S. 105-134.2(a)(3). The tax computed under ~~the provisions of~~ this Part ~~shall be paid~~ is payable by the fiduciary responsible for administering the estate or trust."

SECTION 2.3.(b) This section becomes effective for taxable years beginning on or after January 1, 2014.

PART III. REDUCE CORPORATE INCOME AND FRANCHISE TAX RATES

SECTION 3.1.(a) 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 of the taxpayer's State net income computed as follows:

Income Years Beginning	Tax
~~In 1997~~	~~7.5%~~
~~In 1998~~	~~7.25%~~
~~In 1999~~	~~7%~~
~~After 1999~~	~~6.9%.~~
In 2014	6.5%
In 2015	6.35%
In 2016	6.2%
In 2017	5.6%
After 2017	5.4%."

SECTION 3.1.(b) This section becomes effective for taxable years beginning on or after January 1, 2014.

SECTION 3.2.(a) G.S. 105-122(d) reads as rewritten:

"(d) After determining the proportion of its total capital stock, surplus and undivided profits as set out in subsection (c) of this section, which amount shall not be less than fifty-five percent (55%) of the appraised value as determined for ad valorem taxation of all the real and tangible personal property in this State of each corporation nor less than its total actual investment in tangible property in this State, every corporation taxed under this section shall annually pay to the Secretary of Revenue, at the time the report and statement are due, a franchise or privilege tax at the rate of ~~one dollar and fifty cents ($1.50)~~ one dollar and thirty-five cents ($1.35) per one thousand dollars ($1,000) of the total amount of capital stock, surplus and undivided profits as provided in this section. The tax imposed in this section shall not be less than thirty-five dollars ($35.00) and shall be for the privilege of carrying on, doing business, and/or the continuance of articles of incorporation or domestication of each corporation in this State. Appraised value of tangible property including real estate is the ad valorem valuation for the calendar year next preceding the due date of the franchise tax return. The term "total actual investment in tangible property" as used in this section means the total original purchase price or consideration to the reporting taxpayer of its tangible properties, including real estate, in this State plus additions and improvements thereto less reserve for depreciation as permitted for income tax purposes, and also less any indebtedness incurred and existing by virtue of the purchase of any real estate and any permanent improvements made thereon. In computing "total actual investment in tangible personal property" there shall also be deducted reserves for the entire cost of any air-cleaning device or sewage or waste treatment plant, including waste lagoons, and pollution abatement equipment purchased or constructed and installed which reduces the amount of air or water pollution resulting from the emission of air contaminants or the discharge of sewage and industrial wastes or other polluting materials or substances into the outdoor atmosphere or into streams, lakes, or rivers, upon condition that the corporation claiming this deduction shall furnish to the Secretary a certificate from the Department of Environment and Natural Resources or from a local air pollution control program for air-cleaning devices located in an area where the Environmental Management Commission has certified a local air pollution control program pursuant to G.S. 143-215.112 certifying that said Department or local air pollution control program has found as a fact that the air-cleaning device, waste treatment plant or pollution abatement equipment purchased or constructed and installed as above described has actually been constructed and installed and that the device, plant or equipment complies with the requirements of the Environmental Management Commission or local air pollution control program with respect to the devices, plants or equipment, that the device, plant or equipment is being effectively operated in accordance with the terms and conditions set forth in the permit, certificate of approval, or other document of approval issued by the Environmental Management Commission or local air pollution control program and that the primary purpose is to reduce air or water pollution resulting from the emission of air contaminants or the discharge of sewage and waste and not merely incidental to other purposes and functions. The cost of constructing facilities of any private or public utility built for the purpose of providing sewer service to residential and outlying areas is treated as deductible for the purposes of this section; the deductible liability allowed by this section shall apply only with respect to pollution abatement plants or equipment constructed or installed on or after January 1, 1955."

SECTION 3.2.(b) This section is effective for taxable years beginning on or after January 1, 2015, and applies to taxes due in that year or a subsequent year.

SECTION 3.3.(a) G.S. 105-130.5, as amended by S.L. 2013-10, 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:

…

~~(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.~~

~~(15b) For taxable years 2010 through 2013, eighty-five percent (85%) 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 during the taxable year. In addition, for taxable year 2010, a taxpayer who placed property in service during the 2009 taxable year and whose North Carolina taxable income for the 2009 taxable year reflected a special accelerated depreciation deduction allowed for the property under section 168(k) of the Code must add eighty-five percent (85%) of the amount of the special accelerated depreciation deduction. These adjustments do not result in a difference in basis of the affected assets for State and federal income tax purposes.~~

…

~~(23) For taxable years 2010 and 2011, eighty-five percent (85%) of the amount by which the taxpayer's expense deduction under section 179 of the Code for property placed in service in taxable year 2010 or 2011 exceeds the amount that would have been allowed for the respective taxable year under section 179 of the Code as of May 1, 2010. For purposes of this subdivision, the definition of section 179 property has the same meaning as under section 179 of the Code as of January 1, 2011. These adjustments do not result in a difference in basis of the affected assets for State and federal income tax purposes.~~

~~(23a) For taxable years 2012 and 2013, eighty-five percent (85%) of the amount by which the taxpayer's expense deduction under section 179 of the Code for property placed in service in taxable year 2012 or 2013 exceeds the amount that would have been allowed for the respective taxable year under section 179 of the Code as of May 1, 2010. For purposes of this subdivision, the definition of section 179 property has the same meaning as under section 179 of the Code as of January 2, 2013. These adjustments do not result in a difference in basis of the affected assets for State and federal income tax purposes.~~

(24) The amount required to be added under G.S. 105-130.5B when the State decouples from federal accelerated depreciation and expensing.

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

…

~~(21) In each of the taxpayer's first five taxable years beginning on or after January 1, 2005, an amount equal to twenty percent (20%) of the amount added to taxable income in a previous year as accelerated depreciation under subdivision (a)(15) of this section.~~

~~(21a) An amount equal to twenty percent (20%) of the amount added to federal taxable income as accelerated depreciation under subdivision (a)(15a) of this section. For a taxpayer who made the addition for accelerated depreciation in the 2008 taxable year, the deduction allowed by this subdivision applies to the first five taxable years beginning on or after January 1, 2009. For a taxpayer who made the addition for accelerated depreciation in the 2009 taxable year, the deduction allowed by this subdivision applies to the first five taxable years beginning on or after January 1, 2010.~~

~~(21b) An amount equal to twenty percent (20%) of the amount added to federal taxable income as accelerated depreciation under subdivision (a)(15b) of this~~

~~section. For the amount added to taxable income in the 2010 taxable year, the deduction allowed by this subdivision applies to the first five taxable years beginning on or after January 1, 2011. For the amount added to taxable income in the 2011 taxable year, the deduction allowed by this subdivision applies to the first five taxable years beginning on or after January 1, 2012. For the amount added to taxable income in the 2012 taxable year, the deduction allowed by this subdivision applies to the first five taxable years beginning on or after January 1, 2013. For the amount added to taxable income in the 2013 taxable year, the deduction allowed by this subdivision applies to the first five taxable years beginning on or after January 1, 2014.~~

…

~~(26) An amount equal to twenty percent (20%) of the amount added to federal taxable income under subdivision (a)(23) of this section. For the amount added to taxable income in the 2010 taxable year, the deduction allowed by this subdivision applies to the first five taxable years beginning on or after January 1, 2011. For the amount added to taxable income in the 2011 taxable year, the deduction allowed by this subdivision applies to the first five taxable years beginning on or after January 1, 2012.~~

~~(26a) An amount equal to twenty percent (20%) of the amount added to federal taxable income under subdivision (a)(23a) of this section. For the amount added to taxable income in the 2012 taxable year, the deduction allowed by this subdivision applies to the first five taxable years beginning on or after January 1, 2013. For the amount added to taxable income in the 2013 taxable year, the deduction allowed by this subdivision applies to the first five taxable years beginning on or after January 1, 2014.~~

(27) The amount allowed as a deduction under G.S. 105-130.5B as a result of an add-back for federal accelerated depreciation and expensing.

…."

SECTION 3.3.(b) Part 1 of Article 4 of Chapter 105 of the General Statutes is amended by adding a new section to read:

"**§ 105-130.5B. Adjustments when State decouples from federal accelerated depreciation and expensing.**

(a) Special Accelerated Depreciation. – A taxpayer who places property in service during a taxable year listed in the table below and who takes a special accelerated depreciation deduction for that property under section 168(k) or 168(n) of the Code must add to the taxpayer's federal taxable income eighty-five percent (85%) of the amount taken for that year under those Code provisions.

A taxpayer who made the addition is allowed to deduct twenty percent (20%) of the add-back in each of the first five taxable years following the year the taxpayer is required to include the add-back in income. The table below indicates the applicable five-year period.

Taxable Year of 85% Add-Back	**Five Taxable Years of 20% Deduction**
2010	2011 through 2015
2011	2012 through 2016
2012	2013 through 2017
2013	2014 through 2018

(b) 2009 Depreciation Exception. – A taxpayer who placed property in service during the 2009 taxable year and whose North Carolina taxable income for the 2009 taxable year reflected a special accelerated depreciation deduction allowed for the property under section 168(k) of the Code must add eighty-five percent (85%) of the amount of the special accelerated depreciation deduction to its federal taxable income for the 2010 taxable year. A taxpayer who made the addition is allowed to deduct this add-back under subsection (a) of this section as if it were for property placed in service in 2010.

(c) Section 179 Expense. – For purposes of this subdivision, the definition of section 179 property has the same meaning as under section 179 of the Code as of January 1, 2011. A taxpayer who places section 179 property in service during a taxable year in subsection (a) of this section must add to the taxpayer's federal taxable income eighty-five percent (85%) of the amount by which the taxpayer's expense deduction under section 179 of the Code exceeds the amount that would have been allowed for that taxable year under section 179 of the Code as of May 1, 2010.

A taxpayer who made the addition is allowed to deduct twenty percent (20%) of the add-back in each of the first five taxable years following the year the taxpayer is required to include the add-back in income. The table in subsection (a) of this section indicates the applicable five-year period.

(d) Asset Basis. – The adjustments made in this section do not result in a difference in basis of the affected assets for State and federal income tax purposes."

SECTION 3.3.(c) This section is effective when it becomes law.

SECTION 3.4.(a) The title of Article 3E of Chapter 105 of the General Statutes reads as rewritten:

"Article 3E.

~~Low-Income Housing Tax Credits.~~Work Force Housing Construction Loan Program."

SECTION 3.4.(b) G.S. 105-129.42(a) reads as rewritten:

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

(1) Development tier. – The classification assigned to an area pursuant to G.S. 143B-437.08.

~~(1)~~(2) Qualified Allocation Plan. – The plan governing the allocation of federal low-income housing tax credits for a particular year, as approved by the Governor after a public hearing and publication in the North Carolina Register.

~~(2)~~(3) Qualified North Carolina low-income housing development. – A qualified low-income project or building that is allocated a federal tax credit under section 42(h)(1) of the Code and is described in subsection (c) of this section.

~~(3)~~(4) Qualified residential unit. – A housing unit that meets the requirements of section 42 of the Code."

SECTION 3.4.(c) G.S. 105-129.42(b) reads as rewritten:

"(b) Credit. – A taxpayer who is allocated a federal low-income housing tax credit under section 42 of the Code to construct or substantially rehabilitate a qualified North Carolina low-income housing development that is located in a development tier area one or two is allowed a credit equal to a percentage of the development's qualified basis, as determined pursuant to section 42 of the Code. For the purpose of this section, qualified basis is calculated based on the information contained in the carryover allocation and is not recalculated to reflect subsequent increases or decreases. No credit is allowed for a development that uses tax-exempt bond financing."

SECTION 3.4.(d) G.S. 105-129.45 is repealed.

SECTION 3.4.(e) This section is effective for taxable years beginning on or after January 1, 2014.

SECTION 3.5.(a) G.S. 115C-546.1 reads as rewritten:

"**§ 115C-546.1. Creation of Fund; administration.**

(a) There is created the Public School Building Capital Fund. The Fund shall be used to assist county governments in meeting their public school building capital needs and their equipment needs under their local school technology plans.

~~(b) Each calendar quarter, the Secretary of Revenue shall remit to the State Treasurer for credit to the Public School Building Capital Fund an amount equal to the applicable fraction provided in the table below of the net collections received during the previous quarter by the Department of Revenue under G.S. 105-130.3. All funds deposited in the Public School Building Capital Fund shall be invested as provided in G.S. 147-69.2 and G.S. 147-69.3.~~

~~Period~~	~~Fraction~~
~~10/1/97 to 9/30/98~~	~~One-fifteenth (1/15)~~
~~10/1/98 to 9/30/99~~	~~Two twenty-ninths (2/29)~~
~~10/1/99 to 9/30/00~~	~~One-fourteenth (1/14)~~
~~After 9/30/00~~	~~Five sixty-ninths (5/69)~~

(c) The Fund shall be administered by the Department of Public Instruction."

SECTION 3.5.(b) G.S. 115C-546.2(a) is repealed.

SECTION 3.5.(c) This section becomes effective April 1, 2014, and applies to distributions for collections for quarters beginning on or after that date.

PART IV. EXPAND SALES TAX BASE TO INCLUDE SERVICES COMMONLY TAXED IN OTHER STATES

SECTION 4.1.(a) G.S. 105-164.13(13c) and G.S. 105-164.13D are repealed.

SECTION 4.1.(b) G.S. 105-467(b) reads as rewritten:

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

SECTION 4.1.(c) This section becomes effective July 1, 2013, and applies to sales made on or after that date.

SECTION 4.2.(a) G.S. 105-37.1, 105-38.1, and 105-40 are repealed.

SECTION 4.2.(b) G.S. 105-164.4(a) is amended by adding the following new subdivisions to read:

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

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

…

(9) The general rate of tax applies to admission charges to an entertainment activity listed in this subdivision. Offering any of these listed activities is a

service. An admission charge includes a charge for a single ticket, a multioccasion ticket, a seasonal pass, an annual pass, and a cover charge.

An admission charge does not include a charge for amenities. If charges for amenities are not separately stated on the face of an admission ticket, then the charge for admission is considered to be equal to the admission charge for a ticket to the same event that does not include amenities and is for a seat located directly in front of or closest to a seat that includes amenities.

When an admission ticket is resold and the price of the admission ticket is printed on the face of the ticket, the tax does not apply to the face price. When an admission ticket is resold and the price of the admission ticket is not printed on the face of the ticket, the tax applies to the difference between the amount the reseller paid for the ticket and the amount the reseller charges for the ticket.

Admission charges to the following entertainment activities are subject to tax:

a. A live performance or other live event of any kind.
b. A movie.
c. A museum, a cultural site, a garden, an exhibit, a show, or a similar attraction or a guided tour at any of these attractions."

SECTION 4.2.(c) G.S. 105-164.13 is amended by adding the following new subdivisions to read:

"(60) Admission charges to any of the following recreational or entertainment activities:

a. All exhibitions, performances, and entertainments, except as in this Article expressly mentioned as not exempt, produced by local talent exclusively for the benefit of religious, charitable, benevolent, or educational purposes, as long as no compensation is paid to the local talent.
b. The North Carolina Symphony Society, Incorporated, as specified in G.S. 140-10.1.
c. All exhibits, shows, attractions, and amusements operated by a society or association organized under the provisions of Chapter 106 of the General Statutes where the society or association has obtained a permit from the Secretary to operate without the payment of taxes under this Article.
d. All outdoor historical dramas, as specified in Article 19C of Chapter 143 of the General Statutes.
e. All elementary and secondary school athletic contests, dances, and other amusements.
f. Dances and other amusements actually promoted and managed by civic organizations when the entire proceeds of the dances or other amusements are used exclusively for civic and charitable purposes of the organizations and not to defray the expenses of the organization conducting the dance or amusement. The mere sponsorship of a dance or another amusement by a civic or fraternal organization does not exempt the dance or other amusement, because the exemption applies only when the dance or amusement is actually managed and conducted by the civic or fraternal organization.
g. A youth athletic contest sponsored by a person exempt from income tax under Article 4 of this Chapter. For the purpose of this

subdivision, a youth athletic contest means a contest in which each participating athlete is less than 20 years of age.

h. All dances, motion picture shows, and other amusements promoted and managed by a qualifying corporation that operates a center for the performing and visual arts if the dance or other amusement is held at the center. "Qualifying corporation" means a corporation that is exempt from income tax under G.S. 105-130.11(a)(3). "Center for the performing and visual arts" means a facility having a fixed location that provides space for dramatic performances, studios, classrooms, and similar accommodations to organized arts groups and individual artists. This exemption does not apply to athletic events.

i. All exhibitions, performances, and entertainments promoted and managed by a "nonprofit arts organization." This exemption does not apply to athletic events. A "nonprofit arts organization" is an organization that meets both of the following requirements:

1. It is exempt from income tax under G.S. 105-130.11(a)(3).
2. Its primary purpose is to create, produce, present, or support music, dance, theatre, literature, or visual arts.

j. A person that is exempt from income tax under Article 4 of this Chapter and is engaged in the business of operating a teen center. A "teen center" is a fixed facility whose primary purpose is to provide recreational activities, dramatic performances, dances, and other amusements exclusively for teenagers.

k. Arts festivals held by a person that is exempt from income tax under Article 4 of this Chapter and that meets the following conditions:

1. The person holds no more than two arts festivals during a calendar year.
2. Each of the person's arts festivals last no more than seven consecutive days.
3. The arts festivals are held outdoors on public property and involve a variety of exhibitions, entertainments, and activities.

l. Community festivals held by a person who is exempt from income tax under Article 4 of this Chapter and that meets all of the following conditions:

1. The person holds no more than one community festival during a calendar year.
2. The community festival lasts no more than seven consecutive days.
3. The community festival involves a variety of exhibitions, entertainments, and activities, the majority of which are held outdoors and are open to the public.

m. All farm-related exhibitions, shows, attractions, or amusements offered on land used for bona fide farm purposes as defined in G.S. 153A-340."

SECTION 4.2.(d) This section becomes effective October 1, 2013, and applies to admissions purchased on or after that date. For admissions to a live event, the tax applies to the initial sale or resale of tickets occurring on or after that date; gross receipts received on or after October 1, 2013, for admission to a live event, for which the initial sale of tickets occurred before that date, other than gross receipts received by a ticket reseller, are taxable under G.S. 105-37.1.

SECTION 4.3.(a) G.S. 105-116, 105-116.1, 105-164.21A, and 159B-27(b), (c), (d), and (e) are repealed.

SECTION 4.3.(b) G.S. 105-164.4(a)(1f) and (a)(4a) are repealed.

SECTION 4.3.(c) G.S. 105-164.13(44) and Article 5E of Chapter 105 of the General Statutes are repealed.

SECTION 4.3.(d) G.S. 105-164.4(a) is amended by adding a new subdivision to read:

"(10) The combined general rate applies to the gross receipts derived from sales of electricity and piped natural gas."

SECTION 4.3.(e) Pursuant to G.S. 62-31 and G.S. 62-32, the Utilities Commission must adjust the rate set for the following utilities:

(1) Electricity to reflect the repeal of G.S. 105-116 and the resulting liability of electric power companies for the tax imposed under G.S. 105-122 and for the increase in the rate of tax imposed on sales of electricity under G.S. 105-164.4.

(2) Piped natural gas to reflect the repeal of Article 5E of Chapter 105 of the General Statutes, the repeal of the credit formerly allowed under G.S. 105-122(d1), and the resulting liability of companies for the tax imposed on sales of piped natural gas under G.S. 105-164.4.

SECTION 4.3.(f) Part 8 of Article 5 of Chapter 105 of the General Statutes is amended by adding a new section to read:

"**§ 105-164.44K. Distribution of part of tax on electricity to cities.**

(a) Distribution. – The Secretary must distribute to cities forty-four percent (44%) of the net proceeds of the tax collected under G.S. 105-164.4 on electricity. Each city's share of the amount to be distributed is its franchise tax share calculated under subsection (b) of this section plus its ad valorem share calculated under subsection (c) of this section. The Secretary must make the distribution within 75 days after the end of each quarter.

(b) Franchise Tax Share. – The franchise tax share of a city is the amount of electricity gross receipts franchise tax distributed to the city under repealed G.S. 105-116.1 for the same quarter that was the last quarter in which taxes were imposed on electric power companies under repealed G.S. 105-116. The Department must recalculate the franchise tax share of a city every five years, beginning with distributions for fiscal years beginning on or after July 1, 2020. The recalculated franchise tax share of a city is three and nine hundredths percent (3.09%) of the gross receipts that would have been derived by an electric power company from sales within a city during the preceding fiscal year and taxable under repealed G.S. 105-116, divided by four.

The franchise tax share of a city that has dissolved, merged with another city, or divided into two or more cities since it received a distribution under repealed G.S. 105-116.1 is adjusted as follows:

(1) If a city dissolves and is no longer incorporated, the franchise tax share of the city is added to the amount distributed under subsection (c) of this section.

(2) If two or more cities merge or otherwise consolidate, their franchise tax shares are combined.

(3) If a city divides into two or more cities, the franchise tax share of the city that divides is allocated among the new cities in proportion to the total amount of ad valorem taxes levied by each on property having a tax situs in the city.

(c) Ad Valorem Share. – The ad valorem share of a city is its proportionate share of the amount that remains for distribution after determining each city's franchise tax share under subsection (b) of this section. A city's proportionate share is the amount of ad valorem taxes it levies on property having a tax situs in the city compared to the ad valorem taxes levied by all cities on property having a tax situs in the cities.

(d) Methodology. – The ad valorem method set out in G.S. 105-472(b)(2) applies in determining the share of a city under this section based on ad valorem taxes, except that the amount of ad valorem taxes levied by a city does not include ad valorem taxes levied in behalf of a taxing distribution and collected by the city.

(e) Determination Final. – The determination made by the Department with respect to a city's franchise tax share is final and is not subject to administrative or judicial review.

(f) Nature. – 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."

SECTION 4.3.(g) Part 8 of Article 5 of Chapter 105 of the General Statutes is amended by adding a new section to read:

"**§ 105-164.44L. Distribution of part of tax on piped natural gas to cities.**

(a) Distribution. – The Secretary must distribute to cities twenty percent (20%) of the net proceeds of the tax collected under G.S. 105-164.4 on piped natural gas. Each city's share of the amount to be distributed is its excise tax share calculated under subsection (b) of this section plus its ad valorem share calculated under subsection (c) of this section. The Secretary must make the distribution within 75 days after the end of each quarter.

(b) Excise Tax Share. – The excise tax share of a city that is not a gas city is the amount of piped natural gas excise tax distributed to the city under repealed G.S. 105-187.44 for the same quarter that was the last quarter in which taxes were imposed on piped natural gas under repealed Article 5E of this Chapter. The excise tax share of a gas city is the amount the gas city would have received under repealed G.S. 105-187.44 if piped natural gas consumed by the city or delivered by the city to a customer had not been exempt from tax under repealed G.S. 105-187.41(c)(1) and (c)(2). A gas city must report the information required by the Secretary to make the distribution under this section in the form, manner, and time required by the Secretary. For purposes of this subsection, the term "gas city" has the same meaning as defined in repealed G.S. 105-187.40.

The excise tax share of a city that has dissolved, merged with another city, or divided into two or more cities since it received a distribution under repealed G.S. 105-187.44 is adjusted as follows:

(1) If a city dissolves and is no longer incorporated, the excise tax share of the city is added to the amount distributed under subsection (c) of this section.

(2) If two or more cities merge or otherwise consolidate, their excise tax shares are combined.

(3) If a city divides into two or more cities, the excise tax share of the city that divides is allocated among the new cities in proportion to the total amount of ad valorem taxes levied by each on property having a tax situs in the city.

(c) Ad Valorem Share. – The ad valorem share of a city is its proportionate share of the amount that remains for distribution after determining each city's excise tax share under subsection (b) of this section. A city's proportionate share is the amount of ad valorem taxes it levies on property having a tax situs in the city compared to the ad valorem taxes levied by all cities on property having a tax situs in the cities.

(d) Methodology. – The ad valorem method set out in G.S. 105-472(b)(2) applies in determining the share of a city under this section based on ad valorem taxes, except that the amount of ad valorem taxes levied by a city does not include ad valorem taxes levied in behalf of a taxing distribution and collected by the city.

(e) Determination Final. – The determination made by the Department with respect to a city's excise tax share is final and is not subject to administrative or judicial review.

(f) Nature. – 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."

SECTION 4.3.(h) G.S. 160A-211(c) reads as rewritten:

"(c) Prohibition. – A city may not impose a license, franchise, or privilege tax on a person engaged in any of the businesses listed in this subsection. These businesses are subject to ~~a State tax~~ sales tax at the combined general rate for which the city receives a share of the tax ~~revenue.~~revenue or they are subject to the local sales tax.

(1) Supplying piped natural ~~gas taxed under Article 5E of Chapter 105 of the General Statutes.~~gas.

(2) Providing telecommunications service taxed under G.S. 105-164.4(a)(4c).

(3) Providing video programming taxed under G.S. 105-164.4(a)(6).

(4) Providing electricity. A city may continue to impose and collect the license, franchise, or privilege taxes on an electric power company that it imposed and collected on or before January 1, 1947, but it may not impose or collect any greater franchise, privilege, or license taxes, in the aggregate, on an electric power company that was imposed and collected on or before January 1, 1947."

SECTION 4.3.(i) Subsections (a) and (h) of this section become effective July 1, 2014. Subsections (b) through (d) of this section become effective July 1, 2014, and apply to bills issued on or after that date. Subsections (f) and (g) of this section are effective for quarters beginning on or after July 1, 2014. The remainder of this section is effective when it becomes law.

SECTION 4.4.(a) 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:

…

(1c) Alteration, repair, maintenance, cleaning, and installation services. – The term includes all of the following:

a. Altering tangible personal property by tailoring, monogramming, engraving, or making similar changes to the property.

b. Repairing tangible personal property to restore it to proper working order. This subdivision applies regardless of whether the property is able to be restored to proper working order.

c. Maintaining tangible personal property to keep the property in working order, to avoid breakdown, or to prevent unnecessary repairs.

d. Cleaning tangible personal property.

e. Installing tangible personal property or a fixture that becomes part of real property.

…

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

…."

SECTION 4.4.(b) G.S. 105-164.4(a) is amended by adding a new subdivision to read:

"<u>(11)</u> <u>The general rate of tax applies to the following services on tangible personal property:</u>

<u>a.</u> <u>A service contract.</u>

<u>b.</u> <u>Alteration, repair, maintenance, cleaning, and installation services.</u>"

SECTION 4.4.(c) G.S. 105-164.13(49) is repealed.

SECTION 4.4.(d) G.S. 105-164.13 is amended by adding two new subdivisions to read:

"<u>(61)</u> <u>An item or service used to maintain or repair tangible personal property pursuant to a service agreement if the purchaser of the service contract is not charged for the item or service.</u>

<u>(62)</u> <u>A service on tangible personal property described in G.S. 105-164.4(a)(11) that is provided for any of the following:</u>

<u>a.</u> <u>An item exempt from tax under this Article, other than an item exempt from tax under G.S. 105-164.13(32).</u>

<u>b.</u> <u>A newly constructed building or structure.</u>

<u>c.</u> <u>A right-of-way or utility easement.</u>"

SECTION 4.4.(e) This section becomes effective July 1, 2014, and applies to sales made on or after that date.

PART V. EFFECTIVE DATE

SECTION 5.(a) This act does not affect the rights or liabilities of the State, a taxpayer, or another person arising under a statute amended or repealed by this act before the effective date of its amendment or repeal; nor does it affect the right to any refund or credit of a tax that accrued under the amended or repealed statute before the effective date of its amendment or repeal.

SECTION 5.(b) G.S. 105-237.1(a) reads as rewritten:

"(a) Authority. – The Secretary may compromise a taxpayer's liability for a tax that is collectible under G.S. 105-241.22 when the Secretary determines that the compromise is in the best interest of the State and makes one or more of the following findings:

…

<u>(6)</u> <u>The taxpayer is a retailer or a person under Article 5 of this Chapter, the assessment is for sales or use tax the retailer failed to collect or the person failed to pay on an item taxable under G.S. 105-164.4(a)(9) or (a)(11), and the retailer or person made a good faith effort to comply with the sales and use tax laws. This subdivision expires for assessments issued after July 1, 2020.</u>"

SECTION 5.(c) Except as otherwise provided, this act is effective when it becomes law.