

GENERAL ASSEMBLY OF NORTH CAROLINA
SESSION 2007

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SENATE BILL 1112

Short Title: Repeal Incentives - Lower Corporate Tax Rate. (Public)

Sponsors: Senators Pittenger; Apodaca, Bingham, Blake, Brock, East, Goodall, Hunt, Jacumin, and Tillman.

Referred to: Finance.

March 22, 2007

A BILL TO BE ENTITLED

AN ACT TO LOWER THE CORPORATE INCOME TAX RATE BY ELIMINATING
SPECIAL TAX BREAKS.

The General Assembly of North Carolina enacts:

SECTION 1. Notwithstanding any provision of law to the contrary, effective for business activities occurring on or after January 1, 2008, the following Articles of Chapter 105 of the General Statutes are repealed:

- (1) Article 3A – Tax Incentives for New and Expanding Businesses.
- (2) Article 3B – Business and Energy Tax Credits.
- (3) Article 3C – Tax Incentives for Recycling Facilities.
- (4) Article 3D – Historic Rehabilitation Tax Credits.
- (5) Article 3E – Low-Income Housing Tax Credits
- (6) Article 3F – Research and Development.
- (7) Article 3G – Tax Incentives for Major Computer Manufacturing Facilities.
- (8) Article 3H – Mill Rehabilitation Tax Credit.
- (9) Article 3J – Tax Credits for Growing Businesses.

SECTION 2. Part 5 of Article 4 of Chapter 105 of the General Statutes is repealed.

SECTION 3. Notwithstanding any provision of law to the contrary, effective for business activities occurring on or after January 1, 2008, the following sections of the General Statutes are repealed.

- (1) G.S. 105-130.22. Tax credit for construction of dwelling units for handicapped persons.
- (2) G.S. 105-130.25. Credit against corporate income tax for construction of cogenerating power plants.
- (3) G.S. 105-130.34. Credit for certain real property donations.
- (4) G.S. 105-130.36. Credit for conservation tillage equipment.

- 1 (5) G.S. 105-130.37. Credit for gleaned crop.
- 2 (6) G.S. 105-130.39. Credit for certain telephone subscriber line charges.
- 3 (7) G.S. 105-130.41. Credit for North Carolina State Ports Authority
- 4 wharfage, handling, and throughput charges.
- 5 (8) G.S. 105-130.43. Credit for savings and loan supervisory fees.
- 6 (9) G.S. 105-130.44. Credit for construction of poultry composting
- 7 facility.
- 8 (10) G.S. 105-130.45. Credit for manufacturing cigarettes for exportation.
- 9 (11) G.S. 105-130.46. Credit for manufacturing cigarettes for exportation
- 10 while increasing employment and utilizing State Ports.
- 11 (12) G.S. 105-130.47. Credit for qualifying expenses of a production
- 12 company.
- 13 (13) G.S. 105-130.48. Credit for recycling oyster shells.

14 **SECTION 4.(a)** G.S. 105-130.5(a) is amended by adding a new subdivision

15 to read:

16 "(a) The following additions to federal taxable income shall be made in

17 determining State net income:

18 ...

19 (2a) The portion of a financial institution's interest expense that is allocable

20 to interest income exempt from taxation under this Part. The allocable

21 portion of the interest expense is the portion for which deduction

22 would be disallowed pursuant to section 265(b) of the Code if the

23 interest income exempt from taxation under this Part were earned on

24 tax-exempt obligations as defined in section 265(b) of the Code."

25 **SECTION 4.(b)** This section is effective for taxable years beginning on or

26 after January 1, 2007. Notwithstanding G.S. 105-163.41, no addition to tax may be

27 made under that statute for a taxable year beginning on or after January 1, 2007, and

28 before January 1, 2008, with respect to an underpayment of corporation tax to the extent

29 the underpayment was created or increased by this section.

30 **SECTION 5.(a)** G.S. 105-130.4(l) reads as rewritten:

- 31 "(l) (1) The sales factor is a fraction, the numerator of which is the total sales
- 32 of the corporation in this State during the income year, and the
- 33 denominator of which is the total sales of the corporation everywhere
- 34 during the income year. Notwithstanding any other provision under
- 35 this Part, the receipts from any casual sale of property shall be
- 36 excluded from both the numerator and the denominator of the sales
- 37 factor. Where a corporation is not taxable in another state on its
- 38 apportionable income but is taxable in another state only because of
- 39 nonapportionable income, all sales shall be treated as having been
- 40 made in this State.
- 41 (2) Sales of tangible personal property are in this State if the property is
- 42 received in this State by ~~the purchaser.~~ a purchaser other than the
- 43 United States government or if the property is shipped from a place in
- 44 this State and the purchaser is the United States government or the

taxpayer is not taxable in the state of the purchaser. In the case of delivery of goods by common carrier or by other means of transportation, including transportation by the purchaser, the place at which the goods are ultimately received after all transportation has been completed shall be considered as the place at which the goods are received by the purchaser. Direct delivery into this State by the taxpayer to a person or firm designated by a purchaser from within or without the State shall constitute delivery to the purchaser in this State.

(3) Other sales are in this State if:

- a. The receipts are from real or tangible personal property located in this State; or
- b. The receipts are from intangible property and are received from sources within this State; or
- c. The receipts are from services and the income-producing activities are in this State."

SECTION 5.(b) This section is effective for taxable years beginning on or after January 1, 2007.

SECTION 6.(a) G.S. 105-130.4(i) reads as rewritten:

"(i) All apportionable income of corporations other than public utilities and excluded corporations shall be apportioned to this State by multiplying the income by a fraction, the numerator of which is the property factor plus the payroll factor plus ~~twice~~ the sales factor, and the denominator of which is ~~four~~ three. Provided, that where ~~the sales factor~~ one of the factors does not exist, the denominator of the fraction shall be the number of existing factors ~~and where the sales factor exists but the payroll factor or the property factor does not exist, the denominator of the fraction shall be the number of existing factors plus one factor.~~"

SECTION 6.(b) This section is effective for taxable years beginning on or after January 1, 2007.

SECTION 7. 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 <u>In 2000 through 2007</u>	6.9% <u>6.9%</u>
<u>After 2007</u>	<u>2%.</u> "

SECTION 8. G.S. 115C-546.1(b) reads as rewritten:

"(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

1 deposited in the Public School Building Capital Fund shall be invested as provided in
2 G.S. 147-69.2 and G.S. 147-69.3.

3	Period	Fraction
4	10/1/97 to 9/30/98	One-fifteenth (1/15)
5	10/1/98 to 9/30/99	Two twenty-ninths (2/29)
6	10/1/99 to 9/30/00	One-fourteenth (1/14)
7	After 9/30/00 <u>10/1/00 through 9/30/07</u>	Five sixty-ninths (5/69)
8	<u>After 9/30/07</u>	<u>One-quarter (1/4)."</u>

9 **SECTION 9.** This act is effective when it becomes law.