A BILL TO BE ENTITLED
AN ACT TO ENACT THE NORTH CAROLINA COMPETES ACT.
The General Assembly of North Carolina enacts:

PART I. JDIG MODIFICATIONS

SECTION 1.1.(a) G.S. 143B-437.51 is amended by adding new subdivisions to read:

§ 143B-437.51. Definitions.
The following definitions apply in this Part:

(1) Agreement. – A community economic development agreement under G.S. 143B-437.57.

(2) Base period. – The period of time set by the Committee during which new employees are to be hired for the positions on which the grant is based.

(3) Business. – A corporation, sole proprietorship, cooperative association, partnership, S corporation, limited liability company, nonprofit corporation, or other form of business organization, located either within or outside this State.

(4) Committee. – The Economic Investment Committee established pursuant to G.S. 143B-437.54.

(4a) Development tier. – The classification assigned to an area pursuant to G.S. 143B-437.08.

(5) Eligible position. – A position created by a business and filled by a new full-time employee in this State during the base period.

(6) Full-time employee. – A person who is employed for consideration for at least 35 hours a week, whose wages are subject to withholding under Article 4A of Chapter 105 of the General Statutes, and who is determined by the Committee to be employed in a permanent position according to criteria it develops in consultation with the Attorney General. The term does not include any person who works as an independent contractor or on a consulting basis for the business.

(6a) High-yield project. – A project for which the agreement requires that a business invest at least seven hundred fifty million dollars ($750,000,000) in private funds and create at least 2,000 eligible positions.
(6b) through (6j) Reserved.

(6k) Major market community. – A county in which the average weekly wage for all insured private employers in the county is one of the three highest in the State.

(7) New employee. – A full-time employee who represents a net increase in the number of the business’s employees statewide.

(8) Overdue tax debt. – Defined in G.S. 105-243.1.

(9) Related member. – Defined in G.S. 105-130.7A.

(10) Withholdings. – The amount withheld by a business from the wages of employees in eligible positions under Article 4A of Chapter 105 of the General Statutes.’

SECTION 1.1.(b) G.S. 143B-437.52 reads as rewritten:

‘§ 143B-437.52. Job Development Investment Grant Program.

(a) Program. – There is established the Job Development Investment Grant Program to be administered by the Economic Investment Committee. In order to foster job creation and investment in the economy of this State, the Committee may enter into agreements with businesses to provide grants in accordance with the provisions of this Part. The Committee, in consultation with the Attorney General, shall develop criteria to be used in determining whether the conditions of this section are satisfied and whether the project described in the application is otherwise consistent with the purposes of this Part. Before entering into an agreement, the Committee must find that all the following conditions are met:

(1) The project proposed by the business will create, during the term of the agreement, a net increase in employment in this State by the business.

(2) The project will benefit the people of this State by increasing opportunities for employment and by strengthening this State’s economy by, for example, providing worker training opportunities, constructing and enhancing critical infrastructure, increasing development in strategically important industries, or increasing the State and local tax base.

(3) The project is consistent with economic development goals for the State and for the area where it will be located.

(4) A grant under this Part is necessary for the completion of the project in this State.

(5) The total benefits of the project to the State outweigh its costs and render the grant appropriate for the project.

(6) For a project located in a development tier three area, the affected local governments have participated in recruitment and offered incentives in a manner appropriate to the project.

(b) Priority. – In selecting between applicants, a project that is located in an Eco-Industrial Park certified under G.S. 143B-437.08 has priority over a comparable project that is not located in a certified Eco-Industrial Park.

(c) Awards. – Award Limitations. – The following limitations apply to grants awarded under this Part:

(1) Maximum liability. – The maximum amount of total annual liability for grants awarded in any single calendar year under this Part, including amounts transferred to the Utility Account pursuant to G.S. 143B-437.61, is fifteen million dollars ($15,000,000) for a year in which no grants are awarded for a high-yield project and is thirty million dollars ($30,000,000) for a year in which a grant is awarded for a high-yield project.

No agreement may be entered into that, when considered together with other existing agreements governing grants awarded during a single calendar year, could cause the State’s potential total annual liability for grants awarded in a
single calendar year to exceed this applicable amount. The Department shall make every effort to ensure that the average percentage of withholdings of eligible positions for grants awarded under this Part does not exceed the average of the range provided in G.S. 143B-437.56(a).

(2) Semiannual commitment limitations. – Of the amount authorized in subdivision (1) of this subsection, no more than fifty percent (50%), excluding roll-over amounts, may be awarded in any single calendar semiannual period. A roll-over amount is any amount from a previous semiannual period in the same calendar year that was not awarded as a grant. The limitation of this subdivision does not apply to a grant awarded to a high-yield project.

(d) Measuring Employment. – For the purposes of subdivision (a)(1) of this section and G.S. 143B-437.51(5), 143B-437.51(7), and 143B-437.57(a)(11), the Committee may designate that the increase or maintenance of employment is measured at the level of a division or another operating unit of a business, rather than at the business level, if both of the following conditions are met:

(1) The Committee makes an explicit finding that the designation is necessary to secure the project in this State.

(2) The agreement contains terms to ensure that the business does not create eligible positions by transferring or shifting to the project existing positions from another project of the business or a related member of the business.

SECTION 1.1.(c) G.S. 143B-437.53 reads as rewritten:

"§ 143B-437.53. Eligible projects.

(a) Minimum Number of Standards for Eligible Positions. – A business may apply to the Committee for a grant for any project that creates the minimum number of eligible positions satisfying the wage standard as set out in the table below. If the project will be located in more than one development tier area, the location with the highest development tier area designation determines the minimum number of eligible positions that must be created and the applicable wage standard. The wage standard is met if the business pays an average weekly wage for all eligible positions that is equal to or greater than the percentage provided below of the average wage for all insured private employers in the county. Before using standards greater than the applicable minimum standards established by this subsection for a project located in a development tier one or two area, the Committee must find that the deviation from the minimum standards disproportionately increases the beneficial economic impact of the project and shall include the information for each project on which the finding is based in the report required by G.S. 143B-437.55(c).

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<td>110%</td>
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<td>Major Market Community</td>
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SECTION 1.1.(d) G.S. 143B-437.55(c) reads as rewritten:

"(c) Annual Reports. – The Committee shall publish a report on the Job Development Investment Grant Program on or before April 30 of each year. The Committee shall submit the report electronically to the House of Representatives Finance Committee, the Senate Finance Committee, the House of Representatives Appropriations Subcommittee on Natural and Economic Resources, the Senate Appropriations Committee on Natural and Economic Resources, and the Fiscal Research Division. The report shall include the following:
(11) A listing of all businesses making an application under this Part and an explanation of whether each business ultimately located the project in this State regardless of whether the business was awarded a grant for the project under this Part.

(11a) A listing, itemized by development tier, of the number of offers that have been calculated, estimated, or extended but were not accepted and the total award value of the offers.

..."

SECTION 1.1.(e) G.S. 143B-437.56 reads as rewritten:

"§ 143B-437.56. Calculation of minimum and maximum grants; factors considered.

(a) Subject to the limitations provisions of subsection subsections (a1) and (d) of this section, the amount of the grant awarded in each case shall be a percentage of the withholdings of eligible positions. The percentage shall be no less than ten percent (10%) and no more than seventy-five percent (75%) of the withholdings of the eligible positions for a period of years. The percentage shall be no more than eighty percent (80%) for a development tier one area, no more than seventy percent (70%) for a development tier two area, no more than sixty percent (60%) for a development tier three area, and no more than fifty percent (50%) for a major market community. If the project will be located in more than one area designation, the location with the highest area designation determines the maximum percentage to be used. The percentage used to determine the amount of the grant shall be based on criteria developed by the Committee, in consultation with the Attorney General, after considering at least the following:

1. The number of eligible positions to be created.
2. The expected duration of those positions.
3. The type of contribution the business can make to the long-term growth of the State's economy.
4. The amount of other financial assistance the project will receive from the State or local governments.
5. The total dollar investment the business is making in the project.
6. Whether the project utilizes existing infrastructure and resources in the community.
7. Whether the project is located in a development zone.
8. The number of eligible positions that would be filled by residents of a development zone.
9. The extent to which the project will mitigate unemployment in the State and locality.

(a1) Notwithstanding the percentage specified by subsection (a) of this section, if the project is a high-yield project, the business has met the investment and job creation requirements, and, for three consecutive years, the business has met all terms of the agreement, the amount of the grant awarded shall be no more than one hundred percent (100%) of the withholdings of eligible positions for each consecutive year the business maintains the minimum job creation requirement and meets all terms of the agreement. A business receiving an enhanced percentage of the withholdings of eligible positions under this subsection that fails to maintain the minimum job creation requirement or meet all terms of the agreement will be disqualified from receiving the enhanced percentage and will have the applicable percentage set forth in subsection (a) of this section applied in the year in which the failure occurs and all remaining years of the grant term.

(b) The term of the grant shall not exceed 12 years starting with the first year a grant payment is made, the duration listed in this subsection. The first grant payment must be made within six years after the date on which the grant was awarded. The number of years in the base period for which grant payments may be made shall not exceed five years.
(1) For high-yield projects in which the business receives the enhanced percentage pursuant to subsection (a1) of this section, 20 years starting with the first year a grant payment is made. If a business is disqualified from the enhanced percentage in one of the first 12 years, the term of the grant shall not exceed 12 years starting with the first year a grant payment is made. If a business is disqualified from receiving the enhanced percentage after the first 12 years, the term of the grant ends in the year the disqualification occurs.

(2) For all other projects, 12 years starting with the first year a grant payment is made.

(c) The grant may be based only on eligible positions created during the base period.

(d) For any eligible position that is located in a major market community, eighty-five percent (85%) of the annual grant approved for disbursement shall be payable to the business, and fifteen percent (15%) shall be payable to the Utility Account pursuant to G.S. 143B-437.61. For any eligible position that is located in a development tier three area, seventy-five percent (75%) of the annual grant approved for disbursement shall be payable to the business, and twenty-five percent (25%) shall be payable to the Utility Account pursuant to G.S. 143B-437.61. For any eligible position that is located in a development tier two area, eighty-five percent (85%) of the annual grant approved for disbursement shall be payable to the business, and fifteen percent (15%) shall be payable to the Utility Account pursuant to G.S. 143B-437.61. A position is located in the development tier area that has been assigned to the county in which the project is located at the time the application is filed with the Committee. This subsection does not apply to a high-yield project in years in which the business receives the enhanced percentage pursuant to subsection (a1) of this section.

(e) A business that is receiving any other grant by operation of State law may not receive an amount as a grant pursuant to this Part that, when combined with any other grants, exceeds seventy-five percent (75%) of the withholdings of the business, unless the Committee makes an explicit finding that the additional grant is necessary to secure the project.

(f) The amount of a grant associated with any specific eligible position, including any amount transferred to the Utility Account pursuant to G.S. 143B-437.61, may not exceed six thousand five hundred dollars ($6,500) in any year."

SECTION 1.1.(f) G.S. 143B-437.57(a) reads as rewritten:

"(a) Terms. – Each community economic development agreement shall include at least the following:

…

(10) A provision that requires the business to maintain operations at the project location or another location approved by the Committee for at least one hundred fifty percent (150%) of the term of the grant and a provision to permit require the Committee to recapture all or part an appropriate portion of the grant at its discretion if the business does not remain at the site for the required term.

(11) A provision that requires the business to maintain employment levels in this State at the greater of the level of employment on the date of the application or the level of employment on the date of the award.

…"

SECTION 1.2. G.S. 143B-437.62 reads as rewritten:

"§ 143B-437.62. Expiration. The authority of the Committee to award new grants expires January 1, 2016-2018."

SECTION 1.3. Section 15.19(a1) of S.L. 2013-360 reads as rewritten:
"SECTION 15.19.(a1) Notwithstanding G.S. 143B-437.52(c), for the 2013-2015 fiscal biennium, period from July 1, 2013, to December 31, 2015, the maximum total liability for grants awarded, including amounts transferred to the Utility Account pursuant to G.S. 143B-437.61, is twenty two million five hundred thousand dollars ($22,500,000) and, for the period from July 1, 2015, to December 31, 2015, the maximum total liability for grants awarded, including amounts transferred to the Utility Account pursuant to G.S. 143B-437.61, is seven million five hundred thousand dollars ($7,500,000). thirty-five million dollars ($35,000,000) if no grant is awarded for a high-yield project and is fifty million dollars ($50,000,000) if a grant is awarded for a high-yield project. No agreement may be entered into that, when considered together with other existing agreements governing grants awarded during an applicable time period provided in this subsection, could cause the State's potential total annual liability for grants awarded in that time period to exceed the designated maximum amount."

SECTION 1.4. Subsection (d) of Section 1.1 and Section 1.3 of this act are effective when this act becomes law. The remainder of this Part becomes effective July 1, 2015, and applies to awards made under Part 2G of Article 10 of Chapter 143B of the General Statutes on or after that date.

PART II. ONE NC MODIFICATIONS

SECTION 2.1. G.S. 143B-437.72(c) reads as rewritten:
"(c) Local Government Grant Agreement. – An agreement between the State and one or more local governments shall contain the following provisions:

1. A commitment on the part of the local government to match the funds allocated by the State, as provided in this subdivision. A local match may include cash, fee waivers, in-kind services, the donation of assets, the provision of infrastructure, or a combination of these.
   a. For a local government in a development tier one area, as defined in G.S. 143B-437.08, the State shall provide no more than three dollars ($3.00) for every one dollar ($1.00) provided by the local government.
   b. For a local government in a development tier two area, as defined in G.S. 143B-437.08, the State shall provide no more than two dollars ($2.00) for every one dollar ($1.00) provided by the local government.
   c. For a local government in a development tier three area, as defined in G.S. 143B-437.08, the State shall provide no more than one dollar ($1.00) for every one dollar ($1.00) provided by the local government.
   d. For a local government in a major market community, as defined in G.S. 143B-437.51, the State shall provide no more than one dollar ($1.00) for every two dollars ($2.00) provided by the major market community.

...."

SECTION 2.2. This Part is effective when this act becomes law.

PART III. CORPORATE INCOME TAX RATE REDUCTION AND TAX BASE EXPANSION

SECTION 3.1.(a) Effective for taxable years beginning on or after January 1, 2016, 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 at the rate of five percent (5%)—four percent (4%). An S Corporation is not subject to the tax levied in this section.”

SECTION 3.1.(b) Effective for taxable years beginning on or after January 1, 2017, G.S. 105-130.3, as rewritten by subsection (a) of this section, 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 at the rate of four percent (4%)—three percent (3%). An S Corporation is not subject to the tax levied in this section.”

SECTION 3.1.(c) G.S. 105-130.3C is repealed.

SECTION 3.1.(d) Except as otherwise provided, this section is effective when this act becomes law.

SECTION 3.2.(a) G.S. 105-130.5 reads as rewritten:

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

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

... (6) Amortization in excess of depreciation allowed under the Code on the cost of any sewage or waste treatment plant, and facilities or equipment used for purposes of recycling or resource recovery of or from solid waste, or for purposes of reducing the volume of hazardous waste generated as provided in G.S. 105-130.10.

(7) Depreciation of emergency facilities acquired prior to January 1, 1955. Any corporation shall be permitted to depreciate any emergency facility, as such is defined in section 168 of the Code, over its useful life, provided such facility was acquired prior to January 1, 1955, and no amortization has been claimed on such facility for State income tax purposes.

... (11) If a deduction for an ordinary and necessary business expense was required to be reduced or was not allowed under the Code because the corporation claimed a federal tax credit against its federal income tax liability for the income year in lieu of a deduction, the amount by which the deduction was reduced and the amount of the deduction that was disallowed. This deduction is allowed only to the extent that a similar credit is not allowed by this Chapter for the amount.

(12) Reasonable expenses, in excess of deductions allowed under the Code, paid for reforestation and cultivation of commercially grown trees; provided, that this deduction shall be allowed only to those corporations in which the real owners of all the shares of such corporation are natural persons actively engaged in the commercial growing of trees, or the spouse, siblings, or parents of such persons. Provided, further, that in no case shall a corporation be allowed a deduction for the same reforestation or cultivation expenditure more than once.

(13) The eligible income of an international banking facility to the extent included in determining federal taxable income, determined as follows:

a. "International banking facility" shall have the same meaning as is set forth in the laws of the United States or regulations of the board of governors of the federal reserve system.

b. The eligible income of an international banking facility for the taxable year shall be an amount obtained by multiplying State taxable
income as determined under G.S. 105-130.3 (determined without regard to eligible income of an international banking facility and allocation and apportionment, if applicable) for such year by a fraction, the denominator of which shall be the gross receipts for such year derived by the bank from all sources, and the numerator of which shall be the adjusted gross receipts for such year derived by the international banking facility from:

1. Making, arranging for, placing or servicing loans to foreign persons substantially all the proceeds of which are for use outside the United States;
2. Making or placing deposits with foreign persons which are banks or foreign branches of banks (including foreign subsidiaries or foreign branches of the taxpayer) or with other international banking facilities; or
3. Entering into foreign exchange trading or hedging transactions related to any of the transactions described in this paragraph.

e. The adjusted gross receipts shall be determined by multiplying the gross receipts of the international banking facility by a fraction the numerator of which is the average amount for the taxable year of all assets of the international banking facility which are employed outside the United States and the denominator of which is the average amount for the taxable year of all assets of the international banking facility.

d. For the purposes of this subsection the term "foreign person" means:
1. An individual who is not a resident of the United States;
2. A foreign corporation, a foreign partnership or a foreign trust, as defined in section 7701 of the Code, other than a domestic branch thereof;
3. A foreign branch of a domestic corporation (including the taxpayer);
4. A foreign government or an international organization or an agency of either, or
5. An international banking facility.

For purposes of this paragraph, the terms "foreign" and "domestic" shall have the same meaning as set forth in section 7701 of the Code.

…

(15) The amount paid during the income year, pursuant to 7 U.S.C. § 1445-2, as marketing assessments on tobacco grown by the corporation in North Carolina.

…

(18) Interest, investment earnings, and gains of a trust, the settlors of which are two or more manufacturers that signed a settlement agreement with this State to settle existing and potential claims of the State against the manufacturers for damages attributable to a product of the manufacturers, if the trust meets all of the following conditions:

a. The purpose of the trust is to address adverse economic consequences resulting from a decline in demand of the manufactured product potentially expected to occur because of market restrictions and other provisions in the settlement agreement.
b. A court of this State approves and retains jurisdiction over the trust.
c. Certain portions of the distributions from the trust are made in accordance with certifications that meet the criteria in the agreement creating the trust and are provided by a nonprofit entity, the governing board of which includes State officials.

(19) To the extent included in federal taxable income, the amount paid to the taxpayer during the taxable year from the Hurricane Floyd Reserve Fund in the Office of State Budget and Management for hurricane relief or assistance, but not including payments for goods or services provided by the taxpayer.

…

(22) To the extent included in federal taxable income, the amount paid to the taxpayer during the taxable year from the Disaster Relief Reserve Fund in the Office of State Budget and Management for hurricane relief or assistance, but not including payments for goods or services provided by the taxpayer.

…

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

…

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

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

....

SECTION 3.2.(b) G.S. 105-130.6A(e), (f), (g), and (h) are repealed.

SECTION 3.2.(c) G.S. 105-130.5(a) is amended by adding a new subdivision to read:

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

…

(25) The amount of net interest expense to a related member as determined under G.S. 105-130.7B."

SECTION 3.2.(d) G.S. 105-130.5(b) is amended by adding a new subdivision to read:

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

…

(28) The amount of qualified interest expense to a related member as determined under G.S. 105-130.7B."
SECTION 3.2.(e) Part 1 of Article 4 of Chapter 105 of the General Statutes is amended by adding a new section to read:

§ 105-130.7B. Limitation on qualified interest for certain indebtedness.

(a) Limitation. – In determining State net income, a deduction is allowed only for qualified interest paid or accrued by the taxpayer to a related member during a taxable year. This section does not limit the Secretary's authority to adjust a taxpayer's net income as it relates to payments to or charges by a parent, subsidiary, or affiliated corporation in excess of fair compensation in an intercompany transaction under G.S. 105-130.5(a)(9).

(b) Definitions. – The definitions in G.S. 105-130.7A apply in this section. In addition, the following definitions apply in this section:

1. Adjusted taxable income. – State net income of the taxpayer determined without regard to this section and other adjustments as the Secretary may by rule provide.

2. Net interest expense. – The excess of the interest paid or accrued by the taxpayer to a related member during the taxable year over the amount of interest from a related member includible in the gross income of the taxpayer for the taxable year.

3. Qualified interest. – The amount of net interest paid or accrued to a related member in a taxable year not to exceed thirty percent (30%) of the taxpayer’s adjusted taxable income. This limitation does not apply to interest paid or accrued to a related member if one or more of the following applies:
   a. Tax is imposed by the State under this Article on the related member with respect to the interest.
   b. The related member pays a net income tax or gross receipts tax to another state with respect to the interest income.
   c. The related member is organized under the laws of a foreign country that has a comprehensive income tax treaty with the United States, and that country taxes the interest income at a rate equal to or greater than G.S. 105-130.3."

SECTION 3.2.(f) G.S. 105-130.7A(a) reads as rewritten:

"(a) Purpose. – Royalty payments received for the use of intangible property in this State are income derived from doing business in this State. This section provides taxpayers with an option concerning the method by which these royalties can be reported for taxation when the recipient and the payer are related members. As provided in this section, these royalty payments can be either (i) deducted by the payer and included in the income of the recipient, or (ii) added back to the income of the payer and excluded from the income of the recipient. Exercising the royalty reporting income option provided in this section does not prevent a taxpayer from having taxable nexus in this State as otherwise provided in this Article and does not permit the recipient of the income to exclude royalty payments from its calculation of sales as defined in G.S. 105-130.4."

SECTION 3.2.(g) Subsections (a) through (e) of this section are effective for taxable years beginning on or after January 1, 2016. The remainder of this section is effective when it becomes law.

SECTION 3.3.(a) G.S. 105-102.3 is repealed.

SECTION 3.3.(b) This section becomes effective July 1, 2016.

PART IV. PHASE-IN SINGLE SALES FACTOR APPORTIONMENT AND ADOPT MARKET-BASED SOURCING

SECTION 4.1.(a) Effective for taxable years beginning on or after January 1, 2016, G.S. 105-130.4(i) reads as rewritten:
"(i) All apportionable income of corporations other than public utilities, excluded corporations, and qualified capital intensive 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. If the sales factor does not exist, the denominator of the fraction is the number of existing factors and if the sales factor exists but the payroll factor or the property factor does not exist, the denominator of the fraction is the number of existing factors plus one.

SECTION 4.1.(b) Effective for taxable years beginning on or after January 1, 2017, G.S. 105-130.4(i), as amended by subsection (a) of this section, reads as rewritten:
"(i) Apportionable Income. – Except as otherwise provided in this section, all apportionable income of 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 three times the sales factor, and the denominator of which is five. If the sales factor does not exist, the denominator of the fraction is the number of existing factors and if the sales factor exists but the payroll factor or the property factor does not exist, the denominator of the fraction is the number of existing factors plus two.

SECTION 4.1.(c) Effective for taxable years beginning on or after January 1, 2018, G.S. 105-130.4(i), as amended by subsection (b) of this section, reads as rewritten:
"(i) Apportionable Income. – Except as otherwise provided in this section, all apportionable income of 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 four times the sales factor, and the denominator of which is six. If the sales factor does not exist, the denominator of the fraction is the number of existing factors and if the sales factor exists but the payroll factor or the property factor does not exist, the denominator of the fraction is the number of existing factors plus three.

SECTION 4.1.(d) Effective for taxable years beginning on or after January 1, 2018, G.S. 105-130.4(a)(6), (a)(9), (j), (k), (s1), and (r) are repealed.

SECTION 4.1.(e) Except as otherwise provided, this section is effective when this act becomes law.

SECTION 4.2.(a) G.S. 105-130.4, as amended by Section 5.1(a) of this Part, reads as rewritten:

"§ 105-130.4. Allocation and apportionment of income for corporations. (a) As used in this section, unless the context otherwise requires: Definitions. – The following definitions apply in this section:
(1) "Apportionable income" means all apportionable income. – All income that is apportionable under the United States Constitution, including income that arises from one or more of the following:
a. Transactions and activities in the regular course of the taxpayer's trade or business.
b. Tangible and intangible property if the acquisition, management, employment, development, or disposition of the property is or was related to the operation of the taxpayer's trade or business.
(2) Business activity. – Any activity by a corporation that would establish nexus pursuant to 15 U.S.C. § 381.
(3) Casual sale of property. – The sale of any property that was not purchased, produced, or acquired primarily for sale in the corporation's regular trade or business."
"Commercial domicile" means the principal place from which the trade or business of the taxpayer is directed or managed.

"Compensation" means wages, salaries, commissions and any other form of remuneration paid to employees for personal services.

"Excluded corporation" means any corporation engaged in business as a building or construction contractor, a securities dealer, or a loan company or a corporation that receives more than fifty percent (50%) of its ordinary gross income from intangible property.

Net dividends. – Gross dividend income received less related expenses.

"Nonapportionable income" means all income other than apportionable income.

"Public utility" means any corporation that owns or operates for public use any plant, equipment, property, franchise, or license for the production, storage, transmission, sale, delivery, or furnishing of electricity, water, steam, oil, oil products, or natural gas and that is subject to control of one or more of the following entities: the North Carolina Utilities Commission, the Federal Communications Commission, the Interstate Commerce Commission, the Federal Energy Regulatory Commission, or the Federal Aviation Agency; and that owns or operates for public use any plant, equipment, property, franchise, or license for the transmission of communications, the transportation of goods or persons, or the production, storage, transmission, sale, delivery or furnishing of electricity, water, steam, oil, oil products, or gas. The term also includes a motor carrier of property whose principal business activity is transporting property by motor vehicle for hire over the public highways of this State.

"Sales" means all gross receipts of the corporation except for the following receipts:

a. Receipts from a casual sale of property.
b. Receipts allocated under subsections (c) through (h) of this section.
c. Receipts exempt from taxation.
d. The portion of receipts realized from the sale or maturity of securities or other obligations that represents a return of principal.
e. The portion of receipts from financial swaps and other similar financial derivatives that represents the notional principal amount that generates the cash flow traded in the swap agreement.
f. Receipts in the nature of dividends received that are not taxed under this Part.

"Casual sale of property" means the sale of any property which was not purchased, produced or acquired primarily for sale in the corporation's regular trade or business.

A state of the United States, the District of Columbia, the Commonwealth of Puerto Rico, any territory or possession of the United States, and any foreign country or political subdivision thereof.

(b) Multistate Corporations. – A corporation having income from business activity which is taxable both within and without this State shall allocate and apportion its net income or net loss as provided in this section. For purposes of allocation and apportionment, a corporation is taxable in another state if (i) the one or more of the following applies:
(1) The corporation's business activity in that state subjects it to a net income tax
or a tax measured by net income, or (ii) that income.

(2) That state has jurisdiction based on the corporation's business activity in that
state to subject the corporation to a tax measured by net income regardless
whether that state exercises its jurisdiction. For purposes of this section,
"business activity" includes any activity by a corporation that would
establish a taxable nexus pursuant to 15 United States Code section 381.

(c) Nonapportionable Income. – Rents and royalties from real or tangible personal
property, gains and losses, interest, dividends, patent and copyright royalties and other kinds of
income, to the extent that they constitute nonapportionable income, less related expenses shall
be allocated as provided in subsections (d) through (h) of this section.

(d) Rents and Royalties. – Net rents and royalties are allocable to this State as follows:
(1) Net rents and royalties from real property located in this State are allocable
to this State.
(2) Net rents and royalties from tangible personal property are allocable to this
State:
a. If and to the extent that the property is utilized in this State, or
b. In their entirety if the corporation's commercial domicile is in this
State and the corporation is not organized under the laws of, or is not
taxable in, the state in which the property is utilized.
(3) The extent of utilization of tangible personal property in a state is
determined by multiplying the rents and royalties by a fraction, the
numerator of which is the number of days of physical location of the
property in the state during the rental or royalty period in the income year
and the denominator of which is the number of days of physical location of
the property everywhere during all rental or royalty periods in the income
year. If the physical location of the property during the rental or royalty
period is unknown or unascertainable by the corporation, tangible personal
property is utilized in the state in which the property was located at the time
the rental or royalty payer obtained possession.

(e) Gains and Losses. – Gains and losses are allocable to this State as follows:
(1) Gains and losses from sales or other disposition of real property located in
this State are allocable to this State.
(2) Gains and losses from sales or other disposition of tangible personal
property are allocable to this State if
a. The property had a situs in this State at the time of the sale, or
b. The corporation's commercial domicile is in this State and the
corporation is not taxable in the state in which the property has a
situs.
(3) Gains and losses from sales or other disposition of intangible personal
property are allocable to this State if the corporation's commercial domicile
is in this State.

(f) Interest and Net Dividends. – Interest and net dividends are allocable to this State if
the corporation's commercial domicile is in this State. For purposes of this section, the term
"net dividends" means gross dividend income received less related expenses.

(g) Intangible Property. – Intangible property is allocable to this State as follows:
(1) Royalties or similar income received from the use of patents, copyrights,
secret processes and other similar intangible property are allocable to this
State:
a. If and to the extent that the patent, copyright, secret process or other
similar intangible property is utilized in this State, or
b. If and to the extent that the patent, copyright, secret process or other similar intangible property is utilized in a state in which the taxpayer is not taxable and the taxpayer's commercial domicile is in this State.

(2) A patent, secret process or other similar intangible property is utilized in a state to the extent that it is employed in production, fabrication, manufacturing, processing, or other use in the state or to the extent that a patented product is produced in the state. If the basis of receipts from such intangible property does not permit allocation to states or if the accounting procedures do not reflect states of utilization, the intangible property is utilized in the state in which the taxpayer's commercial domicile is located.

(3) A copyright is utilized in a state to the extent that printing or other publication originates in the state. If the basis of receipts from copyright royalties does not permit allocation to states or if the accounting procedures do not reflect states of utilization, the copyright is utilized in the state in which the taxpayer's commercial domicile is located.

(h) Other Income. – The income less related expenses from any other activities producing nonapportionable income or investments not otherwise specified in this section is allocable to this State if the business situs of the activities or investments is located in this State.

(i) Apportionable Income. – Except as otherwise provided in this section, all apportionable income of 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 three times the sales factor, and the denominator of which is five. If the sales factor does not exist, the denominator of the fraction is the number of existing factors and if the sales factor exists but the payroll factor or the property factor does not exist, the denominator of the fraction is the number of existing factors plus two.

…

(1) Sales Factor. – The sales factor is a fraction, the numerator of which is the total sales of the corporation in this State during the income year, and the denominator of which is the total sales of the corporation everywhere during the income year. Notwithstanding any other provision under this Part, the receipts from any casual sale of property shall be excluded from both the numerator and the denominator of the sales factor. Where a corporation is not taxable in another state on its apportionable income but is taxable in another state only because of nonapportionable income, all sales shall be treated as having been made in this State. Receipts are in this State if the taxpayer's market for the sales is in this State. If the market for a sale cannot be determined, the state or states of assignment shall be reasonably approximated. If the taxpayer is not taxable in a state to which a receipt is assigned, or if the state of assignment cannot be determined or reasonably approximated, then the receipt shall be excluded from the denominator of the receipts factor.

The taxpayer's market for sales is in this State as provided below:

(1) In the case of sale, rental, lease, or license of real property, if and to the extent the property is located in this State.

(2) In the case of rental, lease, or license of tangible personal property, if and to the extent the property is located in this State.

(3) In the case of sale of a service, if and to the extent the service is delivered to a location in this State.

(4) In the case of intangible property that is rented, leased, or licensed, if and to the extent the property is used in this State. Intangible property utilized in marketing a good or service to a consumer is "used in this State" if that good or service is purchased by a consumer who is in this State.
In the case of intangible property that is sold, if and to the extent the property is used in this State. A contract right, government license, or similar intangible property that authorizes the holder to conduct a business activity in a specific geographic area is "used in this State" if the geographic area includes all or part of this State.

Receipts from intangible property sales that are contingent on the productivity, use, or disposition of the intangible property shall be treated as receipts from the rental, lease, or licensing of the intangible property as provided under subdivision (4) of this subsection. All other receipts from a sale of intangible property shall be excluded from the numerator and denominator of the sales factor.

Sales of tangible personal property are in this State if the property is received in this State by 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.

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.

Railroad Company. – All apportionable income of a railroad company shall be apportioned to this State by multiplying the income by a fraction, the numerator of which is the "railway operating revenue" from business done within this State and the denominator of which is the "total railway operating revenue" from all business done by the company as shown by its records kept in accordance with the standard classification of accounts prescribed by the Interstate Commerce Commission.

"Railway operating revenue" from business done within this State shall mean "railway operating revenue" from business wholly within this State, plus the equal mileage proportion within this State of each item of "railway operating revenue" received from the interstate business of the company. "Equal mileage proportion" shall mean the proportion which the distance of movement of property and passengers over lines in this State bears to the total distance of movement of property and passengers over lines of the company receiving such revenue. "Interstate business" shall mean "railway operating revenue" from the interstate transportation of persons or property into, out of, or through this State.

If the Secretary of Revenue finds, with respect to any particular company, that its accounting records are not kept so as to reflect with exact accuracy such division of revenue by State lines as to each transaction involving interstate revenue, the Secretary of Revenue may adopt such regulations, based upon averages, as will approximate with reasonable accuracy the proportion of interstate revenue actually earned upon lines in this State. Provided, that where a railroad is being operated by a partnership which is treated as a corporation for income tax purposes and pays a net income tax to this State, or if located in another state would be so treated and so pay as if located in this State, each partner's share of the net profits shall be considered as dividends paid by a corporation for purposes of this Part and shall be so treated for inclusion in gross income, deductibility, and separate allocation of dividend income.
(m) All apportionable income of a telephone company shall be apportioned to this State by multiplying the income by a fraction, the numerator of which is gross operating revenue from local service in this State plus gross operating revenue from toll services performed wholly within this State plus the proportion of revenue from interstate toll services attributable to this State as shown by the records of the company plus the gross operating revenue in North Carolina from other service less the uncollectible revenue in this State, and the denominator of which is the total gross operating revenue from all business done by the company everywhere less total uncollectible revenue. Provided, that where a telephone company is required to keep its records in accordance with the standard classification of accounts prescribed by the Federal Communications Commission the amounts in such accounts shall be used in computing the apportionment fraction as provided in this subsection.

(o) Motor Carrier. – All apportionable income of a motor carrier of property or a motor carrier of people shall be apportioned by multiplying the income by a fraction, the numerator of which is the number of vehicle miles in this State and the denominator of which is the total number of vehicle miles of the company everywhere. The words "vehicle miles" shall mean miles traveled by vehicles owned or operated by the company based upon one of the following:

1. miles traveled by vehicles Miles on a scheduled route. (1)
2. owned or operated by the company Miles hauling property for a charge (2)
3. or traveling on a scheduled route Miles carrying passengers for a fare. (3)

(p) All apportionable income of a motor carrier of passengers shall be apportioned by multiplying the income by a fraction, the numerator of which is the number of vehicle miles in this State and the denominator of which is the total number of vehicle miles of the company everywhere. The words "vehicle miles" shall mean miles traveled by vehicles owned or operated by the company carrying passengers for a fare or traveling on a scheduled route.

(q) All apportionable income of a telegraph company shall be apportioned by multiplying the income by a fraction, the numerator of which is the property factor plus the payroll factor plus the sales factor and the denominator of which is three.

The property factor shall be as defined in subsection (j) of this section, the payroll factor shall be as defined in subsection (k) of this section, and the sales factor shall be as defined in subsection (l) of this section.

(r) Single Sales Factor. – All apportionable income of an excluded corporation and of all other public utilities shall be apportioned by multiplying the income by the sales factor as determined under subsection (l) of this section.

(s) Transportation Corporation. – All apportionable income of an air transportation corporation or a water transportation corporation shall be apportioned by a fraction, the numerator of which is the corporation's revenue ton miles in this State and the denominator of which is the corporation's revenue ton miles everywhere. The term "revenue ton mile" means one ton of passengers, freight, mail, or other cargo carried one mile. In making this computation, a passenger is considered to weigh two hundred pounds.

...
The following definitions apply in this subsection:

1. **Audience factor.** - The factor determined by the ratio provided in this subdivision. The factor shall be determined either by reference to the books and records of the taxpayer or by reference to published rating statistics, provided the method used by the taxpayer is consistently used from year to year for this purpose and fairly represents the taxpayer's activity in this State. The ratio is as follows:
   a. **Television station.** - The ratio that the viewing audience located in this State for a television station bears to the total viewing audience for a television station.
   b. **Radio station.** - The ratio that the listening audience in this State for a radio station bears to the total listening audience for a radio station.
   c. **Cable or satellite program and channel broadcasts.** - The ratio that the subscribers for a cable or satellite system located in this State bears to the total subscribers of a cable or satellite system. If the number of subscribers cannot be accurately determined from the books and records maintained by the taxpayer, the ratio shall be determined on the basis of the applicable year's subscription statistics located in published surveys, provided the source selected is consistently used from year to year for this purpose.

2. **Broadcast.** - The transmission of audio or video programming, directly or indirectly, to viewers and listeners by any other method of communication or combination of methods.

3. **Broadcaster.** - A person that provides audio or video programming to customers in this State by digital or analog means in exchange for one or more of the following: advertising receipts, subscriber fees, license, rent, or similar fees. The term includes a television or radio station licensed by the Federal Communications Commission, including network-owned or affiliated stations, a television or radio broadcast network, a cable program network, a distributor of audio or video programming, a cable system operator, and satellite system operator.

4. **Release or in release.** - The placing of film or radio programming into service. A film or radio program is placed into service when it is first broadcast to the primary audience for entertainment, educational, commercial, artistic, or other purpose. Each episode of a television or radio series is placed in service when it is first broadcast. A program is not placed in service merely because it is completed and therefore in a condition or state of readiness and availability for broadcast or merely because it is previewed to prospective sponsors or purchasers.

5. **Rent.** - License fees or other payments or consideration provided in exchange for the broadcast or other use of television or radio programming.

6. **Subscriber.** - The individual residence or other outlet that is the ultimate recipient of the transmission from a cable television system.

SECTION 4.2.(b) This section is effective for taxable years beginning on or after January 1, 2016.

PART V. FRANCHISE TAX RATE REDUCTION AND TAX BASE SIMPLIFICATION

SECTION 5.1.(a) G.S. 105-114(b) reads as rewritten:

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

..."
Total assets. – The sum of all cash, investments, furniture, fixtures, equipment, receivables, intangibles, and any other items of value owned by a person or a business entity.

SECTION 5.1.(b) G.S. 105-120.2 reads as rewritten:

§ 105-120.2. Franchise or privilege tax on holding companies.

(a) Every corporation, domestic and foreign, incorporated or, by an act, domesticated under the laws of this State or doing business in this State that, at the close of its taxable year, is a holding company as defined in subsection (c) of this section, shall, pursuant to the provisions of G.S. 105-122, do all of the following:

(1) File a return.
(2) Determine the total amount of its issued and outstanding capital stock, surplus and undivided profits, net worth.
(3) Apportion such outstanding capital stock, surplus and undivided profits, net worth, to this State.

(b) Tax Rate. – Every corporation taxed under this section shall annually pay to the Secretary of Revenue, at the time the return is due, the greater of the following:

(1) A franchise or privilege tax at the rate of one dollar and fifty cents ($1.50) per one thousand dollars ($1,000) of the amount determined under subsection (a) of this section, but in no case shall the tax be more than seventy-five thousand dollars ($75,000) nor less than thirty-five dollars ($35.00) nor less than two hundred dollars ($200.00).
(2) Notwithstanding the provisions of subdivision (1) of this subsection, if the tax produced pursuant to application of this paragraph exceeds the tax produced pursuant to application of subdivision (1) of this subsection, then the tax is levied at the rate of one dollar and fifty cents ($1.50) per one thousand dollars ($1,000) on the greater of the following:

a. 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 such corporation plus the total appraised value of intangible property returned for taxation of intangible personal property as computed under G.S. 105-122(d).

b. The total actual investment in tangible property in this State of such corporation as computed under G.S. 105-122(d).

...."
of the corporation's taxable year. If the corporation does not maintain its books and records in
accordance with generally accepted accounting principles, then its net worth is computed in
accordance with the accounting method used by the entity for federal tax purposes so long as
the method fairly reflects the corporation's net worth for purposes of the tax levied by this
section. A corporation's net worth is subject to the following adjustments:

1. Definite and accrued legal liabilities. A deduction for accumulated
depreciation, depletion, and amortization is determined in accordance with
the method used for federal tax purposes.

2. Billings in excess of costs that are considered a deferred liability under the
percentage of completion method of revenue recognition.

3. Taxes accrued, dividends declared, and reserves for depreciation of tangible
assets and for amortization of intangible assets as permitted for income tax
purposes. An addition for indebtedness the corporation owes to a parent, a
subsidiary, an affiliate, or a noncorporate entity in which the corporation or
an affiliated group of corporations owns directly or indirectly more than fifty
percent (50%) of the capital interests of the noncorporate entity. The amount
added back to the corporation's net worth may be further adjusted if part of
the capital of the creditor is capital borrowed from a source other than a
parent, a subsidiary, or an affiliate. The debtor corporation may deduct a
proportionate part of the indebtedness based on the ratio of the borrowed
capital of the creditor to the total assets of the creditor. For purposes of this
subdivision, borrowed capital does not include indebtedness incurred by a
bank arising out of the receipt of a deposit and evidenced by a certificate of
deposit, a passbook, a cashier's check, a certified check, or other similar
document.

4. If the creditor corporation is taxable under this Article, the creditor
corporation may deduct the amount of indebtedness owed to it by a parent,
subsidiary, or affiliated corporation to the extent that such indebtedness has
been added by the debtor corporation.

5. When including deferred tax liabilities, a corporation may reduce the amount
included in its base by netting against that amount deferred tax assets. The
reduction may not decrease deferred tax liabilities below zero (0). A
corporation may deduct the cost of treasury stock.

6. Reserves for the 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 streams, lakes, or rivers, upon
condition that the corporation claiming such deductible liability 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 the Environmental Management
Commission 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 such plant or equipment
complies with the requirements of the Environmental Management
Commission or local air pollution control program with respect to such
devices, plants or equipment, that such device, plant or equipment is being effectiv

e operated in accordance with the terms and conditions set forth in

t the permit, certificate of approval, or other document of approval issued by

t the Environmental Management Commission or local air pollution control

program and that the primary purpose thereof 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.

(5) Reserves for the cost of purchasing and installing equipment or constructing facilities for the purpose of recycling or resource recovering of or from solid waste or for the purpose of reducing the volume of hazardous waste generated shall be treated as deductible for the purposes of this section upon condition that the corporation claiming such deductible liability shall furnish to the Secretary a certificate from the Department of Environment and Natural Resources certifying that the Department of Environment and Natural Resources has found as a fact that the equipment or facility has actually been purchased, installed or constructed, that it is in conformance with all rules and regulations of the Department of Environment and Natural Resources, and that the recycling or resource recovering is the primary purpose of the facility or equipment.

(6) Reserves for the cost of constructing facilities of any private or public utility built for the purpose of providing sewer service to residential and outlying areas shall be treated as deductible for the purposes of this section; the deductible liability allowed by this section shall apply only with respect to such pollution abatement plants or equipment constructed or installed on or after January 1, 1955.

(7) The cost of treasury stock.

(8) In the case of an international banking facility, the capital base shall be reduced by the excess of the amount as of the end of the taxable year of all assets of an international banking facility which are employed outside the United States over liabilities of the international banking facility owed to foreign persons. For purposes of such reduction, foreign persons shall have the same meaning as defined in G.S. 105-130.5(b)(13)d.

Every corporation doing business in this State which is a parent, subsidiary, or affiliate of another corporation shall add to its capital stock, surplus, and undivided profits all indebtedness owed to a parent, subsidiary, or affiliated corporation as a part of its capital used in its business and as a part of the base for franchise tax under this section. If any part of the capital of the creditor corporation is capital borrowed from a source other than a parent, subsidiary, or affiliate, the debtor corporation, which is required under this subsection to include in its tax base the amount of debt by reason of being a parent, subsidiary, or affiliate of the creditor corporation, may deduct from the debt included a proportionate part determined on the basis of the ratio of the borrowed capital of the creditor corporation to the total assets of the creditor corporation. If the creditor corporation is also taxable under the provisions of this section, the creditor corporation is allowed to deduct from the total of its capital, surplus, and undivided profits the amount of any debt owed to it by a parent, subsidiary or affiliated corporation to the extent that the debt has been included in the tax base of the parent, subsidiary, or affiliated debtor corporation reporting for taxation under the provisions of this section.

(b1) Definitions. – The following definitions apply in subsection (b) of this section:

(1) Affiliate. – The same meaning as specified in G.S. 105-130.2. A corporation is an affiliate of another corporation when both are directly or indirectly controlled by the same parent corporation or by the same or associated financial interests by stock ownership, interlocking directors, or by any other
means whatsoever, whether the control is direct or through one or more
subsidiary, affiliated, or controlled corporations.

(2) Affiliated group. – The same meaning as defined in G.S. 105-114.1.

(3) Capital interest. – The right under an entity’s governing law to receive a
percentage of the entity’s assets upon dissolution after payments to creditors.

(4) Governing law. – The law under which the noncorporate entity is organized.

(2)(5) Indebtedness. – All loans, credits, goods, supplies, or other capital of
whatsoever nature furnished by a parent, a subsidiary, an affiliate, or a noncorporate entity in which the corporation or an affiliated group of corporations owns directly or indirectly more than fifty percent (50%) of the capital interests of the noncorporate entity, other than indebtedness endorsed, guaranteed, or otherwise supported by one of these corporations.

(6) Noncorporate entity. – A person that is neither a human being nor a
corporation.

(3)(7) Parent. – The same meaning as specified in G.S. 105-130.2. A corporation is
a parent of another corporation when, directly or indirectly, it controls the
other corporation by stock ownership, interlocking directors, or by any other
means whatsoever exercised by the same or associated financial interests, whether the control is direct or through one or more subsidiary, affiliated, or controlled corporations.

(4)(8) Subsidiary. – The same meaning as specified in G.S. 105-130.2. A
corporation is a subsidiary of another corporation when, directly or
indirectly, it is subject to control by the other corporation by stock
ownership, interlocking directors, or by any other means whatsoever
exercised by the same or associated financial interest, whether the control is
direct or through one or more subsidiary, affiliated, or controlled
corporations.

(c1) Apportionment. – A corporation that is doing business in this State and in one or
more other states must apportion its capital stock, surplus, and undivided profits-net worth to
this State. A corporation must use the apportionment method set out in subdivision (1) of this
subsection unless the Department has authorized it to use a different method under subdivision
(2) of this subsection. The portion of a corporation's capital stock, surplus, and undivided
profits-net worth determined by applying the appropriate apportionment method is considered
the amount of capital stock, surplus, and undivided profits-net worth the corporation uses in its
business in this State.

(1) Statutory. – A corporation that is subject to income tax under Article 4 of
this Chapter must apportion its capital stock, surplus, and undivided profits-net worth by using the fraction it applies in apportioning its income under that Article. A corporation that is not subject to income tax under Article 4 of this Chapter must apportion its capital stock, surplus, and undivided profits-net worth by using the fraction it would be required to apply in apportioning its income if it were subject to that Article. The apportionment method set out in this subdivision is considered the statutory method of apportionment and is presumed to be the best method of determining the amount of a corporation's capital stock, surplus, and undivided profits-net worth attributable to the corporation's business in this State.

(2) Alternative. – A corporation that believes the statutory apportionment
method set out in subdivision (1) of this subsection subjects a greater portion
of its capital stock, surplus, and undivided profits-net worth to tax under this section than is attributable to its business in this State may make a written
request to the Secretary for permission to use an alternative method. The
request must set out the reasons for the corporation’s belief and propose an
alternative method. The corporation has the burden of establishing by clear,
cogent, and convincing proof that the statutory apportionment method
subjects a greater portion of the corporation’s capital stock, surplus, and
undivided profits–net worth to tax under this section than is attributable to its
business in this State and that the proposed alternative method is a better
method of determining the amount of the corporation’s capital stock, surplus,
and undivided profits–net worth attributable to the corporation’s business in
this State.

The Secretary must issue a written decision on a corporation’s request for
an alternative apportionment method. If the decision grants the request, it
must describe the alternative method the corporation is authorized to use and
state the tax years to which the alternative method applies. A decision may
apply to no more than three tax years. A corporation may renew a request to
use an alternative apportionment method by following the procedure in this
subdivision. A decision of the Secretary on a request for an alternative
apportionment method is final and is not subject to administrative or judicial
review. A corporation authorized to use an alternative method may apportion
its capital stock, surplus, and undivided profits–net worth in accordance with
the alternative method or the statutory method.

(3) Repealed by Session Laws 2011-330, s. 5, effective June 27, 2011.

(d) Tax Base and Tax Rate.—After determining the proportion of its total capital stock,
surplus and undivided profits–net worth as set out in subsection (c1) 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 return is due, a franchise or privilege tax at the rate of one dollar and fifty cents ($1.50)
per one thousand dollars ($1,000) of the total amount of capital stock, surplus and
undivided profits–net worth as provided in this section. The tax imposed in this section shall not
be less than thirty-five dollars ($35.00) two hundred dollars ($200.00) and is 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," a corporation may deduct 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 applies only with respect to pollution abatement plants or equipment constructed or installed on or after January 1, 1955 purposes.

(d1) Credits.—A corporation is allowed a credit against the tax imposed by this section for a taxable year equal to one half of the amount of tax payable during the taxable year under Article 5E of this Chapter. The credit allowed by this subsection may not exceed the amount of tax imposed by this section for the taxable year, reduced by the sum of all other credits allowed against that tax, except tax payments made by or on behalf of the taxpayer.

(e) Any corporation which changes its income year, and files a "short period" income tax return pursuant to G.S. 105-130.15 shall file a franchise tax return in accordance with the provisions of this section in the manner and as of the date specified in subsection (a) of this section. Such corporation shall be entitled to deduct from the total franchise tax computed (on an annual basis) on such return the amount of franchise tax previously paid which is applicable to the period subsequent to the beginning of the new income year.

(f) The return and tax required by this section are in addition to all other reports required or taxes levied and assessed in this State.

(g) Counties, cities and towns shall not levy a franchise tax on corporations taxed under this section.

SECTION 5.1.(d) This section is effective for taxable years beginning on or after January 1, 2017.

SECTION 5.2.(a) G.S. 105-114.1 reads as rewritten:

"§ 105-114.1. Limited liability companies.

…

(b) Controlled Companies. – If a corporation or an affiliated group of corporations owns more than fifty percent (50%) of the capital interests in a noncorporate limited liability company, the corporation or group of corporations must include in its three tax bases pursuant to G.S. 105-122 the same percentage of (i) the noncorporate limited liability company’s capital stock, surplus, and undivided profits—net worth; (ii) fifty-five percent (55%) of the noncorporate limited liability company's appraised ad valorem tax value of property; and (iii) the noncorporate limited liability company's actual investment in tangible property in this State, as appropriate.

…

(d) No Double Inclusion. – If a corporation is required to include a percentage of a noncorporate limited liability company's assets in its tax bases pursuant to subsection (b) of this section, its investment in the noncorporate limited liability company is not included in its computation of capital stock net worth base under G.S. 105-122(b).

…the"
surplus, and undivided profits base for franchise tax, deduct the aggregate market value of its investments in the stocks, bonds, debentures, or other securities or evidences of debt of other corporations, partnerships, individuals, municipalities, governmental agencies, or governments:

(1) A regulated investment company. – A regulated investment company is an entity that qualifies as a regulated investment company under section 851 of the Code.

(2) A REIT, unless the REIT is a captive REIT. – The terms "REIT" and "captive REIT" have the same meanings as defined in G.S. 105-130.12.

SECTION 5.2. This section is effective for taxable years beginning on or after January 1, 2017.

PART VI. INDIVIDUAL INCOME TAX REDUCTIONS AND MODIFICATION OF THE ITEMIZED DEDUCTION

SECTION 6.1. Effective for taxable years beginning on or after January 1, 2016, G.S. 105-153.5(a)(1) reads as rewritten:

§ 105-153.5. Modifications to adjusted gross income.

(a) Deduction Amount. – In calculating North Carolina taxable income, a taxpayer may deduct from adjusted gross income either the standard deduction amount provided in subdivision (1) of this subsection or the itemized deduction amount provided in subdivision (2) of this subsection that the taxpayer claimed under the Code. The deduction amounts are as follows:

(1) Standard deduction amount. – The standard deduction amount is zero for a person who is not eligible for a standard deduction under section 63 of the Code. For all other taxpayers, the standard deduction amount is equal to the amount listed in the table below based on the taxpayer's filing status:

<table>
<thead>
<tr>
<th>Filing Status</th>
<th>Standard Deduction</th>
</tr>
</thead>
<tbody>
<tr>
<td>Married, filing jointly</td>
<td>$15,000 $17,500</td>
</tr>
<tr>
<td>Head of Household</td>
<td>$12,000 $14,000</td>
</tr>
<tr>
<td>Single</td>
<td>$8,750 $9,875</td>
</tr>
<tr>
<td>Married, filing separately</td>
<td>$8,750 $8,875</td>
</tr>
</tbody>
</table>

SECTION 6.1. Effective for taxable years beginning on or after January 1, 2017, G.S. 105-153.5(a)(1), as amended by subsection (a) of this section, reads as rewritten:

§ 105-153.5. Modifications to adjusted gross income.

(a) Deduction Amount. – In calculating North Carolina taxable income, a taxpayer may deduct from adjusted gross income either the standard deduction amount provided in subdivision (1) of this subsection or the itemized deduction amount provided in subdivision (2) of this subsection that the taxpayer claimed under the Code. The deduction amounts are as follows:

(1) Standard deduction amount. – The standard deduction amount is zero for a person who is not eligible for a standard deduction under section 63 of the Code. For all other taxpayers, the standard deduction amount is equal to the amount listed in the table below based on the taxpayer's filing status:

<table>
<thead>
<tr>
<th>Filing Status</th>
<th>Standard Deduction</th>
</tr>
</thead>
<tbody>
<tr>
<td>Married, filing jointly</td>
<td>$17,500 $17,750</td>
</tr>
<tr>
<td>Head of Household</td>
<td>$14,000 $14,000</td>
</tr>
<tr>
<td>Single</td>
<td>$8,750 $8,875</td>
</tr>
<tr>
<td>Married, filing separately</td>
<td>$8,750 $8,875</td>
</tr>
</tbody>
</table>

SECTION 6.1. Effective for taxable years beginning on or after January 1, 2018, G.S. 105-153.5(a)(1), as amended by subsection (b) of this section, reads as rewritten:

§ 105-153.5. Modifications to adjusted gross income.
(a) Deduction Amount. – In calculating North Carolina taxable income, a taxpayer may deduct from adjusted gross income either the standard deduction amount provided in subdivision (1) of this subsection or the itemized deduction amount provided in subdivision (2) of this subsection that the taxpayer claimed under the Code. The deduction amounts are as follows:

(1) Standard deduction amount. – The standard deduction amount is zero for a person who is not eligible for a standard deduction under section 63 of the Code. For all other taxpayers, the standard deduction amount is equal to the amount listed in the table below based on the taxpayer's filing status:

<table>
<thead>
<tr>
<th>Filing Status</th>
<th>Standard Deduction</th>
</tr>
</thead>
<tbody>
<tr>
<td>Married, filing jointly</td>
<td></td>
</tr>
<tr>
<td>Head of Household</td>
<td>$14,400/$14,400</td>
</tr>
<tr>
<td>Single</td>
<td>$9,000/$9,125</td>
</tr>
<tr>
<td>Married, filing separately</td>
<td>$9,000/$9,125</td>
</tr>
</tbody>
</table>

SECTION 6.1(d) Effective for taxable years beginning on or after January 1, 2019, G.S. 105-153.5(a)(1), as amended by subsection (c) of this section, reads as rewritten:

"§ 105-153.5. Modifications to adjusted gross income."

(a) Deduction Amount. – In calculating North Carolina taxable income, a taxpayer may deduct from adjusted gross income either the standard deduction amount provided in subdivision (1) of this subsection or the itemized deduction amount provided in subdivision (2) of this subsection that the taxpayer claimed under the Code. The deduction amounts are as follows:

(1) Standard deduction amount. – The standard deduction amount is zero for a person who is not eligible for a standard deduction under section 63 of the Code. For all other taxpayers, the standard deduction amount is equal to the amount listed in the table below based on the taxpayer's filing status:

<table>
<thead>
<tr>
<th>Filing Status</th>
<th>Standard Deduction</th>
</tr>
</thead>
<tbody>
<tr>
<td>Married, filing jointly</td>
<td></td>
</tr>
<tr>
<td>Head of Household</td>
<td>$14,400/$14,500</td>
</tr>
<tr>
<td>Single</td>
<td>$9,000/$9,250</td>
</tr>
<tr>
<td>Married, filing separately</td>
<td>$9,000/$9,125</td>
</tr>
</tbody>
</table>

SECTION 6.1(e) Effective for taxable years beginning on or after January 1, 2020, G.S. 105-153.5(a)(1), as amended by subsection (d) of this section, reads as rewritten:

"§ 105-153.5. Modifications to adjusted gross income."

(a) Deduction Amount. – In calculating North Carolina taxable income, a taxpayer may deduct from adjusted gross income either the standard deduction amount provided in subdivision (1) of this subsection or the itemized deduction amount provided in subdivision (2) of this subsection that the taxpayer claimed under the Code. The deduction amounts are as follows:

(1) Standard deduction amount. – The standard deduction amount is zero for a person who is not eligible for a standard deduction under section 63 of the Code. For all other taxpayers, the standard deduction amount is equal to the amount listed in the table below based on the taxpayer's filing status:

<table>
<thead>
<tr>
<th>Filing Status</th>
<th>Standard Deduction</th>
</tr>
</thead>
<tbody>
<tr>
<td>Married, filing jointly</td>
<td>$18,250/$18,500</td>
</tr>
<tr>
<td>Head of Household</td>
<td>$9,125/$9,250</td>
</tr>
<tr>
<td>Married, filing separately</td>
<td>$9,000/$9,125</td>
</tr>
</tbody>
</table>

SECTION 6.2(a) G.S. 105-153.7(a) reads as rewritten:

"§ 105-153.7. Individual income tax imposed."
(a) Tax. – A tax is imposed for each taxable year on the North Carolina taxable income of every individual. The tax shall be levied, collected, and paid annually. The tax is five and seventy-five hundredths percent (5.75%)–five and five-tenths percent (5.5%) of the taxpayer's North Carolina taxable income."

SECTION 6.2.(b) This section is effective for taxable years beginning on or after January 1, 2016.

SECTION 6.3.(a) G.S. 105-153.5(a)(2) reads as rewritten:

"§ 105-153.5. Modifications to adjusted gross income.

(a) Deduction Amount. – In calculating North Carolina taxable income, a taxpayer may deduct from adjusted gross income either the standard deduction amount provided in subdivision (1) of this subsection or the itemized deduction amount provided in subdivision (2) of this subsection that the taxpayer claimed under the Code. The deduction amounts are as follows:

…

(2) Itemized deduction amount. – An amount equal to the sum of the items listed in this subdivision. The amounts allowed under this subdivision are not subject to the overall limitation on itemized deductions under section 68 of the Code: Itemized deduction amount claimed under the Code other than any amount deducted under section 164 of the Code as State, local, or foreign income tax or as State or local general sales tax. The

a. The amount allowed as a deduction for charitable contributions under section 170 of the Code for that taxable year.

b. The amount allowed 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 plus the amount claimed by the taxpayer as a deduction for property taxes paid or accrued on real estate under section 164 of the Code for that taxable year. The

amount allowed under this subdivision may not exceed twenty thousand dollars ($20,000). For spouses filing as married filing separately or married filing jointly, the total mortgage interest and real estate taxes claimed by both spouses combined may not exceed twenty thousand dollars ($20,000). For spouses filing as married filing separately with a joint obligation for mortgage interest and real estate taxes, the deduction for these items is allowable to the spouse who actually paid them. If spouses filing as married filing separately, if the amount of the mortgage interest and real estate taxes claimed by both spouses exceeds twenty thousand dollars ($20,000), these deductions must be prorated based on the percentage paid by each spouse. For joint obligations paid from joint accounts, the proration is based on the income reported by each spouse for that taxable year.

SECTION 6.3.(b) This section is effective for taxable years beginning on or after January 1, 2016.

SECTION 6.4.(a) G.S. 105-163.2 reads as rewritten:

"§ 105-163.2. Employers must withhold taxes.

(b) Withholding Tables. – The manner of withholding and the amount to be withheld shall be determined in accordance with tables and rules adopted by the Secretary. The withholding of wages pursuant to and in accordance with these tables shall be deemed as a matter of law to constitute compliance with the provisions of subsection (a) of this section, notwithstanding any other provisions of this Article. The Secretary shall promulgate tables for
computing amounts to be withheld with respect to different rates of wages for different payroll
periods applicable to the various combinations of allowances to which an employee may be
entitled and taking into account the appropriate standard deduction. The tables may provide for
the same amount to be withheld within reasonable salary brackets or ranges so designed as to
result in the withholding during a year of approximately the amount of an employee’s indicated
income tax liability for that year.

The withholding allowances provided by these tables and rules shall, as nearly as possible,
approximate the amount of the employee’s indicated income tax liability for that year based
upon all of the following factors:

(1) An income tax rate equal to the rate set in G.S. 105-153.7 plus one-tenth of
one percent (0.1%).

(2) The additions the employee is required to make under Article 4 of this
Chapter and the deductions, Chapter.

(3) The deductions and credits to which an employee is entitled under Article 4
of this Chapter.

The Secretary shall promulgate tables for computing
amounts to be withheld with respect to different rates of wages for different
payroll periods applicable to the various combinations of allowances to
which an employee may be entitled and taking into account the appropriate
standard deduction. The tables may provide for the same amount to be
withheld within reasonable salary brackets or ranges so designed as to result
in the withholding during a year of approximately the amount of an
employee's indicated income tax liability for that year. The withholding of
wages pursuant to and in accordance with these tables shall be deemed as a
matter of law to constitute compliance with the provisions of subsection (a)
of this section, notwithstanding any other provisions of this Article.

…

(e) Alternatives to Tables. – If the Secretary determines that use of the withholding
tables would be impractical, would impose an unreasonable burden on an employer, or would
produce substantially incorrect results, the Secretary may authorize or require an employer to
use some other method of determining the amounts to be withheld under this Article. The
alternative method authorized by the Secretary must reasonably approximate the predicted
income tax liability of the affected employees based upon the factors provided in
subsection (b) of this section. In addition, with the agreement of the employer and employee,
the Secretary may authorize an employer to use an alternative method that results in
withholding of a greater amount than otherwise required under this section.

The Secretary's authorization of an alternative method is discretionary and may be
cancelled at any time without advance notice if the Secretary finds that the method is being
abused or is not resulting in the withholding of an amount reasonably approximating the
predicted income tax liability of the affected employees. The Secretary shall give an employer
written notice of any cancellation and the findings upon which the cancellation is based. The
cancellation becomes effective upon the employer's receipt of this notice or on the third day
after the notice was mailed to the employer, whichever occurs first. If the employer requests a
hearing on the cancellation within 30 days after the cancellation, the Secretary shall grant a
hearing. After a hearing, the Secretary's findings are conclusive."

SECTION 6.4.(b) This section is effective for taxable years beginning on or after
January 1, 2016.

SECTION 6.5. Except as otherwise provided, this Part is effective when this act
becomes law.

PART VII. ARTICLE 5F EXCISE TAX CHANGES

SECTION 7.(a) G.S. 105-187.51(b) reads as rewritten:

... (b) Rate. – The tax is one percent (1%) of the sales-purchase price of the machinery, part, or accessory purchased. The rate is one percent (1%) of the sales-purchase price of the machinery, part, or accessory purchased. The tax rate is equal to the general rate of tax under G.S. 105-164.4. The maximum tax is eighty dollars ($80.00) – five hundred dollars ($500.00) per article. As used in this section, the term "accessories" does not include electricity."

SECTION 7. (b) G.S. 105-187.51B(b) reads as rewritten:

"§ 105-187.51B. Tax imposed on certain recyclers, research and development companies, industrial machinery refurbishing companies, and companies located at ports facilities.

... (b) Rate. – The tax is one percent (1%) of the sales-purchase price of the equipment or other tangible personal property. The tax rate is one percent (1%) of the sales-purchase price of the machinery, part, or accessory purchased. The tax rate is equal to the general rate of tax under G.S. 105-164.4. The maximum tax is eighty dollars ($80.00) – five hundred dollars ($500.00) per article."

SECTION 7. (c) G.S. 105-187.51D(b) reads as rewritten:

"§ 105-187.51D. Tax imposed on machinery at large manufacturing and distribution facility.

... (b) Tax. – A privilege tax is imposed on a large manufacturing and distribution facility that purchases mill machinery, distribution machinery, or parts or accessories for mill machinery or distribution machinery for storage, use, or consumption in this State. The tax is one percent (1%) of the sales-purchase price of the machinery, part, or accessory purchased. The tax rate is equal to the general rate of tax under G.S. 105-164.4. The maximum tax is eighty dollars ($80.00) – five hundred dollars ($500.00) per article. As used in this section, the term "accessories" does not include electricity."

SECTION 7. (d) This section becomes effective October 1, 2015, and applies to purchases made on or after that date or contracts entered into on or after that date.

PART VIII. SALES TAX CHANGES

SECTION 8.1. (a) G.S. 105-164.3 reads as rewritten:

"§ 105-164.3. Definitions.

The following definitions apply in this Article:

... (18a) Maintenance service. – To keep tangible personal property in working order, to avoid breakdown, and to prevent unnecessary repairs.

... (33d) Repair service. – To restore or attempt to restore tangible personal property to proper working order or good condition. The term includes replacing or putting together what is torn or broken.

..."

SECTION 8.1. (b) G.S. 105-164.4(a) reads as rewritten:

"§ 105-164.4. Tax imposed on retailers.

(a) A privilege tax is imposed on a retailer engaged in business in the State at the percentage rates of the retailer's net taxable sales or gross receipts, listed in this subsection. The general rate of tax is four and three-quarters percent (4.75%). The percentage rates are as follows:

(1a) The general rate applies to the sales price of each manufactured home-of the following items sold at retail, including all accessories attached to the manufactured home-the item when it is delivered to the purchaser-purchaser:
a. A manufactured home.
b. A modular home. The sale of a modular home to a modular homebuilder is considered a retail sale. A person who sells a modular home at retail is allowed a credit against the tax imposed by this subdivision for sales or use tax paid to another state on tangible personal property incorporated in the modular home. The retail sale of a modular home occurs when a modular home manufacturer sells a modular home to a modular homebuilder or directly to the end user of the modular home.
c. An aircraft, except that the maximum tax on an aircraft is five thousand dollars ($5,000) per article.
d. A boat, except that the maximum tax on a boat is one thousand five hundred dollars ($1,500) per article.

(1b) The rate of three percent (3%) applies to the sales price of each aircraft or boat sold at retail, including all accessories attached to the item when it is delivered to the purchaser. The maximum tax is one thousand five hundred dollars ($1,500) per article.

…

(8) The general rate applies to the sales price of each manufactured home sold at retail, including all accessories attached to the modular home when it is delivered to the purchaser. The sale of a modular home to a modular homebuilder is considered a retail sale. A person who sells a modular home at retail is allowed a credit against the tax imposed by this subdivision for sales or use tax paid to another state on tangible personal property incorporated in the modular home. The retail sale of a modular home occurs when a modular home manufacturer sells a modular home to a modular homebuilder or directly to the end user of the modular home.

…

(15) The general rate applies to the sales price of or the gross receipts derived from repair service and maintenance service.
(16) The general rate applies to the sales price of or the gross receipts derived from grooming, training, boarding, or providing other care for an animal.
(17) The general rate applies to the sales price of or the gross receipts derived from veterinary services.
(18) The general rate applies to the sales price of or the gross receipts derived from advertising services."

SECTION 8.1.(c) G.S. 105-164.13(49) is repealed.

SECTION 8.1.(d) G.S. 105-467(a) reads as rewritten:

"§ 105-467. Scope of sales tax.
(a) Sales Tax. – The sales tax that may be imposed under this Article is limited to a tax at the rate of one percent (1%) of the following:
(1) A retailer's net taxable sales and gross receipts that are subject to the general rate of sales tax imposed by the State under G.S. 105-164.4 except the tax does not apply to the sales price of a manufactured home or a modular home, an item taxed under G.S. 105-164.4(a)(1a).

…"

SECTION 8.1.(e) G.S. 105-237.1(a)(6) 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:
(6) 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)(10) and (a)(11), through (a)(18), 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."

SECTION 8.1.(f) The Secretary of Revenue is directed to repeal the following administrative rules: 17 NCAC 07B .1002, 17 NCAC 07B .1003, and 17 NCAC 07B .1901. A repair part historically purchased and taxed in accordance with these administrative rules should be purchased for the purpose of resale.

SECTION 8.1.(g) Subsections (a) through (d) and subsection (f) of this section become effective October 1, 2015, and apply to sales made on or after that date, services provided on or after that date, and contracts entered into on or after that date. The remainder of this section is effective when this act becomes law.

SECTION 8.2.(a) G.S. 105-164.41(b) is amended by adding a new subdivision to read:

"(b) Exemptions. – The tax imposed by this section does not apply to the sales price of or the gross receipts derived from a service contract applicable to any of the following items:

(1) An item exempt from tax under this Article, other than a motor vehicle exempt from tax under G.S. 105-164.13(32).
(2) A transmission, distribution, or other network asset contained on utility-owned land, right-of-way, or easement.
(3) An item purchased by a professional motorsports racing team for which the team may receive a sales tax refund under G.S. 105-164.14A(5).
(4) An item subject to tax under Article 5F of Chapter 105 of the General Statutes.
(5) A qualifying aircraft or qualifying jet engine if the service contract is sold by the manufacturer of the aircraft or jet engine or a related member of the manufacturer within 90 days of the date the aircraft or engine is purchased. A qualifying aircraft is an aircraft with a maximum take-off weight of more than 9,000 pounds but not in excess of 15,000 pounds. A qualifying jet engine is an engine certified pursuant to Part 33 of Title 14 of the Code of Federal Regulations."

SECTION 8.2.(b) This section becomes effective October 1, 2015, and applies to a service contract sold on or after that date.

SECTION 8.3.(a) Effective July 1, 2015, and applicable to refund applications submitted for purchases made on or after that date, G.S. 105-164.14(b) reads as rewritten:

"(b) Nonprofit Entities and Hospital Drugs. – A nonprofit entity is allowed a semiannual refund of sales and use taxes paid by it under this Article on direct purchases of tangible personal property and services for use in carrying on the work of the nonprofit entity. The aggregate amount of purchases for which an entity may receive a refund under this subsection for a 12-month period beginning July 1 and ending June 30 may not exceed six hundred sixty-six million six hundred sixty-six thousand six hundred sixty-seven dollars ($666,666,667). Sales and use tax liability indirectly incurred by a nonprofit entity through reimbursement to an authorized person of the entity for the purchase of tangible personal property and services for use in carrying on the work of the nonprofit entity is considered a direct purchase by the entity. Sales and use tax liability indirectly incurred by a nonprofit 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 nonprofit entity and is being erected, altered, or repaired for use by the nonprofit entity for carrying on its nonprofit activities is
considered a sales or use tax liability incurred on direct purchases by the nonprofit entity. The
refund allowed under this subsection does not apply to purchases of electricity,
telecommunications service, ancillary service, piped natural gas, video programming, or a
prepaid meal plan. A request for a refund must be in writing and must include any information
and documentation required by the Secretary. A request for a refund for the first six months of
a calendar year is due the following October 15; a request for a refund for the second six
months of a calendar year is due the following April 15. The aggregate annual refund amount
allowed an entity under this subsection for a fiscal year may not exceed thirty-one million
seven hundred thousand dollars ($31,700,000). for a 12-month period ending June 30 is due the
following October 15.

The refunds allowed under this subsection do not apply to an entity that is owned and
controlled by the United States or to an entity that is owned or controlled by the State and is not
listed in this subsection. A hospital that is not listed in this subsection is allowed a semiannual
refund of sales and use taxes paid by it on over-the-counter drugs purchased for use
in carrying out its work. The following nonprofit entities are allowed a refund under this
subsection:

..."

SECTION 8.3.(b) Effective July 1, 2015, and applicable to refund applications
submitted for purchases made on or after that date, G.S. 105-467(b) reads as rewritten:

"(b) Exemptions and Refunds. – The State exemptions and exclusions contained in
G.S. 105-164.13 apply to the local sales and use tax authorized to be levied and imposed under
this Article. 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. A refund of an excessive or erroneous State sales tax collection allowed
under G.S. 105-164.11 and a refund of State sales tax paid on a rescinded sale or cancelled
service contract under G.S. 105-164.11A apply to the local sales and use tax authorized to be
levied and imposed under this Article. The aggregate annual local amount of purchases for
which an entity may receive a refund amount of local sales and use tax may not exceed the
amount allowed an entity under G.S. 105-164.14(b) for a fiscal year may not exceed thirteen
million three hundred thousand dollars ($13,300,000). G.S. 105-164.14(b). If the purchases for
which a refund application is made exceed the amount of purchases for which an entity may
receive a refund, and those purchases are made in more than one county, the purchases eligible
for the refund in each county is proportionate to the amount of purchases sourced to that county
relative to the total purchases made in all counties.

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. 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. The refund allowed under this subsection does not apply to
purchases of electricity, telecommunications service, ancillary service, piped natural gas, video
programming, or a prepaid meal plan. A request for a refund is due in the same time and
manner as provided in G.S. 105-164.14(c). Refunds applied for more than three years after the
due date are barred."
SECTION 8.3.(c) Effective July 1, 2016, and applicable to refund applications submitted for purchases made on or after that date, G.S. 105-164.14(b), as amended by subsection (a) of this section, reads as rewritten:

"(b) Nonprofit Entities and Hospital Drugs. – A nonprofit entity 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 for use in carrying on the work of the nonprofit entity. The aggregate amount of purchases for which an entity may receive a refund under this subsection for a fiscal year may not exceed six hundred sixty-six million six hundred sixty-six thousand six hundred sixty-seven dollars ($666,666,667) one hundred fifty million dollars ($150,000,000) in a fiscal year. Sales and use tax liability indirectly incurred by a nonprofit entity through reimbursement to an authorized person of the entity for the purchase of tangible personal property and services for use in carrying on the work of the nonprofit entity is considered a direct purchase by the entity. Sales and use tax liability indirectly incurred by a nonprofit 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 nonprofit entity and is being erected, altered, or repaired for use by the nonprofit entity for carrying on its nonprofit activities is considered a sales or use tax liability incurred on direct purchases by the nonprofit entity. The refund allowed under this subsection does not apply to purchases of electricity, telecommunications service, ancillary service, piped natural gas, video programming, or a prepaid meal plan. A request for a refund must be in writing and must include any information and documentation required by the Secretary. A request for a refund for the preceding fiscal year is due the following October 15.

The refunds allowed under this subsection do not apply to an entity that is owned and controlled by the United States or to an entity that is owned or controlled by the State and is not listed in this subsection. A hospital that is not listed in this subsection is allowed a refund under this subsection:"

SECTION 8.3.(d) Effective July 1, 2017, and applicable to refund applications submitted for purchases made on or after that date, G.S. 105-164.14(b), as amended by subsection (c) of this section, reads as rewritten:

"(b) Nonprofit Entities and Hospital Drugs. – A nonprofit entity 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 for use in carrying on the work of the nonprofit entity. The aggregate amount of purchases for which an entity may receive a refund under this subsection for a fiscal year may not exceed one hundred fifty million dollars ($150,000,000) one hundred twenty million dollars ($120,000,000) in a fiscal year. Sales and use tax liability indirectly incurred by a nonprofit entity through reimbursement to an authorized person of the entity for the purchase of tangible personal property and services for use in carrying on the work of the nonprofit entity is considered a direct purchase by the entity. Sales and use tax liability indirectly incurred by a nonprofit 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 nonprofit entity and is being erected, altered, or repaired for use by the nonprofit entity for carrying on its nonprofit activities is considered a sales or use tax liability incurred on direct purchases by the nonprofit entity. The refund allowed under this subsection does not apply to purchases of electricity, telecommunications service, ancillary service, piped natural gas, video programming, or a prepaid meal plan. A request for a refund must be in writing and must include any information and documentation required by the Secretary. A request for a refund for the preceding fiscal year is due the following October 15.

The refunds allowed under this subsection do not apply to an entity that is owned and controlled by the United States or to an entity that is owned or controlled by the State and is not..."
list in this subsection. A hospital that is not listed in this subsection is allowed an annual
refund of sales and use taxes paid by it on over-the-counter drugs purchased for use in carrying
out its work. The following nonprofit entities are allowed a refund under this subsection:
   "...

SECTION 8.3.(e) Effective July 1, 2018, and applicable to refund applications
submitted for purchases made on or after that date, G.S. 105-164.14(b), as amended by
subsection (d) of this section, reads as rewritten:
   "(b) Nonprofit Entities and Hospital Drugs. – A nonprofit entity 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 for use in carrying on the work of the nonprofit entity. The
aggregate amount of purchases for which an entity may receive a refund under this subsection
for a fiscal year may not exceed one hundred twenty million dollars ($120,000,000) –ninety
million dollars ($90,000,000) in a fiscal year. Sales and use tax liability indirectly incurred by a
nonprofit entity through reimbursement to an authorized person of the entity for the purchase of
tangible personal property and services for use in carrying on the work of the nonprofit entity is
considered a direct purchase by the entity. Sales and use tax liability indirectly incurred by a
nonprofit 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 nonprofit entity and is
being erected, altered, or repaired for use by the nonprofit entity for carrying on its nonprofit
activities is considered a sales or use tax liability incurred on direct purchases by the nonprofit
entity. The refund allowed under this subsection does not apply to purchases of electricity,
telecommunications service, ancillary service, piped natural gas, video programming, or a
prepaid meal plan. A request for a refund must be in writing and must include any information
and documentation required by the Secretary. A request for a refund for the preceding fiscal
year is due the following October 15.

The refunds allowed under this subsection do not apply to an entity that is owned and
controlled by the United States or to an entity that is owned or controlled by the State and is not
listed in this subsection. A hospital that is not listed in this subsection is allowed an annual
refund of sales and use taxes paid by it on over-the-counter drugs purchased for use in carrying
out its work. The following nonprofit entities are allowed a refund under this subsection:
   "...

SECTION 8.3.(f) Effective July 1, 2019, and applicable to refund applications
submitted for purchases made on or after that date, G.S. 105-164.14(b), as amended by
subsection (e) of this section, reads as rewritten:
   "(b) Nonprofit Entities and Hospital Drugs. – A nonprofit entity 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 for use in carrying on the work of the nonprofit entity. The
aggregate amount of purchases for which an entity may receive a refund under this subsection
for a fiscal year may not exceed ninety million dollars ($90,000,000) –sixty million dollars
($60,000,000) in a fiscal year. Sales and use tax liability indirectly incurred by a nonprofit
entity through reimbursement to an authorized person of the entity for the purchase of tangible
personal property and services for use in carrying on the work of the nonprofit entity is
considered a direct purchase by the entity. Sales and use tax liability indirectly incurred by a
nonprofit 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 nonprofit entity and is
being erected, altered, or repaired for use by the nonprofit entity for carrying on its nonprofit
activities is considered a sales or use tax liability incurred on direct purchases by the nonprofit
entity. The refund allowed under this subsection does not apply to purchases of electricity,
telecommunications service, ancillary service, piped natural gas, video programming, or a
prepaid meal plan. A request for a refund must be in writing and must include any information
and documentation required by the Secretary. A request for a refund for the preceding fiscal year is due the following October 15.

The refunds allowed under this subsection do not apply to an entity that is owned and controlled by the United States or to an entity that is owned or controlled by the State and is not listed in this subsection. A hospital that is not listed in this subsection is allowed an annual refund of sales and use taxes paid by it on over-the-counter drugs purchased for use in carrying out its work. The following nonprofit entities are allowed a refund under this subsection:

`SECTION 8.3.(g)` Effective July 1, 2020, and applicable to refund applications submitted for purchases made on or after that date, G.S. 105-164.14(b), as amended by subsection (f) of this section, reads as rewritten:

"(b) Nonprofit Entities and Hospital Drugs. – A nonprofit entity 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 for use in carrying on the work of the nonprofit entity. The aggregate amount of purchases for which an entity may receive a refund under this subsection for a fiscal year may not exceed sixty million dollars ($60,000,000) – fifteen million dollars ($15,000,000) in a fiscal year. Sales and use tax liability indirectly incurred by a nonprofit entity through reimbursement to an authorized person of the entity for the purchase of tangible personal property and services for use in carrying on the work of the nonprofit entity is considered a direct purchase by the entity. Sales and use tax liability indirectly incurred by a nonprofit 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 nonprofit entity and is being erected, altered, or repaired for use by the nonprofit entity for carrying on its nonprofit activities is considered a sales or use tax liability incurred on direct purchases by the nonprofit entity. The refund allowed under this subsection does not apply to purchases of electricity, telecommunications service, ancillary service, piped natural gas, video programming, or a prepaid meal plan. A request for a refund must be in writing and must include any information and documentation required by the Secretary. A request for a refund for the preceding fiscal year is due the following October 15.

The refunds allowed under this subsection do not apply to an entity that is owned and controlled by the United States or to an entity that is owned or controlled by the State and is not listed in this subsection. A hospital that is not listed in this subsection is allowed an annual refund of sales and use taxes paid by it on over-the-counter drugs purchased for use in carrying out its work. The following nonprofit entities are allowed a refund under this subsection:

`SECTION 8.4.` Except as otherwise provided, this Part is effective when this act becomes law.

PART IX. FAIR DISTRIBUTION OF SALES TAX REVENUE TO LOCAL GOVERNMENTS

`SECTION 9.1.(a)` Sec. 9 of Chapter 1096 of the 1967 Session Laws, as amended, reads as rewritten:

"Sec. 9. Distribution. The Secretary of Revenue must divide allocate the net proceeds of the tax collected under this division on items other than food in accordance with G.S. 105-472 in the First One-Cent (1¢) Local Government Sales and Use Tax Act, Article 39 of Chapter 105 of the General Statutes. The Secretary must divide the amount allocated to Mecklenburg County and its municipalities in accordance with the ad valorem distribution method described in G.S. 105-472(b)(2). The Secretary of Revenue must distribute the taxes levied by Mecklenburg County on food to Mecklenburg County and the municipalities within Mecklenburg County in accordance with G.S. 105-469(a). This amount shall be divided between the county and its..."
municipalities in accordance with the ad valorem distribution method described in G.S. 105-472(b)(2).

The Secretary of Revenue must reduce the amount distributable to Mecklenburg County under this section by the amount set in G.S. 105-522. This reduction does not affect the amount allocated to municipalities under this section."

SECTION 91.(b) G.S. 105-469(a) reads as rewritten:

"(a) The Secretary shall collect and administer a tax levied by a county pursuant to this Article. As directed by G.S. 105-164.13B, taxes levied by a county on food are administered as if they were levied by the State under Article 5 of this Chapter. The Secretary must, on a monthly basis, distribute local taxes levied on food to the taxing counties in accordance with G.S. 105-472. The Secretary must include the amount allocated under this subsection in the local distribution as follows:

(1) The Secretary must allocate one-half of the net proceeds on a per capita basis according to the most recent annual population estimates certified to the Secretary by the State Budget Officer. The Secretary must then adjust the amount allocated to each county as provided in G.S. 105-486(b). The Secretary must include one-half of the amount allocated under this subdivision subsection in the distribution made under Article 40 of this Chapter and must include the remaining one-half in the distribution made under Article 42 of this Chapter. Article 39 of this Chapter and under Chapter 1096 of the 1967 Session Laws.

(2) The Secretary must allocate the remaining net proceeds proportionately to each taxing county based upon the amount of sales tax on food collected in the taxing county in the 1997-1998 fiscal year under Article 40 of this Chapter or under Chapter 1096 of the 1967 Session Laws relative to the total amount of sales tax on food collected in all taxing counties in the 1997-1998 fiscal year under Article 39 of this Chapter and under Chapter 1096 of the 1967 Session Laws. The Secretary must include one-quarter of the amount allocated under this subdivision subsection in the distribution made under Article 39-Article 40 of this Chapter.

(3) The Secretary must include one-quarter of the amount allocated under this subsection in the distribution made under Article 42 of this Chapter."

SECTION 91.(c) G.S. 105-472(a) reads as rewritten:

"(a) County Allocation. – The Secretary shall, on a monthly basis, allocate the net proceeds of the tax collected under this Article to each taxing county for which the Secretary collects the tax the net proceeds of the tax collected in that county under this Article as provided in this subsection. For the purpose of this section, "net proceeds" means the gross proceeds of the tax collected in each county under this Article less taxes refunded, the cost to the State of collecting and administering the tax in the county as determined by the Secretary, and other deductions that may be charged to the county. For the percentage allocation made on a point of collection basis, the Secretary must allocate the net proceeds of the tax collected under this Article in that county. If the Secretary collects local sales or use taxes in a month and the taxes cannot be identified as being attributable to a particular taxing county, the Secretary shall allocate the taxes among the taxing counties in proportion to the amount of taxes collected in each county under this Article during that month and shall include them in the monthly distribution. Amounts collected by electronic funds transfer payments are included in the distribution for the month in which the return that applies to the payment is received. For the percentage allocation made on a per capita basis, the Secretary must allocate the net proceeds of the tax collected under this Article to the taxing counties according to the most recent annual population estimates certified to the Secretary by the State Budget Office.

The net proceeds are allocated as follows:
### Distribution for Net Proceeds Collected in Fiscal Year

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Per Capita</th>
<th>Point of Collection</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016-2017</td>
<td>40%</td>
<td>60%</td>
</tr>
<tr>
<td>2017-2018</td>
<td>55%</td>
<td>45%</td>
</tr>
<tr>
<td>2018-2019</td>
<td>70%</td>
<td>30%</td>
</tr>
<tr>
<td>2019-2020 and thereafter</td>
<td>80%</td>
<td>20%</td>
</tr>
</tbody>
</table>

### Distribution of additional taxes.

(a) **County Allocation.** – The Secretary shall, on a monthly basis, allocate the net proceeds of the additional one-half percent (1/2%) sales and use taxes levied under this Article to the taxing counties on a per capita basis according to the most recent annual population estimates certified to the Secretary by the State Budget Officer in accordance with G.S. 105-472.

(b) **Adjustment.** – The Secretary shall then adjust the amount allocated to each county under subsection (a) by multiplying the amount by the appropriate adjustment factor set out in the table below. If, after applying the adjustment factors, the resulting total of the amounts allocated is greater or lesser than the net proceeds to be distributed, the amount allocated to each county shall be proportionally adjusted to eliminate the excess or shortage.

<table>
<thead>
<tr>
<th>County</th>
<th>Adjustment Factor</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dare</td>
<td>1.49</td>
</tr>
<tr>
<td>Brunswick</td>
<td>1.17</td>
</tr>
<tr>
<td>Orange</td>
<td>1.15</td>
</tr>
<tr>
<td>Carteret and Durham</td>
<td>1.14</td>
</tr>
<tr>
<td>Avery</td>
<td>1.12</td>
</tr>
<tr>
<td>Moore</td>
<td>1.11</td>
</tr>
<tr>
<td>Transylvania</td>
<td>1.10</td>
</tr>
<tr>
<td>Chowan, McDowell, and Richmond</td>
<td>1.09</td>
</tr>
<tr>
<td>Pitt and New Hanover</td>
<td>1.07</td>
</tr>
<tr>
<td>Beaufort, Perquimans, Buncombe, and Watauga</td>
<td>1.06</td>
</tr>
<tr>
<td>Cabarrus, Jackson, and Surry</td>
<td>1.05</td>
</tr>
<tr>
<td>Alleghany, Bladen, Robeson, Washington, Craven, Henderson, Onslow, and Vance</td>
<td>1.04</td>
</tr>
<tr>
<td>Gaston, Granville, and Martin</td>
<td>1.03</td>
</tr>
<tr>
<td>Alamance, Burke, Caldwell, Chatham, Duplin, Edgecombe, Haywood, Swain, and Wilkes</td>
<td>1.02</td>
</tr>
<tr>
<td>Hertford, Union, Stokes, Yancey, Halifax, Rockingham, and Cleveland</td>
<td>1.01</td>
</tr>
<tr>
<td>Alexander, Anson, Johnston, Northampton, Pasquotank, Person, Polk, and Yadkin</td>
<td>1.00</td>
</tr>
<tr>
<td>Catawba, Harnett, Iredell, Pamlico, Pender, Randolph, Stanly, and Tyrrell</td>
<td>0.99</td>
</tr>
<tr>
<td>Cherokee, Cumberland, Davidson, Graham, Hyde, Macon, Rutherford, Scotland, and Wilson</td>
<td>0.98</td>
</tr>
<tr>
<td>Ashe, Bertie, Franklin, Hoke, Lincoln, Montgomery, and Warren</td>
<td>0.97</td>
</tr>
<tr>
<td>Wayne, Clay, Madison, Sampson, Wake, Lee, and Forsyth</td>
<td>0.96</td>
</tr>
<tr>
<td>Caswell, Gates, Mitchell, and Greene</td>
<td>0.95</td>
</tr>
<tr>
<td>Currituck and Guilford</td>
<td>0.94</td>
</tr>
<tr>
<td>Davie and Nash</td>
<td>0.93</td>
</tr>
<tr>
<td>Rowan and Camden</td>
<td>0.92</td>
</tr>
<tr>
<td>Jones</td>
<td>0.90</td>
</tr>
<tr>
<td>Mecklenburg</td>
<td>0.89</td>
</tr>
</tbody>
</table>
(c) Distribution Between Counties and Cities. – The amount allocated to each taxing county shall then be divided among the county and its municipalities in accordance with the method by which the one percent (1%) sales and use taxes levied in that county pursuant to Article 39 of this Chapter or Chapter 1096 of the 1967 Session Laws are distributed.

(d) Limitation. – No municipality may receive any funds under this section if it was incorporated with an effective date of on or after January 1, 2000, and is disqualified from receiving funds under G.S. 136-41.2. No municipality may receive any funds under this section, incorporated with an effective date on or after January 1, 2000, unless a majority of the mileage of its streets are open to the public. The previous sentence becomes effective with respect to distribution of funds on or after July 1, 1999."

"SECTION 9.1.(e) G.S. 105-501(a) reads as rewritten:

"(a) Method. – The Secretary must, on a monthly basis, allocate to each taxing county the net proceeds of the additional one-half percent (1/2%) sales and use taxes collected in that county under this Article. If the Secretary collects taxes under this Article in a month and the taxes cannot be identified as being attributable to a particular taxing county, the Secretary must allocate the net proceeds of these taxes among the taxing counties in proportion to the amount of taxes collected in each county under this Article in that month. Article in accordance with G.S. 105-472. The Secretary must divide and distribute the funds allocated to a taxing county each month under this section between the county and the municipalities located in the county in accordance with the method by which the one percent (1%) sales and use taxes levied in that county pursuant to Article 39 of this Chapter or Chapter 1096 of the 1967 Session Laws are distributed. No municipality may receive any funds under this section if it was incorporated with an effective date of on or after January 1, 2000, and is disqualified from receiving funds under G.S. 136-41.2. No municipality may receive any funds under this section, incorporated with an effective date on or after January 1, 2000, unless a majority of the mileage of its streets are open to the public.""

"SECTION 9.1.(f) G.S. 105-522 reads as rewritten:

"§ 105-522. City hold harmless for repealed local taxes.

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

(1) Amount of sales and use tax revenue allocated under G.S. 105-472 or Chapter 1096 of the 1967 Session Laws. – An allocation to each taxing county of the net proceeds of the tax collected in that county under Article 39 of this Chapter or under Chapter 1096 of the 1967 Session Laws. This definition represents an allocation based on one hundred percent (100%) point of collection.

(2) Amount of sales and use tax revenue allocated under G.S. 105-486. – An allocation of the net proceeds of the tax collected under Article 40 of this Chapter to the taxing counties on a per capita basis. This definition represents an allocation based on one hundred percent (100%) per capita.

(3) Eligible municipality. – A municipality that was incorporated on or before October 1, 2008, and receives a distribution of sales and use taxes under G.S. 105-472.

(4) Hold harmless amount. – The sum of the following amounts allocated for distribution to a municipality for a month:

a. The amount of sales and use tax revenue allocated under G.S. 105-486. This calculation determines the effect of repealing a one-half percent (1/2%) sales and use tax distributed on a per capita basis.
b. An amount determined by subtracting twenty-five percent (25%) of
the amount of sales and use tax revenue allocated under
G.S. 105-472 or Chapter 1096 of the 1967 Session Laws from fifty
percent (50%) of the amount of sales and use tax revenue allocated
under G.S. 105-486. This calculation determines the effect of
distributing a one-quarter percent (.25%) tax on the basis of point of
origin instead of on a per capita basis.

(5) Net proceeds. – Same meaning as defined in G.S. 105-472.

(b) Requirement. – A county is required to hold the eligible municipalities in the county
harmless from the repeal of the local sales and use taxes formerly imposed under this Article.
The Secretary must add an eligible municipality’s hold harmless amount to the amount
distributed to the municipality under this Subchapter. To obtain the revenue for the hold
harmless distribution, the Secretary must reduce each county’s monthly allocation under
G.S. 105-472(b) or under Chapter 1096 of the 1967 Session Laws by the hold harmless
amounts for the municipalities in that county."

SECTION 9.1.(g) G.S. 105-523 is repealed.

SECTION 9.1.(h) Except as otherwise provided, this section becomes effective
July 1, 2016, and applies to sales tax revenues collected on or after that date and distributed to
counties and cities on or after September 1, 2016.

PART X. LOCAL SALES TAX OPTIONS

SECTION 10.1. Subchapter VIII of Chapter 105 of the General Statutes is
amended by adding a new Article to read:

"Article 43A.

"County Sales and Use Tax for Public Education.

§ 105-513.1. Short title; purpose.

This Article is the County Sales and Use Tax for Public Education and is intended to give
the counties of this State an opportunity to obtain an additional source of revenue with which to
finance their public education needs.

§ 105-513.2. Levy.

(a) Rate. – The maximum rate of local sales and use tax that may be levied under this
Article is one-half percent (1/2%).

(b) Authority. – A board of county commissioners may, by resolution and after 10 days’
public notice, levy a local sales and use tax under this Article if all of the conditions
listed in this subsection are met. The tax rate is the rate specified in the ballot plus any other State and
local sales and use taxes levied pursuant to law. The conditions are:

(1) The tax is approved by the majority of those voting in a referendum held
pursuant to this Article.

(2) No other ballot question concerning the levy of a local sales and use tax
authorized under Article 43 or Article 46 of this Chapter may be presented in
the same referendum.

(3) If levied, the tax would not result in a total local sales and use tax rate in the
county in excess of two and one-half percent (2 1/2%).

(c) Referendum. – The board of commissioners of a county may direct the county board
of elections to conduct an advisory referendum on the question of whether to levy a local sales
and use tax in the county at a rate of one-quarter percent (1/4%). The election shall be held in
accordance with the procedures of G.S. 163-287.

(d) Ballot Question. – The form of the question to be presented on a ballot for a special
election concerning the levy of the tax authorized by this Article shall be:

"[ ] FOR    [ ] AGAINST"
Local sales and use tax at the rate of one-quarter percent (1/4%) in addition to the current local sales and use taxes, to be used only for public education.

(e) One-Half Cent (1/2%) Transit-Authorized Counties. — As of April 1, 2013, Durham County and Orange County have levied a local sales and use tax at the rate of two and three-quarters percent (2 3/4%). Notwithstanding subsection (a) of this section, the local sales and use tax rate in these counties may exceed two and one-half percent (2 1/2%) if all of the conditions listed in this subsection are met. In no event may the local sales and use tax rate in these counties exceed two and three-quarters percent (2 3/4%). The conditions are:

1. The county levies a tax authorized under Part 4 of Article 43 of this Chapter.
2. The county conducted one or more advisory referendums on or before January 1, 2014, in which a majority of the voters approved the levy of a local sales and use tax at the rate of one-quarter percent (1/4%) under this Article.

(f) Reinstatement of Cap. — If the levy of a tax under Article 43 or Article 46 of this Chapter is repealed and the repeal results in the local sales and use tax rate falling below two and three-quarters percent (2 3/4%) in a county named in subsection (e) of this section, the county may not enact a local sales and use tax under this Subchapter that results in a county local sales and use tax rate that exceeds two and one-half percent (2 1/2%).

§ 105-513. Administration.

Except as provided in this Article, the adoption, levy, collection, administration, and repeal of these additional taxes must be in accordance with Article 39 of this Chapter. In applying the provisions of Article 39 of this Chapter to this Article, references to "this Article" mean Article 43A of Chapter 105 of the General Statutes. G.S. 105-468.1 is an administrative provision that applies to this Article. A tax levied under this Article does not apply to the sales price of food that is exempt from tax pursuant to G.S. 105-164.13B or to the sales price of a bundled transaction taxable pursuant to G.S. 105-467(a)(5a). The Secretary shall not divide the amount allocated to a county between the county and the municipalities within the county.

§ 105-513.4. Use.

A county may use the proceeds of a tax levied under this Article only for the following purposes:

1. Public school capital outlay purposes, as defined in G.S. 115C-426(f), or to retire any indebtedness incurred by the county for these purposes.
2. Salaries of classroom teachers, salaries of classroom teacher assistants, and supplements of classroom teacher salaries. For the purposes of this section, a classroom teacher is an employee of a local board of education employed as a teacher who spends at least seventy percent (70%) of his or her work time in classroom instruction, and a classroom teacher assistant is an employee of a local board of education employed as a teacher assistant who spends at least seventy percent (70%) of his or her work time assisting in a classroom.
3. Financial support of community colleges, including funds to supplement State financial support of community colleges.

SECTION 102. (a) G.S. 115C-429(b) reads as rewritten:

(b) The board of county commissioners shall complete its action on the school budget on or before July 1, or such later date as may be agreeable to the board of education. The commissioners shall determine the amount of county revenues to be appropriated in the county budget ordinance to the local school administrative unit for the budget year. The board of county commissioners may, in its discretion, allocate part or all of its appropriation by purpose, function, or project as defined in the uniform budget format. For allocations made by the board of county commissioners for the purpose of or for a function related to instructional services, the board of county commissioners may direct the amount of funds to be used for salaries of classroom teachers, salaries of classroom teacher assistants, and supplements of classroom
For the purposes of this section, a classroom teacher is an employee of a local board of education employed as a teacher who spends at least seventy percent (70%) of his or her work time in classroom instruction, and a classroom teacher assistant is an employee of a local board of education employed as a teacher assistant who spends at least seventy percent (70%) of his or her work time assisting in a classroom."

SECTION 10.2.(b) G.S. 115C-433(b) reads as rewritten:
"(b) If the board of county commissioners allocates part or all of its appropriations pursuant to G.S. 115C-429(b), the board of education must obtain the approval of the board of county commissioners for an amendment to the budget that (i) increases does any of the following:

1. Increases or decreases expenditures from the capital outlay fund for projects listed in G.S. 115C-426(f)(1) or (2), or (ii) increases (2).
2. Increases or decreases the amount of county appropriation allocated to a purpose or function by twenty-five percent (25%) or more from the amount contained in the budget ordinance adopted by the board of county commissioners: Provided, provided that at its discretion, the board may in its budget ordinance specify a lesser percentage, so long as such percentage is not less than ten percent (10%).
3. Decreases the amount of funds allocated for salaries of classroom teachers, salaries of classroom teacher assistants, and supplements of classroom teacher salaries. For the purposes of this section, a classroom teacher is an employee of a local board of education employed as a teacher who spends at least seventy percent (70%) of his or her work time in classroom instruction, and a classroom teacher assistant is an employee of a local board of education employed as a teacher assistant who spends at least seventy percent (70%) of his or her work time assisting in a classroom."

SECTION 10.3.(a) G.S. 115D-55(a) reads as rewritten:
"(a) Approval of Budget by Local Tax-Levying Authority. – By a date fixed by the local tax-levying authority, the budget shall be submitted to the local tax-levying authority for approval of that portion within its authority as stated in G.S. 115D-54(b). On or before July 1, or such later date as may be agreeable to the board of trustees, but in no instance later than September 1, the local tax-levying authority shall determine the amount of county revenue to be appropriated to an institution for the budget year. The local tax-levying authority may allocate part or all of an appropriation by purpose, function, or project as defined in the budget manual as adopted by the State Board of Community Colleges. The local tax-levying authority may direct the use of funds appropriated to the institution derived from a tax levied under Article 43A of Chapter 105 of the General Statutes.

The local tax-levying authority shall have full authority to call for all books, records, audit reports, and other information bearing on the financial operation of the institution except records dealing with specific persons for which the persons' rights of privacy are protected by either federal or State law.

Nothing in this Article shall be construed to place a duty on the local tax-levying authority to fund a deficit incurred by an institution through failure of the institution to comply with the provisions of this Article or rules and regulations issued pursuant hereto."

SECTION 10.3.(b) G.S. 115D-58(b) reads as rewritten:
"(b) If the local tax-levying authority allocates part or all of an appropriation pursuant to G.S. 115D-55, the board of trustees must obtain approval of the local tax-levying authority for an amendment to the budget which increases does any of the following:

1. Increases or decreases the amount of that appropriation allocated to a purpose, function, or project by twenty-five percent (25%) or more from the amount contained in the budget ordinance adopted by the local tax-levying
authority or such lesser percentage as specified by the local tax-levying authority in the original budget ordinance, so long as such percentage is not less than ten percent (10%).

(2) Decreases the amount of the appropriation directed by the tax-levying authority for a specific use from funds appropriated to the institution derived from a tax levied under Article 43A of Chapter 105 of the General Statutes."

SECTION 10.4.(a) Part 1 of Article 43 of Chapter 105 of the General Statutes is amended by adding a new section to read:

"§ 105-506.4. Tax rate.

(a) Rate. – The rate of local sales and use tax in a county levying a tax under this Article must meet all of the following conditions:

(1) The maximum rate of tax that may be levied under this Article is one-half percent (1/2%).

(2) The total local sales and use tax rate in the county may not exceed two and one-half percent (2 1/2%).

(b) One-Half Cent (1/2%) Transit- Authorized Counties. – Notwithstanding subsection (a) of this section, the local sales and use tax rate of a county may exceed two and one-half percent (2 1/2%) if all of the conditions listed in this subsection are met. In no event may a county’s local sales and use tax rate exceed two and three-quarters percent (2 3/4%). The conditions are:

(1) The county is Durham or Orange County.

(2) The county levies a tax authorized under Part 4 of this Article.

(3) The county conducted one or more advisory referendums on or before January 1, 2014, in which a majority of the voters approved the levy of a local sales and use tax at the rate of one-quarter percent (1/4%) under Article 46 of this Chapter.

(c) Reinstatement of Cap. – If the levy of a tax under this Article or Article 46 of this Chapter is repealed and the repeal results in the local sales and use tax rate falling below two and three-quarters percent (2 3/4%) in a county listed in subdivision (1) of subsection (b) of this section, the county may not enact a local sales and use tax under this Subchapter that results in a county local sales and use tax rate that exceeds two and one-half percent (2 1/2%)."

SECTION 10.4.(b) G.S. 105-509 reads as rewritten:

"§ 105-509. Local election on adoption of sales and use tax – regional public transportation authority.

(a) Special District. – A regional public transportation authority may create a special district that consists of the entire area of one or more counties within its territorial jurisdiction and jurisdiction. The transportation authority may levy on behalf of the special district the tax authorized in this section—in a county that held a successful referendum under subsection (b) of this section. The proceeds of a tax levied under this section may be used only for the benefit of the special district and only for the purposes provided in this Article. If a referendum in a district fails in all the counties in the district, the transportation authority may abolish the special district.

(b) Resolution. – The board of trustees of the regional public transportation authority may, if all of the conditions listed in this subsection have been met, direct the respective county board or boards of elections to conduct an advisory referendum within the special district on the question of whether a local sales and use tax at the rate of one-half percent (1/2%) may be levied within the district in accordance with this Part. The tax may not be levied without voter approval. The election shall be held on a date jointly agreed upon by the authority, the county board or boards of commissioners, and the county board or boards of elections and shall be held on a date permitted by and in accordance with the procedures of G.S. 163-287. The conditions are as follows:
The board of trustees has obtained approval to conduct a referendum on or before January 1, 2014, by a vote of the following:

a. A majority vote of each of the county boards of commissioners within the special district, if it is a multicounty special district.

b. A majority of the county board of commissioners within the special district, if it is a single-county special district.

(2) A public hearing is held on the question by the board or boards of commissioners at least 30 days before the date the election is to be held.

(c) Ballot Question. – The form of the question to be presented on a ballot for a special election concerning the levy of a tax authorized by this Article shall be:

"[ ] FOR [ ] AGAINST

One-half percent (1/2%) local sales and use taxes, in addition to the current local sales and use taxes, to be used only for public transportation systems."

(d) Expansion. – If a special district created under this Part does not include all the counties in the territorial jurisdiction of a transportation authority, it may be expanded to include an additional whole county or counties by joint action of the board of trustees of the transportation authority and the board of commissioners of the county or boards of commissioners of the counties to be added, with the approval of the voters in the county or counties to be added. The added if all of the conditions listed in this subsection are met. Except as otherwise provided, the procedure for expansion of a district is the same as for the initial creation of the district, but the referendum shall be held separately within each of the counties to be added. The conditions are:

(1) The county to be included in the special district levies a local sales and use tax authorized under Part 6 of this Article at the maximum rate of one-half percent (1/2%).

(2) The county remits, on a monthly basis, the proceeds of the tax levied under Part 6 of this Article to the regional public transportation authority."

SECTION 10.4.(c) Part 5 of Article 43 of Chapter 105 of the General Statutes is repealed.

SECTION 10.4.(d) Part 6 of Article 43 of Chapter 105 of the General Statutes reads as rewritten:

"Part 6. Other Counties.

"§ 105-511. Applicability.

This Part applies only in counties other than Durham, Forsyth, Guilford, Mecklenburg, Orange, or Wake or Orange.

"§ 105-511.1. Limitations.Authority.

A board of county commissioners may, by resolution and after 10 days' public notice, levy a local sales and use tax under this Article if all of the conditions listed in this subsection are met. The tax rate is the rate specified in the ballot plus any other State and local sales and use taxes levied pursuant to law. The conditions are:

(1) The tax is approved by the majority of those voting in a referendum held pursuant to this Article.

(2) No other ballot question concerning the levy of a local sales and use tax authorized under Article 43A or Article 46 of this Chapter may be presented in the same referendum.

(3) If levied, the tax would not result in a total local sales and use tax rate in the county in excess of two and one-half percent (2 1/2%).

(4) A county may not levy a tax under this Part unless the county or at least one unit of local government in the county operates a public transportation system. As used in this Part, operation of a public transportation system includes a contract or interlocal agreement for operation of the public system.

"Part 6.
transportation system by another county or municipality, or by a transportation authority created under (i) a municipal charter; or (ii) Article 25, 26, or 27 of Chapter 160A of the General Statutes. As used in this Part, operation of a public transportation system also includes a contract with a private entity for operation of the public transportation system.

§ 105-511.2. Local election on adoption of sales and use tax.

(a) Resolution.—Referendum. – The board of commissioners of a county may direct the county board of elections to conduct an advisory referendum within the county on the question of whether a local sales and use tax at the rate of one-quarter percent (1/4%) may be levied in accordance with this Part. Part subject to the conditions in G.S. 105-511.1. The election shall be held on a date jointly agreed upon by the boards and shall be held on a date permitted by and in accordance with the procedures of G.S. 163-287. The board of commissioners shall hold a public hearing on the question at least 30 days before the date the election is to be held.

(b) Ballot Question. – The form of the question to be presented on a ballot for a special election concerning the levy of a tax authorized by this Article shall be:

"[ ] FOR [ ] AGAINST
One-quarter percent (1/4%) local sales and use taxes, in addition to the current local sales and use taxes, to be used only for public transportation systems."

§ 105-511.3. Levy and collection of sales and use tax.

If the majority of those voting in a referendum held pursuant to this Part vote for the levy of the tax, all of the conditions in G.S. 105-511.1 have been met, the board of commissioners of the county may, by resolution, levy one-quarter percent (1/4%) local sales and use taxes in addition to any other State and local sales and use taxes levied pursuant to law. Except as provided in this Part, the adoption, levy, collection, administration, and repeal of these additional taxes shall be in accordance with Article 39 of this Chapter. In applying the provisions of Article 39 of this Chapter to this Part, references to "this Article" mean "Part 6 of Article 43 of Chapter 105 of the General Statutes.

§ 105-511.4. Distribution and use of taxes.

(a) Distribution. – The Secretary shall, on a monthly basis, allocate to each taxing county the net proceeds of the tax levied under this Part by that county. If the Secretary collects taxes under this Part in a month and the taxes cannot be identified as being attributable to a particular taxing county, the Secretary shall allocate these taxes among the taxing counties, in proportion to the amount of taxes collected in each county under this Part in that month and shall include them in the monthly distribution.

The Secretary shall distribute the net proceeds of the tax levied by a county on a per capita basis among the county and the units of local government in the county that operate a public transportation system as follows:

(1) To the county based on the population of the county that is not in an incorporated area, and to the municipalities within the county based on the population of that municipality that is located within that county. To determine the population of each county and each municipality, the Secretary shall use the most recent annual estimate of population certified by the State Budget Officer.

(2) Notwithstanding subdivision (1) of this subsection, if a municipality to which funds are to be allocated neither operates nor contracts for the operation of a public transportation system, the population of that municipality shall be excluded from the calculations of subdivision (1) of this subsection.

(3) Notwithstanding subdivision (1) of this subsection, if a county to which funds are to be allocated neither operates nor contracts for the operation of a
public transportation system, the population of that county not in an
incorporated area shall be excluded from the calculations of subdivision (1)
of this subsection.

If a county or a municipality that does not receive an allocation of funds on account of
subdivision (2) or (3) of this subsection begins to operate or contract for the operation of a
public transportation system, that county or municipality shall begin receiving funds beginning
the first day of July that is more than 30 days thereafter.

(b) Use. – A county or municipality may use funds received under this Part only for
financing, constructing, operating, and maintaining public transportation systems. Every unit of
government shall use funds to supplement and not to supplant or replace existing funds or other
resources for public transportation systems.

(c) Applicability. – This section does not apply to a county that is remitting the
proceeds of a tax levied under this Part to a regional public transportation authority under Part 4
of this Article.

SECTION 10.5.(a) Article 46 of Chapter 105 of the General Statutes reads as
rewritten:

"Article 46.

"§ 105-535. Short title.
This Article is the One-Quarter Cent (1/4¢) or One-Half Cent (1/2¢) County Sales and Use
Tax Act.

"§ 105-536. Limitations.
This Article applies only to counties that levy the first one-cent (1¢) sales and use tax under
Article 39 of this Chapter or under Chapter 1096 of the 1967 Session Laws, the first one-half
cent (1/2¢) local sales and use tax under Article 40 of this Chapter, and the second one-half
cent (1/2¢) local sales and use tax under Article 42 of this Chapter.

"§ 105-537. Levy.

(a) Authority. – If the majority of those voting in a referendum held pursuant to this
Article vote for the levy of the tax, the board of county commissioners may, by resolution and
after 10 days' public notice, levy a local sales and use tax at a rate of one-quarter percent
(0.25%).

Rate. – The maximum rate of local sales and use tax that may be levied under this
Article is one-half percent (1/2%).

(a1) Authority. – A board of county commissioners may, by resolution and after 10 days'
public notice, levy a local sales and use tax under this Article if all of the conditions
listed in this subsection are met. The tax rate is the rate specified in the ballot plus any other State and
local sales and use taxes levied pursuant to law. The conditions are:

(1) The tax is approved by the majority of those voting in a referendum held
pursuant to this Article.

(2) No other ballot question concerning the levy of a local sales and use tax
authorized under Article 43 or Article 43A of this Chapter may be presented
in the same referendum.

(3) If levied, the tax would not result in a total local sales and use tax rate in the
county in excess of two and one-half percent (2 1/2%).

(b) Vote. – Referendum. – The board of county commissioners may direct the county
board of elections to conduct an advisory referendum on the question of whether to levy a local
sales and use tax in the county as provided in this Article, at a rate of one-quarter percent
(1/4%). The election shall be held in accordance with the procedures of G.S. 163-287.

(c) Ballot Question. – The form of the question to be presented on a ballot for a special
election concerning the levy of the tax authorized by this Article shall be:

"[ ] FOR [ ] AGAINST
Local sales and use tax at the rate of one-quarter percent (0.25%) in addition to all other State and local sales and use taxes."

... (e) One-Half Percent (1/2%) Transit-Authorized Counties. – As of April 1, 2013, Durham County and Orange County have levied a local sales and use tax at the rate of two and three-quarters percent (2 3/4%). Notwithstanding subsection (a) of this section, the local sales and use tax rate in these counties may exceed two and one-half percent (2 1/2%) if all of the conditions listed in this subsection are met. In no event may the local sales and use tax rate in these counties exceed two and three-quarters percent (2 3/4%). The conditions are:

1. The county levies a tax authorized under Part 4 of Article 43 of this Chapter.
2. The county conducted one or more advisory referendums on or before January 1, 2014, in which a majority of the voters approved the levy of a local sales and use tax at the rate of one-quarter percent (1/4%) under this Article.

(f) Reinstatement of Cap. – If the levy of a tax under this Article or Article 43 of this Chapter is repealed and the repeal results in the local sales and use tax rate falling below two and three-quarters percent (2 3/4%) in a county named in subsection (e) of this section, the county may not enact a local sales and use tax under this Subchapter that results in a county local sales and use tax rate that exceeds two and one-half percent (2 1/2%).

§ 105-538. Administration of taxes.

Except as provided in this Article, the adoption, levy, collection, administration, and repeal of these additional taxes must be in accordance with Article 39 of this Chapter. G.S. 105-468.1 is an administrative provision that applies to this Article. A tax levied under this Article does not apply to the sales price of food that is exempt from tax pursuant to G.S. 105-164.13B or to the sales price of a bundled transaction taxable pursuant to G.S. 105-467(a)(5a). The Secretary shall not divide the amount allocated to a county between the county and the municipalities within the county.

SECTION 10.5(b). G.S. 105-164.3(4a) reads as rewritten:

"(4a) Combined general rate. – The sum of all of the following:
  a. The State's general rate of tax set in G.S. 105-164.4(a) plus the G.S. 105-164.4(a).
  b. The sum of the rates of the local sales and use taxes authorized for every county in this State by Subchapter VIII–Article 39 of this Chapter or Chapter 1096 of the 1967 Session Laws, Article 40 of this Chapter, and Article 42 of this Chapter for every county in this State.
  c. One-half of the maximum rate of tax authorized by Article 46 of this Chapter."

SECTION 10.6. Subsection (b) of Section 10.4 of this Part is effective when it becomes law and applies to the expansion of a special district created under Part 4 of Article 43 of Chapter 105 of the General Statutes on or after that date. Except as otherwise provided, this Part is effective when this act becomes law.

PART XI. MISCELLANEOUS PROVISIONS AND EFFECTIVE DATE

SECTION 11.1. This act does not affect the rights or liabilities of a taxing county, a taxpayer, or another person arising under a statute repealed by this act before the effective date of its repeal, nor does it affect the right to any refund or credit of a tax that accrued under the repealed statute before the effective date of its repeal.

SECTION 11.2. The Secretary of Revenue may adopt rules needed to administer G.S. 105-130.4(s), as enacted by this act, in accordance with the expedited procedure for the adoption of rules in G.S. 105-262.1.
SECTION 11.3. The Utilities Commission shall adjust the rates for public utilities, excluding water public utilities with less than two hundred thousand dollars ($200,000) in annual operating revenues, for the tax changes listed in this section. Each utility shall calculate the cumulative net effect of the tax changes and file the calculations with proposed rate changes to reflect the net prospective tax changes in utility customer rates within 60 days of the enactment of this act. Any adjustments required to existing tax assets or liabilities reflected in the utility’s books and records required by the tax changes listed in this section shall be deferred and reflected in customer rates in either the utility’s next rate case or earlier if deemed appropriate by the Commission. The Commission shall adjust rates for the following changes:

1. The corporate income tax rate reduction and tax base expansion in Part III of this act.
2. The phase-in of single sales factor and the adoption of market-base sourcing in Part IV of this act.
3. The franchise tax rate reduction and tax base simplification in Part V of this act.

SECTION 11.4. Except as otherwise provided, this act is effective when it becomes law.