

**GENERAL ASSEMBLY OF NORTH CAROLINA
SESSION 2007**

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HOUSE DRH80060-LY-72 (2/7)

Short Title: Stimulate Economy Manufacturing. (Public)

Sponsors: Representative Blackwood.

Referred to:

A BILL TO BE ENTITLED

AN ACT TO STIMULATE THE ECONOMY BY EXEMPTING FROM INCOME
TAX INCOME DERIVED FROM MANUFACTURING AND BY EXEMPTING
MANUFACTURING CORPORATIONS FROM THE FRANCHISE TAX.

The General Assembly of North Carolina enacts:

SECTION 1. G.S. 105-228.90(b) is amended by adding a new subdivision to

read:

"(b) Definitions. – The following definitions apply in this Article:

...

(4b) Manufacturing. – An industry in manufacturing sectors 31 through 33,
as defined by NAICS, but not including quick printing or retail
bakeries."

SECTION 2. G.S. 105-130.5(b) is amended by adding a new subdivision to

read:

"(23) Income, net of expenses, directly attributable to manufacturing
activities. This deduction is optional at the election of the taxpayer."

SECTION 3. G.S. 105-134.6(b) is amended by adding a new subdivision to

read:

"(19) Income, net of expenses, directly attributable to manufacturing
activities. This deduction is optional at the election of the taxpayer."

SECTION 4. G.S. 105-129.2(16) reads as rewritten:

"(16) ~~Manufacturing. – An industry in manufacturing sectors 31 through 33,
as defined by NAICS, but not including quick printing or retail
bakeries.~~ Defined in G.S. 105-228.90."

SECTION 5. G.S. 105-129.81(15) reads as rewritten:

1 "(15) Manufacturing. – ~~An industry in manufacturing sectors 31 through 33,~~
2 ~~as defined by NAICS, but not including quick printing or retail~~
3 ~~bakeries.~~Defined in G.S. 105-228.90."

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

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

12 For taxpayers that elect to deduct manufacturing income pursuant to
13 G.S. 105-130.5(b)(22), in calculating the property factor, the payroll factor, and the
14 sales factor under this section, the following shall be excluded from both the numerator
15 and the denominator: property used directly and primarily for manufacturing,
16 compensation paid directly and primarily for manufacturing, and receipts derived
17 directly and primarily from manufacturing."

18 **SECTION 7.** The General Assembly finds the following:

- 19 (1) For corporations that are taxable in North Carolina and not taxable in
20 any other states, the calculation under Section 2 of this act is the only
21 calculation that applies. Section 5 of this act does not apply to those
22 corporations.
- 23 (2) For a corporation that is taxable in more than one state, if the
24 corporation is currently allocating and apportioning its income to
25 North Carolina by using the fraction provided in G.S. 105-130.4(i), the
26 provisions of Section 5 of this act govern how that fraction is
27 calculated. Section 5 of this act does not itself require a corporation to
28 use the fraction method.
- 29 (3) Alternatively, G.S. 105-130.4(t) sets out the circumstances under
30 which a corporation taxable in more than one state may determine the
31 portion of its income taxable to North Carolina based on its books of
32 account, in accordance with generally accepted accounting procedures
33 as established by the Financial Accounting Standards Board.
- 34 (4) Section 5 of this act would not, therefore, apply to corporations
35 currently using the separate accounting method under
36 G.S. 105-130.4(t).

37 **SECTION 8.** G.S. 105-125(a) is amended by adding a new subdivision to
38 read:

39 "(a) Exemptions. – The following corporations are exempt from the taxes levied
40 by this Article. Upon request of the Secretary, an exempt corporation must establish its
41 claim for exemption in writing:

42 ...

- 43 (10) A corporation that derives at least eighty percent (80%) of its annual
44 revenue directly from manufacturing activities."

1 **SECTION 9.** This act is effective for taxable years beginning on or after
2 January 1, 2007.