

GENERAL ASSEMBLY OF NORTH CAROLINA

SESSION 1989

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HOUSE BILL 2165

Short Title: Repeal Inventory Tax Cuts.

(Public)

Sponsors: Representatives Barnes; and Fitch.

Referred to: Finance.

May 29, 1990

A BILL TO BE ENTITLED

AN ACT TO REPEAL THE PROPERTY TAX EXEMPTION FOR INVENTORIES ENACTED IN 1985 AND 1987, TO REPEAL THE CORRESPONDING REIMBURSEMENTS TO LOCAL GOVERNMENTS THAT ARE PAID FROM THE GENERAL FUND, AND TO APPROPRIATE FUNDS TO THE COUNTIES TO HELP DEFRAY THE ADMINISTRATIVE EXPENSES OF THE TRANSITION TO A TAX ON INVENTORIES.

The General Assembly of North Carolina enacts:

Section 1. Effective January 1, 1992, G.S. 105-275.1 and G. S. 105-277A are repealed.

Sec. 2. G.S. 105-275 reads as rewritten:

"§ 105-275. Property classified and excluded from the tax base.

The following classes of property are hereby designated special classes under authority of Article V, Sec. 2(2), of the North Carolina Constitution and shall not be listed, appraised, assessed, or taxed:

(1) ~~Repealed by Session Laws 1987, c. 813, s. 5.~~

Cotton, tobacco, other farm products, goods, wares, and merchandise held or stored for shipment to any foreign country, except any such products, goods, wares, and merchandise that have been so stored for more than 48 months on the date as of which property is listed for taxation. Such property shall be listed (by quantity only, and with a statement that it is being held for export) in the county in which it is located on the tax listing date, but shall not be assessed or taxed. On the first tax listing date following 48 months of storage, any such

1 property which has not been exported shall be listed, assessed and  
2 taxed in the same manner as other taxable property. (The purpose of  
3 this classification is to encourage the development of the ports of  
4 North Carolina.)

5 (2) Tangible personal property that has been imported from a foreign  
6 country through a North Carolina seaport terminal and which is stored  
7 at such a terminal while awaiting further shipment – for the first 12  
8 months of such storage. (The purpose of this classification is to  
9 encourage the development of the ports of this State.)

10 (3) Real and personal property owned by nonprofit water  
11 or nonprofit sewer associations or corporations.

12 (4) ~~Repealed by Session Laws 1987, c. 813, s. 5.~~

13 For the year following that in which grown, farm products (including  
14 crops but excluding poultry and other livestock) that:

15 a. Are in unmanufactured state and

16 b. Are owned by the original producer.

17 (5) Vehicles that the United States government gives to veterans on  
18 account of disabilities they suffered in World War II, the Korean  
19 Conflict, or the Viet Nam Era so long as they are owned by:

20 a. A person to whom a vehicle has been given by the United  
21 States government or

22 b. Another person who is entitled to receive such a gift under Title  
23 38, section 252, United States Code Annotated.

24 (6) Special nuclear materials held for or in the process of manufacture,  
25 processing, or delivery by the manufacturer or processor thereof,  
26 regardless whether the manufacturer or processor owns the special  
27 nuclear materials. The terms 'manufacture' and 'processing' do not  
28 include the use of special nuclear materials as fuel. The term 'special  
29 nuclear materials' includes (i) uranium 233, uranium enriched in the  
30 isotope 233 or in the isotope 235; and (ii) any material artificially  
31 enriched by any of the foregoing, but not including source material.  
32 'Source material' means any material except special nuclear material  
33 which contains by weight one twentieth of one percent (0.05%) or  
34 more of (i) uranium, (ii) thorium, or (iii) any combination thereof.  
35 Provided however, that to qualify for this exemption no such nuclear  
36 materials shall be discharged into any river, creek or stream in North  
37 Carolina. The classification and exclusion provided for herein shall be  
38 denied to any manufacturer, fabricator or processor who permits burial  
39 of such material in North Carolina or who permits the discharge of  
40 such nuclear materials into the air or into any river, creek or stream in  
41 North Carolina if such discharge would contravene in any way the  
42 applicable health and safety standards established and enforced by the  
43 Department of Human Resources, the North Carolina Department of  
44 Natural Resources and Community Development, or the Federal

- 1 Atomic Energy Commission. The most stringent of these standards  
2 shall govern.
- 3 (7) Real and personal property that is:
- 4 a. Owned either by a nonprofit corporation formed  
5 under the provisions of Chapter 55A of the General Statutes or  
6 by a bona fide charitable organization, and either operated by  
7 such owning organization or leased to another such nonprofit  
8 corporation or charitable organization, and  
9 b. Appropriated exclusively for public parks and drives.
- 10 (8) a. Real and personal property that is used or, if under construction, is  
11 to be used exclusively for air cleaning or waste disposal or to abate,  
12 reduce, or prevent the pollution of air or water (including, but not  
13 limited to, waste lagoons and facilities owned by public or private  
14 utilities built and installed primarily for the purpose of providing sewer  
15 service to areas that are predominantly residential in character or areas  
16 that lie outside territory already having sewer service), if the  
17 [Department of Natural Resources and Community Development]  
18 furnishes a certificate to the tax supervisor of the county in which the  
19 property is situated or to be situated stating that the Environmental  
20 Management Commission has found that the described property:
- 21 1. Has been or will be constructed or installed;  
22 2. Complies with or that plans therefor which have been  
23 submitted to the Environmental Management  
24 Commission indicate that it will comply with the  
25 requirements of the Environmental Management  
26 Commission;  
27 3. Is being effectively operated or will, when completed, be  
28 required to operate in accordance with the terms and  
29 conditions of the permit, certificate of approval, or other  
30 document of approval issued by the Environmental  
31 Management Commission; and  
32 4. Has or, when completed, will have as its primary rather  
33 than incidental purpose the reduction of water pollution  
34 resulting from the discharge of sewage and waste or the  
35 reduction of air pollution resulting from the emission of  
36 air contaminants.
- 37 b. Real or personal property that is used or, if under construction,  
38 is to be used exclusively for recycling or resource recovering of  
39 or from solid waste, if the Department of Human Resources  
40 furnishes a certificate to the tax supervisor of the county in  
41 which the property is situated stating the Department of Human  
42 Resources has found that the described property has been or  
43 will be constructed or installed, complies or will comply with  
44 the regulations of the Department of Human Resources, and

- 1 has, or will have as its primary purpose recycling or resource  
2 recovering of or from solid waste.
- 3 c. Tangible personal property that is used exclusively, or if being  
4 installed, is to be used exclusively, for the prevention or  
5 reduction of cotton dust inside a textile plant for the protection  
6 of the health of the employees of the plant, in accordance with  
7 occupational safety and health standards adopted by the State  
8 of North Carolina pursuant to Article 16 of G.S. Chapter 95.  
9 The Department of Revenue shall adopt guidelines to assist the  
10 tax supervisors in administering this exclusion.
- 11 (9) ~~to (11) Repealed by Session Laws 1987, c. 813, s. 5.~~  
12 All cotton while subject to transit privileges under Interstate  
13 Commerce Commission tariffs.
- 14 (10) Personal property shipped into this State and placed in a public  
15 warehouse as intermediate consignee for the purpose of transshipment  
16 in its original form or package to the owner's customers either inside or  
17 outside the State. No portion of a premises owned or leased by a  
18 consignor or consignee, or a subsidiary of a consignor or consignee,  
19 shall be deemed to be a public warehouse within the meaning of this  
20 subdivision despite any licensing as such. The purpose of this  
21 classification is to encourage the development of the State of North  
22 Carolina as a distribution center.
- 23 (11) Personal property shipped from a point within this State and placed in  
24 a public warehouse as intermediate consignee for the purpose of  
25 transshipment in its original form or package to the owner's customers  
26 outside the State. No portion of a premises owned or leased by a  
27 consignor or consignee, or a subsidiary of a consignor or consignee,  
28 shall be deemed to be a public warehouse within the meaning of this  
29 subdivision despite any licensing as such. The purpose of this  
30 classification is to encourage the development of the State of North  
31 Carolina as a distribution center.
- 32 (12) Real property owned by a nonprofit corporation or association  
33 exclusively held and used by its owner for educational and scientific  
34 purposes as a protected natural area. (For purposes of this subdivision,  
35 the term 'protected natural area' means a nature reserve or park in  
36 which all types of wild nature, flora and fauna, and biotic communities  
37 are preserved for observation and study.)
- 38 (13) Repealed by Session Laws 1973, c. 904.
- 39 (14) Motor vehicles chassis belonging to nonresidents, which chassis  
40 temporarily enters the State for the purpose of having a body mounted  
41 thereon.
- 42 (15) Upon the date on which each county's next general reappraisal of real  
43 property under the provisions of G.S. 105-286(a) becomes effective,  
44 standing timber, pulpwood, seedlings, saplings, and other forest

1 growth. (The purpose of this classification is to encourage proper  
2 forest management practices and to develop and maintain the forest  
3 resources of the State.)

4 (16) Non-business Property. – As used in this subdivision, the term ‘non-  
5 business property’ means personal property that is used by the owner  
6 of the property for a purpose other than the production of income and  
7 is not used in connection with a business. The term includes household  
8 furnishings, clothing, pets, lawn tools, and lawn equipment. The term  
9 does not include motor vehicles, mobile homes, aircraft, watercraft, or  
10 engines for watercraft.

11 (17) Real and personal property belonging to the American Legion,  
12 Veterans of Foreign Wars, Disabled American Veterans, or to any  
13 similar veterans organizations chartered by the Congress of the United  
14 States or organized and operated on a statewide or nationwide basis,  
15 and any post or local organization thereof, when used exclusively for  
16 meeting or lodge purposes by said organization, together with such  
17 additional adjacent real property as may be necessary for the  
18 convenient and normal use of the buildings thereon. Notwithstanding  
19 the exclusive-use requirement hereinabove established, if a part of a  
20 property that otherwise meets this subdivision's requirements is used  
21 for a purpose that would require that it not be listed, appraised,  
22 assessed or taxed if the entire property were so used, that part,  
23 according to its value, shall not be listed, appraised, assessed or taxed.  
24 The fact that a building or facility is incidentally available to and  
25 patronized by the general public, so far as there is no material amount  
26 of business or patronage with the general public, shall not defeat the  
27 classification granted by this section.

28 (18) Real and personal property belonging to the Grand Lodge of Ancient,  
29 Free and Accepted Masons of North Carolina, the Prince Hall Masonic  
30 Grand Lodge of North Carolina, their subordinate lodges and  
31 appendant bodies including the Ancient and Arabic Order Nobles of  
32 the Mystic Shrine, and the Ancient Egyptian Order Nobles of the  
33 Mystic Shrine, when used exclusively for meeting or lodge purposes  
34 by said organization, together with such additional adjacent real  
35 property as may be necessary for the convenient normal use of the  
36 buildings thereon. Notwithstanding the exclusive-use requirement  
37 hereinabove established, if a part of a property that otherwise meets  
38 this subdivision's requirements is used for a purpose that would require  
39 that it not be listed, appraised, assessed or taxed if the entire property  
40 were so used, that part, according to its value, shall not be listed,  
41 appraised, assessed or taxed. The fact that a building or facility is  
42 incidentally available to and patronized by the general public, so far as  
43 there is no material amount of business or patronage with the general  
44 public, shall not defeat the classification granted by this section.

- 1 (19) Real and personal property belonging to the Loyal Order of Moose,  
2 the Benevolent and Protective Order of Elks, the Knights of Pythias,  
3 the Odd Fellows and similar fraternal or civic orders and organizations  
4 operated for nonprofit benevolent, patriotic, historical, charitable, or  
5 civic purposes, when used exclusively for meeting or lodge purposes  
6 by said organization, together with such additional adjacent real  
7 property as may be necessary for the convenient normal use of the  
8 buildings thereon. Notwithstanding the exclusive-use requirement  
9 hereinabove established, if a part of a property that otherwise meets  
10 this subdivision's requirements is used for a purpose that would require  
11 that it not be listed, appraised, assessed or taxed if the entire property  
12 were so used, that part, according to its value shall not be listed,  
13 appraised, assessed or taxed. The fact that a building or facility is  
14 incidentally available to and patronized by the general public, so far as  
15 there is no material amount of business or patronage with the general  
16 public, shall not defeat the classification granted by this section.  
17 Nothing in this section shall be construed so as to include social  
18 fraternities, sororities, and similar college, university, or high school  
19 organizations in the classification for exclusion from ad valorem taxes.
- 20 (20) Real and personal property belonging to Goodwill Industries and other  
21 charitable organizations organized for the training and rehabilitation of  
22 disabled persons when used exclusively for training and rehabilitation,  
23 including commercial activities directly related to such training and  
24 rehabilitation.
- 25 (21) The first thirty-four thousand dollars (\$34,000) in assessed value of  
26 housing together with the necessary land therefor, owned and used as a  
27 residence by a disabled veteran who receives benefits under Title 38,  
28 section 801, United States Code Annotated. This exclusion shall be the  
29 total amount of the exclusion applicable to such property.
- 30 (22) ~~Repealed by Session Laws 1987, c. 813, s. 5.~~  
31 All nursery stock, herbaceous and nonherbaceous (annual, biennial, or  
32 perennial plants including rooted cuttings) in the ground, pots,  
33 hothouses, greenhouses, raised beds, containers or otherwise held by  
34 the original producer. Provided, this exemption shall not apply to pots  
35 or similar containers in which said nursery stock is planted.
- 36 (23) Tangible personal property imported from outside the United States  
37 and held in a Foreign Trade Zone for the purpose of sale, manufacture,  
38 processing, assembly, grading, cleaning, mixing or display and  
39 tangible personal property produced in the United States and held in a  
40 Foreign Trade Zone for exportation, either in its original form or as  
41 altered by any of the above processes.
- 42 (24) Cargo containers and container chassis used for the transportation of  
43 cargo by vessels in ocean commerce.

1           The term 'container' applies to those nondisposable receptacles of a  
2 permanent character and strong enough for repeated use and specially  
3 designed to facilitate the carriage of goods, by one or more modes of  
4 transport, one of which shall be by ocean vessels, without intermediate  
5 reloadings and fitted with devices permitting its ready handling  
6 particularly in the transfer from one transport mode to another.

7           (25) Tangible personal property shipped into this State for the purpose of  
8 repair, alteration, maintenance or servicing and reshipment to the  
9 owner outside this State. This classification does not include raw  
10 materials, supplies, or goods in process of manufacture in this State.

11           (26) For the tax year immediately following transfer of title, tangible  
12 personal property manufactured in this State for the account of a  
13 nonresident customer and held by the manufacturer for shipment. For  
14 the purpose of this subdivision, the term 'nonresident' means a  
15 taxpayer having no place of business in North Carolina.

16           (27), (28) Repealed by Session Laws 1983, c. 643, s. 1.

17           (29) Real property and easements wholly and exclusively held and used for  
18 nonprofit historic preservation purposes by a nonprofit historical  
19 association or institution, including real property owned by a nonprofit  
20 corporation organized for historic preservation purposes and held by  
21 its owner exclusively for sale under an historic preservation agreement  
22 prepared and recorded under the provisions of the Conservation and  
23 Historic Preservation Agreements Act, Article 4, Chapter 121 of the  
24 General Statutes of North Carolina.

25           (30) ~~Repealed by Session Laws 1987, c. 813, s. 5.~~

26           Works of fine art created by an individual artist, other than in the  
27 course of employment, and either held by the artist for sale in the  
28 regular course of his business as an artist or consigned by him to  
29 another person for sale. As used in this subdivision, 'work of fine art'  
30 means an original art work that is:

31           a. A visual rendition, including a painting, drawing, sculpture,  
32 mosaic, or photograph;

33           b. A work of calligraphy;

34           c. A work of graphic art, including an etching, lithograph, offset  
35 print, or silk screen;

36           d. A craft work in materials, including clay, textile, fiber, wood,  
37 metal, plastic, or glass; or

38           e. A work in mixed media, including a collage or a work  
39 consisting of any combination of works included in this  
40 subdivision.

41           (31) Money, whether on hand or on deposit at a bank, a credit union, a  
42 savings and loan association, or an insurance company.

43           (32) Real and personal property owned by a home for the aged, sick, or  
44 infirm, that is exempt from tax under Article 4 of this Chapter, and

1 used in the operation of that home. The term 'home for the aged, sick,  
2 or infirm' means a self-contained community that (i) is designed for  
3 elderly residents; (ii) operates a skilled nursing facility, an  
4 intermediate care facility, or a home for the aged; (iii) includes  
5 residential dwelling units, recreational facilities, and service facilities;  
6 (iv) the charter of which provides that in the event of dissolution, its  
7 assets will revert or be conveyed to an entity organized exclusively for  
8 charitable, educational, scientific, or religious purposes, and which  
9 qualifies as an exempt organization under Section 501(c)(3) of the  
10 Internal Revenue Code of 1986; (v) is owned, operated, and managed  
11 by one of the following entities:

- 12 A. A congregation, parish, mission, synagogue, temple, or similar  
13 local unit of a church or religious body;  
14 B. A conference, association, division, presbytery, diocese,  
15 district, synod, or similar unit of a church or religious body;  
16 C. A Masonic organization whose property is excluded from  
17 taxation pursuant to G.S. 105-275(18); or  
18 D. A nonprofit corporation governed by a board of directors at  
19 least a majority of whose members elected for terms  
20 commencing on or before December 31, 1987, shall have been  
21 elected or confirmed by, and all of whose members elected for  
22 terms commencing after December 31, 1987, shall be selected  
23 by, one or more entities described in A., B., or C. of this  
24 subdivision, or organized for a religious purpose as defined in  
25 G.S. 105-278.3(d)(1); and

26 (vi) has an active program to generate funds through one or more  
27 sources, such as gifts, grants, trusts, bequests, endowment, or an  
28 annual giving program, to assist the home in serving persons who  
29 might not be able to reside at the home without financial assistance or  
30 subsidy.

31 ~~(33) Inventories owned by manufacturers.~~

32 ~~(34) Inventories owned by retail and wholesale merchants.~~

33 (35) Severable development rights, as defined in G.S. 136-66.11(a), when  
34 severed and evidenced by a deed recorded in the office of the register  
35 of deeds pursuant to G.S. 136-66.11(c).

36 (36) Real and personal property belonging to the North Carolina Low-Level  
37 Radioactive Waste Management Authority created under Chapter  
38 104G of the General Statutes.

39 (37) Poultry and livestock and feed used in the production of poultry and  
40 livestock."

41 Sec. 3. G.S. 105-273 reads as rewritten:

42 **"§ 105-273. Definitions.**

43 When used in this Subchapter (unless the context requires a different meaning):



- 1 (1) 'Abstract' means the document on which the property of a taxpayer is  
2 listed for ad valorem taxation and on which the appraised and assessed  
3 values of the property are recorded.
- 4 (2) 'Appraisal' means both the true value of property and the process by  
5 which true value is ascertained.
- 6 (3) 'Assessment' means both the tax value of property and the process by  
7 which the assessment is determined.
- 8 (4) Repealed by Session Laws 1973, c. 695, s. 15, effective January 1,  
9 1974.
- 10 (5) 'Collector' or 'tax collector' means any person charged with the duty of  
11 collecting taxes for a county or municipality.
- 12 (6) 'Corporation' includes nonprofit corporation and every type of  
13 organization having capital stock represented by shares.
- 14 (7) 'Document' includes book, paper, record, statement, account, map,  
15 plat, film, picture, tape, object, instrument, and any other thing  
16 conveying information.
- 17 (8) 'Intangible personal property' means patents, copyrights, secret  
18 processes, formulae, good will, trademarks, trade brands, franchises,  
19 stocks, bonds, cash, bank deposits, notes, evidences of debt, leasehold  
20 interests in exempted real property, bills and accounts receivable, and  
21 other like property.
- 22 (8a) 'Inventories' means goods held for sale in the regular course of  
23 business by manufacturers and retail and wholesale merchants. As to  
24 manufacturers, the term includes raw materials, goods in process, and  
25 finished goods, as well as other materials or supplies that are  
26 consumed in manufacturing or processing, or that accompany and  
27 become a part of the sale of the property being sold. The term also  
28 includes crops, livestock, poultry, feed used in the production of  
29 livestock and poultry, and other agricultural or horticultural products  
30 held for sale, whether in process or ready for sale. The term does not  
31 include fuel used in manufacturing or processing, nor does it include  
32 materials or supplies not used directly in manufacturing or processing.  
33 As to retail and wholesale merchants, the term includes, in addition to  
34 articles held for sale, packaging materials that accompany and become  
35 a part of the sale of the property being sold.
- 36 (9) 'List' or 'listing,' when used as a noun, means abstract.
- 37 (10) Repealed by Session Laws 1987, c. 43, s. 1, effective April 2, 1987.
- 38 (10a) 'Local tax official' includes a county assessor, an assistant county  
39 assessor, a member of a county board of commissioners, a member  
40 of a county board of equalization and review, a county tax  
41 collector, and the municipal equivalents of these officials.
- 42 (10b) ~~"Manufacturer" means a taxpayer who is regularly engaged in the  
43 mechanical or chemical conversion or transformation of materials  
44 or substances into new products for sale or in the growth, breeding,~~

- 1                    ~~raising, or other production of new products for sale. The term~~  
2                    ~~does not include delicatessens, cafes, cafeterias, restaurants, and~~  
3                    ~~other similar retailers that are principally engaged in the retail sale~~  
4                    ~~of foods prepared by them for consumption on or off their~~  
5                    ~~premises.~~
- 6                    (11) 'Municipal corporation' and 'municipality' mean city, town,  
7                    incorporated village, sanitary district, rural fire protection district,  
8                    rural recreation district, mosquito control district, hospital district,  
9                    metropolitan sewerage district, watershed improvement district, or  
10                   other district or unit of local government by or for which ad  
11                   valorem taxes are levied.
- 12                   (12) 'Person' and 'he' include any individual, trustee, executor,  
13                   administrator, other fiduciary, corporation, unincorporated  
14                   association, partnership, sole proprietorship, company, firm, or  
15                   other legal entity.
- 16                   (13) 'Real property,' 'real estate,' and 'land' mean not only the land  
17                   itself, but also buildings, structures, improvements, and permanent  
18                   fixtures thereon, and all rights and privileges belonging or in any  
19                   wise appertaining thereto. These terms also means a manufactured  
20                   home as defined in G.S. 143-143.9(6) if it is a multi-section  
21                   residential structure (consisting of two or more sections); has the  
22                   moving hitch, wheels, and axles removed; and is placed upon a  
23                   permanent enclosed foundation on land owned by the owner of the  
24                   manufactured home.
- 25                   ~~(13a) " Retail Merchant" means a taxpayer who is regularly engaged in~~  
26                   ~~the sale of tangible personal property, acquired by a means other~~  
27                   ~~than manufacture, processing, or producing by the merchant, to~~  
28                   ~~users or consumers.~~
- 29                   (14) 'Tangible personal property' means all personal property that is not  
30                   intangible and that is not permanently affixed to real property.
- 31                   (15) 'Tax' and 'taxes' include the principal amount of any tax, costs,  
32                   penalties, and interest imposed upon property tax or dog license  
33                   tax.
- 34                   (16) 'Taxing unit' means a county or municipality authorized to levy ad  
35                   valorem property taxes.
- 36                   (17) 'Taxpayer' means any person whose property is subject to ad  
37                   valorem property taxation by any county or municipality and any  
38                   person who, under the terms of this Subchapter, has a duty to list  
39                   property for taxation.
- 40                   (18) 'Valuation' means appraisal and assessment.
- 41                   ~~(19) " Wholesale Merchant" means a taxpayer who is regularly engaged~~  
42                   ~~in the sale of tangible personal property, acquired by a means other~~  
43                   ~~than manufacture, processing, or producing by the merchant, to~~  
44                   ~~other retail or wholesale merchants for resale or to manufacturers~~

1                   for use as ingredient or component parts of articles being  
2                   manufactured for sale."

3                   Sec. 4. G.S. 105-277(a), (b), (c), and (e), as repealed by Section 9 of Chapter  
4 813 of the 1987 Session Laws, are reenacted.

5                   Sec. 5. G.S. 105-285(c) and G.S. 105-289.1, as repealed by Section 12 of  
6 Chapter 813 of the 1987 Session Laws, are reenacted.

7                   Sec. 6. G.S. 105-163.02 reads as rewritten:

8 **"§ 105-163.02. Definitions.**

9                   For the purposes of this Division and unless otherwise required by the context:

10                  (1)       ~~to (7) Repealed by Session Laws 1987, c. 622, s. 4, effective for~~  
11                   ~~taxable years beginning on or after January 1, 1988.~~

12                   'Book value' of qualifying inventories means the net amount at which  
13                   qualifying inventories are valued for North Carolina income tax  
14                   purposes, and the date of such valuation shall be the first day of the  
15                   taxable year.

16                  (2)       'Cost of manufacturing' means the costs of producing the goods  
17                   manufactured in this State. The term shall be interpreted so as to  
18                   conform to generally accepted accounting practices in the industry.  
19                   Unless in the opinion of the Secretary of Revenue the peculiar  
20                   circumstances in any case justify a different meaning, such term  
21                   shall be construed to include as elements of cost the following: the  
22                   cost of materials put into production; the cost of labor applied to  
23                   material conversions; and all of the other costs for services and  
24                   facilities utilized in manufacturing, including factory  
25                   superintendence, indirect labor, depreciation and other costs  
26                   relating to factory buildings, machinery and equipment, factory  
27                   supplies used, patent amortization, and factory light, heat and  
28                   power. The 'cost of materials put into production' shall mean the  
29                   inventories of raw materials and goods in process of manufacture at  
30                   the beginning of the taxable year plus purchases of raw materials,  
31                   less inventories of raw materials and goods in process of  
32                   manufacture at the end of the taxable year. The 'cost of  
33                   manufacturing' shall be for the taxable year as defined herein.  
34                   Where the 'taxable year' of the taxpayer is less than 12 months (or  
35                   52 weeks) the taxpayer shall annualize his cost of manufacturing.  
36                   'Annualize' means the projection of an annual amount or rate  
37                   ordinarily expressed in terms of a year, where the amount or rate to  
38                   be projected has been experienced for less than a year, as in the  
39                   case of of a manufacturer having a short taxable year due to a  
40                   change in his taxable year or due to his commencing operations in  
41                   this State during his taxable year.

42                  (3)       'Establishment' means a mill or plant in North Carolina at which  
43                   manufacturing operations are performed, and which constitute an  
44                   economic unit at a single physical location or site, unless otherwise

1 indicated herein. The word 'establishment' includes along with a  
2 manufacturing plant all sites in North Carolina where raw materials  
3 and/or partially manufactured goods are stored away from the  
4 manufacturing plant for use in such manufacturing plant. Two or  
5 more plants engaged in different steps of a manufacturing process  
6 constitute an establishment if goods must move through each plant  
7 before becoming a finished product even though the plants are at  
8 different sites in North Carolina. Two or more plants having a  
9 common ownership in North Carolina located at different sites and  
10 producing the same class or type of products may be deemed at the  
11 option of the taxpayer to be a single establishment for the purposes  
12 of this Division.

13 (4) 'Finished goods' means those articles of tangible personal property  
14 which are the products of the manufacturing process after all  
15 production in North Carolina by the manufacturer in this State has  
16 been completed and the products are being held for sale or are  
17 being held for shipment out of this State for further manufacture by  
18 the same manufacturer in another state before they are ready for  
19 sale.

20 (5) 'Goods in process of manufacture' means materials to which  
21 manufacturing services have been applied by the manufacturer in  
22 this State and which do not meet the definition of finished goods in  
23 (4) above.

24 (6) 'Inventories' has the meaning provided in G.S. 105-273(8a).

25 (7) 'Manufacturer' means a taxpayer taxable under any provisions of  
26 Article 4 of this Subchapter whose business is such as would cause  
27 him to be classified as a manufacturer in the Standard Industrial  
28 Classification Manual whose publication by the Executive Office  
29 of the President, Office of Management and Budget, occurred next  
30 before January 1, 1978; provided, however, that fabricating  
31 processors whose cost of materials consumed is seventy-five  
32 percent (75%) or more of their cost of manufacturing shall not be  
33 deemed to be manufacturers under this Division. Costs incurred in  
34 performance of construction activities by a fabricator shall not be  
35 included in cost of manufacturing for purposes of this Division.

36 (8) 'Property taxes' means the principal amount of taxes levied and  
37 assessed by a taxing unit under the Machinery Act. It does not  
38 include costs, penalties, interest, or other charges that may be  
39 added to the principal amount.

40 ~~(9), (10) Repealed by Session Laws 1987, c. 622, s. 4, effective for~~  
41 ~~taxable years beginning on or after January 1, 1988.~~

42 (9) 'Qualifying inventories' means inventories of raw materials and  
43 goods in process of manufacture in this State which have been  
44 assessed for property tax purposes. The book value of qualifying

1 inventories shall be determined as of the valuation date established  
2 for inventories for property tax purposes, pursuant to G.S. 105-  
3 285(c), which inventories give rise to the total property tax used in  
4 computing the manufacturer's income tax credit allowed under G.S.  
5 105-163.03(a).

6 (10) 'Raw materials' means those articles of tangible personal property  
7 which are held by a manufacturer for use as ingredient or  
8 component parts of finished goods to be manufactured by the  
9 manufacturer in North Carolina.

10 (11) 'Taxable year' shall have the meaning provided in G.S. 105-134.1  
11 and G.S. 105-130.2(5), as appropriate. In addition, 'taxable year'  
12 shall be that taxable year for which a manufacturer files an income  
13 tax return upon which the tax credit provided for under this  
14 Division is claimed.

15 (12) Repealed by Session Laws 1985, c. 656, s. 15, effective January 1,  
16 1986.

17 (13) 'Taxpayer' means an individual, a person, a firm, a corporation, or  
18 other entity subject to income tax under this Article.

19 (14) 'Taxing unit' has the same meaning as in G.S. 105-273(16)."

20 Sec. 7. G.S. 105-163.03, as repealed by Section 3 of Chapter 622 of the 1987  
21 Session Laws, is reenacted.

22 Sec. 8. G.S. 105-163.05, as repealed by Section 5 of Chapter 37 of the 1989  
23 Session Laws, is reenacted.

24 Sec. 9. G.S. 105-315(a) reads as rewritten:

25 "(a) As of January 1, every person having custody of taxable tangible personal  
26 property that has been entrusted to him by another for storage, sale, renting, or any other  
27 business purpose shall furnish the appropriate assessor the reports required by  
28 ~~subdivision~~ subdivisions (a)(1) and (a)(2), below:

29 (1) ~~Repealed by Session Laws 1987, c. 813, s. 14.~~

30 For farm products that are owned by the original producer and that  
31 were produced in a county of this State other than that in which the  
32 products are situated, there shall be furnished to the assessor of the  
33 county in which the products were produced a statement showing the  
34 name of the producer, a description of the property, the quantity of the  
35 property, and the amount of money, if any, advanced against the  
36 products by the person having custody of them.

37 (2) For all other tangible personal property, ~~except inventories~~  
38 ~~exempt under G.S. 105-275(33) and (34),~~ there shall be furnished  
39 to the assessor of the county in which the property is situated a  
40 statement showing the name of the owner of the property, a  
41 description of the property, the quantity of the property, and the  
42 amount of money, if any, advanced against the property by the  
43 person having custody of it.

1                   (3)     For purposes of illustration, but not by way of limitation, the term  
2                   'person having custody of taxable tangible personal property' as  
3                   used in this subsection (a) shall include warehouses, cooperative  
4                   growers' and marketing associations, consignees, factors,  
5                   commission merchants, and brokers."

6                   Sec. 10. There is appropriated from the General Fund to each county in the  
7                   State the sum of \$2,000 for the 1990-91 fiscal year to help defray the administrative  
8                   costs involved in making the transition to a tax on inventories.

9                   Sec. 11. This act does not affect the rights or liabilities of the State, a  
10                  taxpayer, or another person arising under a statute amended or repealed by this act  
11                  before its amendment or repeal; nor does it affect the right to any refund or credit of a  
12                  tax that would otherwise have been available under the amended or repealed statute  
13                  before its amendment or repeal.

14                  Sec. 12. Section 1 of this act shall become effective January 1, 1992. The  
15                  remainder of this act is effective for taxable years beginning on or after January 1, 1991.