

GENERAL ASSEMBLY OF NORTH CAROLINA
SESSION 2013

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SENATE BILL 677
PROPOSED COMMITTEE SUBSTITUTE S677-CSRbx-22 [v.3]
5/30/2013 7:25:04 AM

Short Title: NC Fair Tax Act.

(Public)

Sponsors:

Referred to:

April 4, 2013

1 A BILL TO BE ENTITLED
2 AN ACT TO TRANSITION NORTH CAROLINA TO A STABLE AND TRANSPARENT
3 CONSUMPTION-BASED TAX SYSTEM THAT WILL FOSTER ECONOMIC
4 GROWTH AND PROSPERITY.

5 The General Assembly of North Carolina enacts:

6
7 **PART I. SIMPLE, FLAT RATE PERSONAL INCOME TAX**

8 **SECTION 1.1(a)** The following statutes are recodified as indicated:

9 Current Statute

Recodified Statute

10 G.S. 105-133

G.S. 105-153.1

11 G.S. 105-134

G.S. 105-153.2

12 G.S. 105-134.1

G.S. 105-153.3

13 G.S. 105-134.5

G.S. 105-153.4

14 G.S. 105-151

G.S. 105-153.9

15 G.S. 105-151.24

G.S. 105-153.10

16 G.S. 105-152

G.S. 105-153.8

17 **SECTION 1.1(b)** The following statutes are repealed:

18 G.S. 105-134.2

19 G.S. 105-134.3

20 G.S. 105-134.6

21 G.S. 105-134.7

22 G.S. 105-134.8

23 G.S. 105-151.11

24 G.S. 105-151.18

25 G.S. 105-151.20

26 G.S. 105-151.21

27 G.S. 105-151.26

28 G.S. 105-151.33

29 **SECTION 1.1(c)** G.S. 105-134.1, recodified by this act as G.S. 105-153.3, reads as
30 rewritten:

31 **"§ 105-153.3 Definitions.**

32 The following definitions apply in this Part:

- 33 (1) Adjusted gross income. – Defined in section 62 of the Code.
34 (1a) Code. – Defined in G.S. 105-228.90.
35 (2) Department. – The Department of Revenue.



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- 1 (3) Educational institution. – An educational institution that normally maintains
2 a regular faculty and curriculum and normally has a regularly organized
3 body of students in attendance at the place where its educational activities
4 are carried on.
- 5 (4) Fiscal year. – Defined in section 441(e) of the Code.
- 6 (5) Gross income. – Defined in section 61 of the Code.
- 7 (6) Head of household. – Defined in section 2(b) of the Code.
- 8 (7) Individual. – A human being.
- 9 (7a) Limited liability company. – Either a domestic limited liability company
10 organized under Chapter 57C of the General Statutes or a foreign limited
11 liability company authorized by that Chapter to transact business in this
12 State that is classified for federal income tax purposes as a partnership. As
13 applied to a limited liability company that is a partnership under this Part,
14 the term "partner" means a member of the limited liability company.
- 15 (7b) Repealed by Session Laws 1998-98, s. 9, effective August 14, 1998.
- 16 (8) Married individual. – An individual who is married and is considered
17 married as provided in section 7703 of the Code.
- 18 (9) Nonresident individual. – An individual who is not a resident of this State.
- 19 (10) North Carolina taxable income. – Defined in G.S. 105-134.5.
- 20 (10a) Partnership. – A domestic partnership, a foreign partnership, or a limited
21 liability company.
- 22 (11) Person. – Defined in G.S. 105-228.90.
- 23 (12) Resident. – An individual who is domiciled in this State at any time during
24 the taxable year or who resides in this State during the taxable year for other
25 than a temporary or transitory purpose. In the absence of convincing proof to
26 the contrary, an individual who is present within the State for more than 183
27 days during the taxable year is presumed to be a resident, but the absence of
28 an individual from the state for more than 183 days raises no presumption
29 that the individual is not a resident. A resident who removes from the State
30 during a taxable year is considered a resident until he has both established a
31 definite domicile elsewhere and abandoned any domicile in this State. The
32 fact of marriage does not raise any presumption as to domicile or residence.
- 33 ~~(13) Retirement benefits.— Amounts paid to a former employee or the beneficiary
34 of a former employee under a written retirement plan established by the
35 employer to provide payments to an employee or the beneficiary of an
36 employee after the end of the employee's employment with the employer
37 where the right to receive the payments is based upon the employment
38 relationship. With respect to a self-employed individual or the beneficiary of
39 a self-employed individual, the term means amounts paid to the individual or
40 beneficiary of the individual under a written retirement plan established by
41 the individual to provide payments to the individual or the beneficiary of the
42 individual after the end of the self-employment. In addition, the term
43 includes amounts received from an individual retirement account described
44 in section 408 of the Code or from an individual retirement annuity
45 described in section 408 of the Code. For the purpose of this subdivision, the
46 term "employee" includes a volunteer worker.~~
- 47 (14) S Corporation. – Defined in G.S. 105-131(b).
- 48 (15) Secretary. – The Secretary of Revenue.
- 49 (16) Repealed by Session Laws 2011-145, s. 31A.1(a), effective for taxable years
50 beginning on or after January 1, 2012.
- 51 (17) Taxable year. – Defined in section 441(b) of the Code.

1 (18) Taxpayer. – An individual subject to the tax imposed by this Part.

2 (19) This State. – The State of North Carolina.

3 **SECTION 1.1(d)** Part 2 of Article 4 of Chapter 105 of the General Statutes is
4 amended by adding the following new sections to read:

5 "§ 105-153.5. Modifications to adjusted gross income.

6 (a) Deductions. – In calculating North Carolina taxable income, a taxpayer must deduct
7 from the taxpayer's adjusted gross income any of the following items that are included in the
8 taxpayer's adjusted gross income:

9 (1) Interest upon the obligations of any of the following:

10 a. The United States or its possessions.

11 b. This State, a political subdivision of this State, or a commission, an
12 authority, or another agency of this State or of a political subdivision
13 of this State.

14 c. A nonprofit educational institution organized or chartered under the
15 laws of this State.

16 (2) Gain from the disposition of obligations issued before July 1, 1995, to the
17 extent the gain is exempt from tax under the laws of this State.

18 (3) Amounts received from retirement annuities or pensions paid under the
19 provisions of the Railroad Retirement Act of 1937.

20 (4) Refunds of State, local, and foreign income taxes included in the taxpayer's
21 gross income.

22 (5) The amount received during the taxable year from one or more State, local,
23 or federal government retirement plans to the extent the amount is exempt
24 from tax under this Part pursuant to a court order in settlement of any of the
25 following cases:

26 a. Bailey v. State, 92 CVS 10221, 94 CVS 6904, 95 CVS 6625, 95 CVS
27 8230.

28 b. Emory v. State, 98 CVS 0738.

29 c. Patton v. State, 95 CVS 04346.

30 (6) Income that meets both of the following requirements:

31 a. Is earned or received by an enrolled member of a federally
32 recognized Indian tribe.

33 b. Is derived from activities on a federally recognized Indian
34 reservation while the member resides on the reservation. Income
35 from intangibles having a situs on the reservation and retirement
36 income associated with activities on the reservation are considered
37 income derived from activities on the reservation.

38 (7) The amount by which the basis of property under this Article exceeds the
39 basis of the property under the Code, in the year the taxpayer disposes of the
40 property.

41 (8) The amount allowed as a deduction under G.S. 105-153.6 as a result of an
42 add-back for federal accelerated depreciation and expensing.

43 (b) Additions. – In calculating North Carolina taxable income, a taxpayer must add to
44 the taxpayer's adjusted gross income any of the following items that are not included in the
45 taxpayer's adjusted gross income:

46 (1) Interest upon the obligations of states other than this State, political
47 subdivisions of those states, and agencies of those states and their political
48 subdivisions.

49 (2) The amount by which a shareholder's share of S Corporation income is
50 reduced under section 1366(f)(2) of the Code for the taxable year by the

1 amount of built-in gains tax imposed on the S Corporation under section
 2 1374 of the Code.

3 (3) The amount by which the basis of property under the Code exceeds the basis
 4 of the property under this Article, in the year the taxpayer disposes of the
 5 property.

6 (4) The amount excluded from gross income under section 199 of the Code.

7 (5) The amount required to be added under G.S. 105-153.6 when the State
 8 decouples from federal accelerated depreciation and expensing.

9 **"§ 105-153.6. Adjustments when State decouples from federal accelerated depreciation**
 10 **and expensing.**

11 (a) Special Accelerated Depreciation. – A taxpayer who places property in service
 12 during a taxable year listed in the table below and who takes a special accelerated depreciation
 13 deduction for that property under section 168(k) or 168(n) of the Code must add to the
 14 taxpayer's federal taxable income or adjusted gross income, as appropriate, eighty-five percent
 15 (85%) of the amount taken for that year under those Code provisions. For taxable years before
 16 2013, the taxpayer must add the amount to the taxpayer's federal taxable income. For taxable
 17 year 2013 and after, the taxpayer must add the amount to the taxpayer's adjusted gross income.

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

<u>Taxable year of</u>	<u>Five taxable years of</u>
<u>85% Add-back</u>	<u>20% Deduction</u>
<u>2010</u>	<u>2011 through 2015</u>
<u>2011</u>	<u>2012 through 2016</u>
<u>2012</u>	<u>2013 through 2017</u>
<u>2013</u>	<u>2014 through 2018</u>

27 (b) 2009 Depreciation Exception. – A taxpayer who placed property in service during
 28 the 2009 taxable year and whose North Carolina taxable income for the 2009 taxable year
 29 reflected a special accelerated depreciation deduction allowed for the property under section
 30 168(k) of the Code must add eighty-five percent (85%) of the amount of the special accelerated
 31 depreciation deduction to its federal taxable income for the 2010 taxable year. A taxpayer is
 32 allowed to deduct this add-back under subsection (a) of this section as if it wer for property
 33 placed in service in 2010.

34 (c) Section 179 Expense. – For purposes of this subdivision, the definition of section
 35 179 property has the same meaning as under section 179 of the Code as of January 1, 2011. A
 36 taxpayer who places section 179 property in service during a taxable year listed in the table
 37 below must add to the taxpayer's federal taxable income or adjusted gross income as
 38 appropriate, eighty-five percent (85%) of the amount by which the taxpayer's expense
 39 deduction under section 179 of the Code exceeds the amount that would have been allowed for
 40 that taxable year under section 179 of the Code as of May 1, 2010. For taxable years before
 41 2013, the taxpayer must add the amount to the taxpayer's federal taxable income. For taxable
 42 year 2013 and after, the taxpayer must add the amount to the taxpayer's adjusted gross income.

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

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

48 **"§ 105-153.7. Individual income tax imposed.**

49 (a) Tax. – A tax is imposed for each taxable year on the North Carolina taxable income
 50 of an individual. For purposes of Section 2 of Article V of the North Carolina Constitution, the
 51 zero tax bracket provides an exemption so that only net incomes are taxed.

The tax is computed at the following percentages of the taxpayer's North Carolina taxable income:

(1) For married individuals who file a joint return under G.S. 105-153.7 and for surviving spouses, as defined in section 2(a) of the Code:

<u>Over</u>	<u>Up To</u>	<u>Rate</u>
0	\$10,000	0%
\$10,000	N/A	5.5%

(2) For heads of households, as defined in section 2(b) of the Code:

<u>Over</u>	<u>Up To</u>	<u>Rate</u>
0	\$8,000	0%
\$8,000	N/A	5.5%

(3) For unmarried individuals other than surviving spouses and heads of households:

<u>Over</u>	<u>Up To</u>	<u>Rate</u>
0	\$5,000	0%
\$5,000	N/A	5.5%

(4) For married individuals who do not file a joint return under G.S. 105-153.7:

<u>Over</u>	<u>Up To</u>	<u>Rate</u>
0	\$5,000	0%
\$5,000	N/A	5.5%.

(b) Withholding Tables. – The Secretary may provide tables that compute the amount of tax due for a taxable year under this Part. The tables do not apply to an individual who files a return under section 443(a)(1) of the Code for a period of less than 12 months due to a change in the individual's annual accounting period, or to an estate or trust."

SECTION 1.1(e) This section becomes effective for taxable years beginning on or after January 1, 2014.

SECTION 1.2.(a) G.S. 105-153.7(a), as enacted by Section 1.1 of this Part, reads as rewritten:

"(a) Tax. – A tax is imposed for each taxable year on the North Carolina taxable income of an individual. For purposes of Section 2 of Article V of the North Carolina Constitution, the zero tax bracket provides an exemption so that only net incomes are taxed.

The tax is computed at the following percentages of the taxpayer's North Carolina taxable income:

(1) For married individuals who file a joint return under G.S. 105-153.7 and for surviving spouses, as defined in section 2(a) of the Code:

<u>Over</u>	<u>Up To</u>	<u>Rate</u>
0	\$10,000 <u>\$12,500</u>	0%
\$10,000 <u>\$12,500</u>	N/A	5.5% <u>5%</u>

(2) For heads of households, as defined in section 2(b) of the Code:

<u>Over</u>	<u>Up To</u>	<u>Rate</u>
0	\$8,000 <u>\$10,000</u>	0%
\$8,000 <u>\$10,000</u>	N/A	5.5% <u>5%</u>

(3) For unmarried individuals other than surviving spouses and heads of households:

<u>Over</u>	<u>Up To</u>	<u>Rate</u>
0	\$5,000 <u>\$6,250</u>	0%
\$5,000 <u>\$6,250</u>	N/A	5.5% <u>5%</u>

(4) For married individuals who do not file a joint return under G.S. 105-153.7:

<u>Over</u>	<u>Up To</u>	<u>Rate</u>
0	\$5,000 <u>\$6,250</u>	0%
\$5,000 <u>\$6,250</u>	N/A	5.5% <u>5%</u> .

1 **SECTION 1.2.(b)** G.S. 105-153.7(a), as amended by subsection (a) of this section,
 2 reads as rewritten:

3 "(a) Tax. – A tax is imposed for each taxable year on the North Carolina taxable income
 4 of an individual. For purposes of Section 2 of Article V of the North Carolina Constitution, the
 5 zero tax bracket provides an exemption so that only net incomes are taxed.

6 The tax is computed at the following percentages of the taxpayer's North Carolina taxable
 7 income:

- 8 (1) For married individuals who file a joint return under G.S. 105-153.7 and for
 9 surviving spouses, as defined in section 2(a) of the Code:

Over	Up To	Rate
0	\$12,500	0%
\$12,500	N/A	5% 4.5%

- 13 (2) For heads of households, as defined in section 2(b) of the Code:

Over	Up To	Rate
0	\$10,000	0%
\$10,000	N/A	5% 4.5%

- 17 (3) For unmarried individuals other than surviving spouses and heads of
 18 households:

Over	Up To	Rate
0	\$6,250	0%
\$6,250	N/A	5% 4.5%

- 22 (4) For married individuals who do not file a joint return under G.S. 105-153.7:

Over	Up To	Rate
0	\$6,250	0%
\$6,250	N/A	5% 4.5%"

26 **SECTION 1.2.(c)** Subsection (a) of this section becomes effective for taxable years
 27 beginning on or after January 1, 2015. Subsection (b) of this section becomes effective for
 28 taxable years beginning on or after January 1, 2016. The remainder of this section is effective
 29 when it becomes law.

30 **SECTION 1.3.(a)** Part 2 of Article 4 of Chapter 105 of the General Statutes is
 31 amended by adding a new section to read:

32 "**§ 105-153.6A. Transitional adjustment to reduce tax burden on middle-income**
 33 **taxpayers.**

34 In calculating North Carolina taxable income, a taxpayer may deduct an exemption amount
 35 equal to the amount listed in the table below based on the taxpayer's filing status and adjusted
 36 gross income.

- 37 (1) For married individuals who file a joint return under G.S. 105-153.8 and for
 38 surviving spouses, as defined in the section 2(a) of the Code:

<u>Over</u>	<u>Up to</u>	<u>Exemption amount</u>
<u>\$30,000</u>	<u>\$45,000</u>	<u>\$8,500</u>
<u>\$45,000</u>	<u>\$60,000</u>	<u>\$7,500</u>
<u>\$60,000</u>	<u>\$75,000</u>	<u>\$5,000</u>
<u>\$75,000</u>	<u>\$80,000</u>	<u>\$2,500</u>

- 44 (2) For heads of household, as defined in section 2(b) of the Code:

<u>Over</u>	<u>Up to</u>	<u>Exemption amount</u>
<u>\$30,000</u>	<u>\$45,000</u>	<u>\$6,800</u>
<u>\$45,000</u>	<u>\$60,000</u>	<u>\$6,000</u>
<u>\$60,000</u>	<u>\$75,000</u>	<u>\$4,000</u>
<u>\$75,000</u>	<u>\$80,000</u>	<u>\$2,000</u>

- 50 (3) For unmarried individuals other than surviving spouses and heads of
 51 household:

	<u>Over</u>	<u>Up to</u>	<u>Exemption amount</u>
1			
2	<u>\$30,000</u>	<u>\$45,000</u>	<u>\$4,250</u>
3	<u>\$45,000</u>	<u>\$60,000</u>	<u>\$3,750</u>
4	<u>\$60,000</u>	<u>\$75,000</u>	<u>\$2,500</u>
5	<u>\$75,000</u>	<u>\$80,000</u>	<u>\$1,250</u>
6	(4) <u>For married individuals who do not file a joint return under G.S. 105-153.8:</u>		
7	<u>Over</u>	<u>Up to</u>	<u>Exemption amount</u>
8	<u>\$30,000</u>	<u>\$45,000</u>	<u>\$4,200</u>
9	<u>\$45,000</u>	<u>\$60,000</u>	<u>\$3,750</u>
10	<u>\$60,000</u>	<u>\$75,000</u>	<u>\$2,500</u>
11	<u>\$75,000</u>	<u>\$80,000</u>	<u>\$1,250</u> ".

12 SECTION 1.3.(b) This section becomes effective for taxable years beginning on or
 13 after January 1, 2015.

14
 15 **PART II. EXPAND STATE REVENUE RELIANCE ON CONSUMPTION BY**
 16 **BROADENING THE SALES TAX BASE**

17 SECTION 2.1.(a) G.S. 105-37.1, 105-38.1, 105-40, and 105-164.3(8e) are
 18 repealed.

19 SECTION 2.1.(b) This section becomes effective January 1, 2015, and applies to
 20 receipts from admission tickets sold on or after that date.

21 SECTION 2.2.(a) G.S. 105-116, 105-116.1, 105-164.21A, and 159B-27(b), (c),
 22 (d), (e) are repealed.

23 SECTION 2.2.(b) G.S. 105-164.13(44) and Article 5E of Chapter 105 of the
 24 General Statutes are repealed.

25 SECTION 2.2.(c) Pursuant to G.S. 62-31 and G.S. 62-32, the Utilities Commission
 26 must lower the rate set for the following utilities:

- 27 (1) Electricity to reflect the repeal of G.S. 105-116 and the resulting liability of
 28 electric power companies for the tax imposed under G.S. 105-122 and for
 29 the increase in the rate of tax imposed on sales of electricity under
 30 G.S. 105-164.4.
- 31 (2) Piped natural gas to reflect the repeal of Article 5E of Chapter 105 of the
 32 General Statutes, the repeal of the credit formerly allowed under
 33 G.S. 105-122(d1), and the resulting liability of companies for the tax
 34 imposed on sales of piped natural gas under G.S. 105-164.4.

35 SECTION 2.2.(d) Notwithstanding G.S. 160A-211:

- 36 (1) No city shall impose or collect any greater franchise, privilege, or license
 37 taxes, in the aggregate, on an electric power company that was imposed and
 38 collected on or before January 1, 1947.
- 39 (2) A city may not levy a license, franchise, or privilege tax on a person engaged
 40 in the business of supplying piped natural gas.

41 SECTION 2.2.(e) This section becomes effective January 1, 2015, and applies to
 42 sales billed on or after that date.

43 SECTION 2.3.(a) G.S. 105-164.3 reads as rewritten:

44 "§ 105-164.3. Definitions.

45 The following definitions apply in this Article:

- 46 ...
- 47 (1c) Alteration, repair, maintenance, cleaning, and installation services. – The
 48 term includes the activities listed in this subdivision:
 - 49 a. Altering tangible personal property by tailoring, monogramming,
 50 engraving, or making similar changes to the property.

- 1 b. Repairing tangible personal property to restore it to proper working
2 order.
- 3 c. Maintaining tangible personal property to keep the property in
4 working order, to avoid breakdown, or to prevent unnecessary
5 repairs.
- 6 d. Cleaning tangible personal property.
- 7 e. Installing tangible personal property or a fixture that becomes part of
8 real property.
- 9 ...
- 10 (2b) Capital equipment. – Equipment that is capitalized by the purchaser for tax
11 purposes under the Code and attachments and repair parts for that
12 equipment.
- 13 ...
- 14 (4a) Combined ~~general~~—rate. – The State's general rate of tax set in
15 G.S. 105-164.4(a) plus the sum of the rates of the local sales and use taxes
16 authorized by Subchapter VIII of this Chapter for every county in this State.
- 17 ...
- 18 (17c) Lottery ticket. – A share or a ticket, as those terms are defined in
19 G.S. 18C-103.
- 20 ...
- 21 (23a) NAICS. – Defined in G.S. 105-228.90. The description of a service listed in
22 NAICS determines its taxability.
- 23 ...
- 24 (35) Retailer. – A person engaged in the business of any of the following:
- 25 a. Making sales at retail, offering to make sales at retail, or soliciting
26 sales at retail of tangible personal property, digital property, or
27 services for storage, use, or consumption in this State. When the
28 Secretary finds it necessary for the efficient administration of this
29 Article to regard any sales representatives, solicitors, representatives,
30 consignees, peddlers, or truckers as agents of the dealers,
31 distributors, consignors, supervisors, employers, or persons under
32 whom they operate or from whom they obtain the items sold by them
33 regardless of whether they are making sales on their own behalf or on
34 behalf of these dealers, distributors, consignors, supervisors,
35 employers, or persons, the Secretary may so regard them and may
36 regard the dealers, distributors, consignors, supervisors, employers,
37 or persons as "retailers" for the purpose of this Article. A person who
38 sells tangible personal property, other than the person's own
39 household personal property, at a specialty market as defined in
40 G.S. 66-250 is a retailer.
- 41 b. Delivering, erecting, installing, or applying tangible personal
42 property for use in this State, regardless of whether the property is
43 permanently affixed to real property or other tangible personal
44 property.
- 45 c. Making a remote sale, if one of the conditions listed in
46 G.S. 105-164.8(b) is met.
- 47 ...
- 48 (38b) Service contract. – A warranty agreement, a maintenance agreement, a repair
49 contract, or a similar agreement or contract by which the provider agrees to
50 maintain or repair tangible personal property."

51 **SECTION 2.3.(b)** G.S. 105-164.4 reads as rewritten:

1 "§ 105-164.4. Tax imposed on retailers.Privilege tax imposed on retailer at various rates.

2 (a) Tax Imposed. – A privilege tax is imposed on a retailer at the following percentage
3 rates of the retailer's net taxable sales of tangible personal property, digital property, and
4 services. The general rate of tax is five percent (5%). The general rate applies to a taxable item
5 unless the item is subject to tax at the combined rate of tax or to a rate of tax that differs from
6 both the general rate and the combined rate. Subsection (b) of this section lists the items that
7 are subject to the general rate. An item taxable under subsection (b) of this section is also
8 subject to local sales and use tax. Subsection (c) of this section lists the items that are subject to
9 the general rate. An item taxable under subsection (c) of this section is not subject to local sales
10 and use tax. Subsection (d) of this section lists the items that are subject to the combined rate.

11 (b) General Rate. – The general rate of tax applies to a retailer's net taxable sales of the
12 following:

13 (1) Tangible personal property. – Tangible personal property that is not subject
14 to tax under another subsection of this section. If tangible personal property
15 that is leased or rented is subject to a different rate under another subsection
16 of this section, then the rate and the maximum tax, if any, set in the other
17 subsection applies to the lease or rental of the property. A person who leases
18 or rents property must collect the tax imposed by this section on the separate
19 retail sale of the property.

20 (2) Digital property. – Digital property that is listed in this subdivision, is
21 delivered or accessed electronically, is not considered tangible personal
22 property, and would be taxable under this Article if sold in a tangible
23 medium. The tax applies regardless of whether the purchaser of the item has
24 a right to use it permanently or to use it without making continued payments.
25 The tax does not apply to a service that is taxed under another subdivision of
26 this subsection. The following property is subject to tax under this
27 subdivision:

28 a. An audio work.

29 b. An audiovisual work.

30 c. A book, a magazine, a newspaper, a newsletter, a report, or another
31 publication.

32 d. A photograph or a greeting card.

33 e. Computer software.

34 (3) Accommodations. – The rental of an accommodation. These rentals are
35 taxed in accordance with G.S. 105-164.4E.

36 (4) Prepaid telephone service. – The sale or recharge of prepaid telephone
37 calling service. The tax applies regardless of whether tangible personal
38 property, such as a card or a telephone, is transferred. The tax applies to a
39 service that is sold in conjunction with prepaid wireless calling service.
40 Prepaid telephone calling service is taxable at the point of sale instead of at
41 the point of use and is sourced in accordance with G.S. 105-164.4B. Prepaid
42 telephone calling service taxed under this subdivision is not subject to tax as
43 a telecommunications service.

44 (5) Satellite radio. – Satellite digital auto radio service. For services received by
45 a mobile or portable station, the service is sourced to the subscriber's
46 business or home address.

47 (6) Entertainment and recreation. – Charges for entertainment or recreational
48 activities are taxed in accordance with G.S. 105-164.4F.

49 (7) Lottery ticket. – The tax does not apply to a lottery ticket to participate in an
50 interstate lottery game that the State has contractually agreed with other
51 participating states not to tax.

- 1 (8) Personal care services. – Any of the following:
2 a. Hair care, hair replacement, hair removal.
3 b. Nail care.
4 c. Skin care.
5 d. Massages.
6 e. Weight loss centers and programs.
7 f. Tattoos, ear piercings, and any other body modification.
8 g. Tanning, massages, saunas.
9 h. Teeth whitening.
10 i. Any other services included in industry 8121 of NAICS.
11 (9) Other personal services. – Any of the following:
12 a. Personal trainer services.
13 b. Event planning services.
14 c. Consumer buying services.
15 d. Any other services included in industry 8129 of NAICS.
16 (10) Health care services. – Any of the following:
17 a. Medical, dental, mental, and other health care.
18 b. Outpatient and home health care.
19 c. Medical and diagnostic care.
20 d. Hospital, nursing, and residential care.
21 e. Any other services included in industry group 62 of NAICS.
22 (11) Death care services. – Any of the following:
23 a. Mortician services.
24 b. Embalming services.
25 c. Cemeteries, crematories, and mausoleums .
26 d. Any other services included in industry 8122 of NAICS.
27 (12) Instructional services. – Any of the following:
28 a. Instruction in music, dance, drama, photography, and other fine arts.
29 b. Instruction in sports, martial arts, yoga, swimming, and other athletic
30 activities.
31 c. Any other instructional services included in industry 6116 of NAICS.
32 (13) Animal care services. – Any of the following:
33 a. Boarding animals.
34 b. Training animals.
35 c. Grooming animals.
36 d. Any other similar services included in industry 115210 and industry
37 812910 of NAICS.
38 (14) Travel services. – Any of the following:
39 a. Arranging and assembling tours.
40 b. Providing guide services.
41 c. Selling travel, tour, and accommodation services.
42 d. Providing reservation services.
43 (15) Tangible personal property services. – Any of the following:
44 a. A service contract.
45 b. Alteration, repair, maintenance, cleaning, and installation services.
46 c. Lease or rental of any of the following:
47 1. A mini-warehouse or other secure self-storage space.
48 2. Storage for tangible personal property not held for sale.
49 3. Parking or dead storage for a motor vehicle.
50 3. Docking or storage for a boat or other watercraft.
51 4. Storage for an aircraft.

- 1 d. Towing service, roadside service, or marine service for a motor
2 vehicle or a boat or other watercraft.
3 e. Gift wrapping, packing and crating, labeling, and moving of tangible
4 personal property.
5 f. Water softening and conditioning.
6 (16) Real property services. – Any of the following:
7 a. Exterminating and pest control services.
8 b. Landscape services.
9 c. Cleaning the interior or exterior of a building or other structure.
10 d. Cleaning an item, such as a carpet or gutter, that is attached to a
11 structure.
12 e. Cleaning a driveway, a parking lot, a swimming pool, the grounds at
13 a building or other structure, or another outdoor area.
14 f. Any other activities listed as services to buildings and dwellings in
15 NAICS 5617.
16 (17) Security services. – Any of the following:
17 a. Guard or security patrol service.
18 b. Armored car service.
19 c. Remote monitoring of a security alarm system.
20 d. Locksmith service.
21 e. Telematic service that provides communication, tracking, and
22 emergency response services to motor vehicle owners.
23 f. Investigation services.
24 (18) Delivery services. – Providing messenger and delivery services originating
25 in this State for tangible personal property.
26 (19) Information services. – The tax does not apply to the following:
27 a. The collection, compilation, or analysis of information the retailer
28 received from the purchaser of the service.
29 b. A public record or other document provided by a unit of local
30 government.
31 (20) Transportation services. – Any of the following ground passenger
32 transportation services originating in this State:
33 a. Taxi services.
34 b. Limousine services.
35 c. Shuttle services.
36 d. Bus services.
37 e. Commuter rail services.
38 f. Charter bus services.
39 (21) Insurance premiums paid for property coverage insurance contracts.
40 (22) Business services. – Any of the following:
41 a. Legal services, notary public services, process services, bail bond
42 services, and all other legal services.
43 b. Accounting and tax preparation services.
44 c. Architectural, engineering, and related services.
45 d. Land surveying services.
46 e. Specialized design services.
47 f. Veterinary services.
48 g. Advertising services
49 h. Public relations, lobbying, and consulting services.
50 i. Employment placement services.
51 j. Message and answering service.

- 1 k. Telemarketing and telephone solicitation services.
2 l. Any other services included in industry group 541 of NAICS.
3 (23) Construction services. – Any of the following:
4 a. Remodeling existing residential buildings.
5 b. Performing specialized construction work on houses and other
6 residential buildings.
7 c. Painting, wallpapering, and floor covering.
8 d. Electrical, plumbing, heating, siding, roofing, and other specialty
9 trade contract services.
10 (24) Special Trade Services.
11 a. Billboard construction and installation services.
12 b. Manufacturing home set up and tie down services.
13 c. Boat lift installation services.
14 d. Any other specialty trade services included in industry group 238990
15 of NAICS.
16 (25) Site preparation construction services.
17 a. Water well digging, drilling, boring, or sinking and sewer pumping
18 services.
19 b. Excavating, earthmoving, or other land clearing services.
20 c. Blasting, building demolition services.
21 (c) State Rate. – The general rate of tax applies to a retailer's net taxable sales of the
22 following, including all accessories attached to the item when it is delivered to the purchaser:
23 (1) An aircraft.
24 (2) A boat.
25 (3) A manufactured home.
26 (4) A modular home.
27 (d) Combined Rate. – The combined rate of tax applies to a retailer's net taxable sales of
28 the following:
29 (1) Telecommunications. – Providing telecommunications service and ancillary
30 service. These services are taxed in accordance with G.S. 105-164.4C.
31 (2) Video programming. – Providing video programming to a subscriber in this
32 State.
33 (3) Liquor. – Spirituous liquor other than mixed beverages. As used in this
34 subdivision, the terms "spirituous liquor" and "mixed beverage" have the
35 meanings provided in G.S. 18B-101.
36 ~~(a) A privilege tax is imposed on a retailer at the following percentage rates of the~~
37 ~~retailer's net taxable sales or gross receipts, as appropriate. The general rate of tax is four and~~
38 ~~three-quarters percent (4.75%):~~
39 ~~(1) The general rate of tax applies to the sales price of each item or article of~~
40 ~~tangible personal property that is sold at retail and is not subject to tax under~~
41 ~~another subdivision in this section.~~
42 ~~(1a) The rate of two percent (2%) applies to the sales price of each manufactured~~
43 ~~home sold at retail, including all accessories attached to the manufactured~~
44 ~~home when it is delivered to the purchaser. The maximum tax is three~~
45 ~~hundred dollars (\$300.00) per article. Each section of a manufactured home~~
46 ~~that is transported separately to the site where it is to be erected is a separate~~
47 ~~article.~~
48 ~~(1b) The rate of three percent (3%) applies to the sales price of each aircraft or~~
49 ~~boat sold at retail, including all accessories attached to the item when it is~~
50 ~~delivered to the purchaser. The maximum tax is one thousand five hundred~~
51 ~~dollars (\$1,500) per article.~~

- 1 ~~(1c), (1d) and (1e) Repealed by Session Laws 2005-276, s. 33.4(b), effective~~
2 ~~January 1, 2006.~~
- 3 ~~(1f) The rate of two and eighty three hundredths percent (2.83%) applies to the~~
4 ~~sales price of electricity that is measured by a separate meter or another~~
5 ~~separate device and sold to a commercial laundry or to a pressing and~~
6 ~~dry cleaning establishment for use in machinery used in the direct~~
7 ~~performance of the laundering or the pressing and cleaning service.~~
- 8 ~~a. Repealed by Session Laws 2007-397, s. 10(b), effective October 1,~~
9 ~~2007, and applicable to sales occurring on or after that date.~~
- 10 ~~b. Repealed by Session Laws 2006-66, s. 24.19(a), effective July 1,~~
11 ~~2007, and applicable to sales made on or after that date.~~
- 12 ~~c. Repealed by Session Laws 2007-397, s. 10(b), effective October 1,~~
13 ~~2007, and applicable to sales occurring on or after that date.~~
- 14 ~~(1g) Repealed by Session Laws 2004-110, s. 6.1, effective October 1, 2004, and~~
15 ~~applicable to sales of electricity made on or after that date.~~
- 16 ~~(1h) Expired pursuant to Session Laws 2004-110, s. 6.4, effective for sales made~~
17 ~~on or after October 1, 2007.~~
- 18 ~~(1i) Repealed by Session Laws 2007-397, s. 10(a), effective October 1, 2007,~~
19 ~~and applicable to sales occurring on or after that date.~~
- 20 ~~(1j) Repealed by Session Laws 2007-397, s. 10(f), effective July 1, 2010, and~~
21 ~~applicable to sales occurring on or after that date.~~
- 22 ~~a. Sales of electricity to manufacturing industries and manufacturing~~
23 ~~plants for use in connection with the operation of the industries and~~
24 ~~plants.~~
- 25 ~~b. Sales of electricity to farmers to be used by them for any farming~~
26 ~~purposes other than preparing food, heating dwellings, and other~~
27 ~~household purposes.~~
- 28 ~~(2) The applicable percentage rate applies to the gross receipts derived from the~~
29 ~~lease or rental of tangible personal property by a person who is engaged in~~
30 ~~the business of leasing or renting tangible personal property, or is a retailer~~
31 ~~and leases or rents property of the type sold by the retailer. The applicable~~
32 ~~percentage rate is the rate and the maximum tax, if any, that applies to a sale~~
33 ~~of the property that is leased or rented. A person who leases or rents property~~
34 ~~shall also collect the tax imposed by this section on the separate retail sale of~~
35 ~~the property.~~
- 36 ~~(3) A tax at the general rate applies to the gross receipts derived from the rental~~
37 ~~of an accommodation. The tax does not apply to a private residence or~~
38 ~~cottage that is rented for fewer than 15 days in a calendar year or to an~~
39 ~~accommodation rented to the same person for a period of 90 or more~~
40 ~~continuous days.~~
- 41 ~~Gross receipts derived from the rental of an accommodation include the~~
42 ~~sales price of the rental of the accommodation. The sales price of the rental~~
43 ~~of an accommodation is determined as if the rental were a rental of tangible~~
44 ~~personal property. The sales price of the rental of an accommodation~~
45 ~~marketed by a facilitator includes charges designated as facilitation fees and~~
46 ~~any other charges necessary to complete the rental.~~
- 47 ~~A person who provides an accommodation that is offered for rent is~~
48 ~~considered a retailer under this Article. A facilitator must report to the~~
49 ~~retailer with whom it has a contract the sales price a consumer pays to the~~
50 ~~facilitator for an accommodation rental marketed by the facilitator. A retailer~~
51 ~~must notify a facilitator when an accommodation rental marketed by the~~

1 ~~facilitator is completed and, within three business days of receiving the~~
2 ~~notice, the facilitator must send the retailer the portion of the sales price the~~
3 ~~facilitator owes the retailer and the tax due on the sales price. A facilitator~~
4 ~~that does not send the retailer the tax due on the sales price is liable for the~~
5 ~~amount of tax the facilitator fails to send. A facilitator is not liable for tax~~
6 ~~sent to a retailer but not remitted by the retailer to the Secretary. Tax~~
7 ~~payments received by a retailer from a facilitator are held in trust by the~~
8 ~~retailer for remittance to the Secretary. A retailer that receives a tax payment~~
9 ~~from a facilitator must remit the amount received to the Secretary. A retailer~~
10 ~~is not liable for tax due but not received from a facilitator. The requirements~~
11 ~~imposed by this subdivision on a retailer and a facilitator are considered~~
12 ~~terms of the contract between the retailer and the facilitator.~~

13 ~~A person who, by written contract, agrees to be the rental agent for the~~
14 ~~provider of an accommodation is considered a retailer under this Article and~~
15 ~~is liable for the tax imposed by this subdivision. The liability of a rental~~
16 ~~agent for the tax imposed by this subdivision relieves the provider of the~~
17 ~~accommodation from liability. A rental agent includes a real estate broker, as~~
18 ~~defined in G.S. 93A-2.~~

19 ~~The following definitions apply in this subdivision:~~

- 20 ~~a. Accommodation.—A hotel room, a motel room, a residence, a~~
21 ~~cottage, or a similar lodging facility for occupancy by an individual.~~
22 ~~b. Facilitator.—A person who is not a rental agent and who contracts~~
23 ~~with a provider of an accommodation to market the accommodation~~
24 ~~and to accept payment from the consumer for the accommodation.~~

25 ~~(4) Every person engaged in the business of operating a dry cleaning, pressing,~~
26 ~~or hat blocking establishment, a laundry, or any similar business, engaged in~~
27 ~~the business of renting clean linen or towels or wearing apparel, or any~~
28 ~~similar business, or engaged in the business of soliciting cleaning, pressing,~~
29 ~~hat blocking, laundering or linen rental business for any of these businesses,~~
30 ~~is considered a retailer under this Article. A tax at the general rate of tax is~~
31 ~~levied on the gross receipts derived by these retailers from services rendered~~
32 ~~in engaging in any of the occupations or businesses named in this~~
33 ~~subdivision. The tax imposed by this subdivision does not apply to receipts~~
34 ~~derived from coin, token, or card operated washing machines, extractors,~~
35 ~~and dryers. The tax imposed by this subdivision does not apply to gross~~
36 ~~receipts derived from services performed for resale by a retailer that pays the~~
37 ~~tax on the total gross receipts derived from the services.~~

38 ~~(4a) The rate of three percent (3%) applies to the gross receipts derived from~~
39 ~~sales of electricity, other than sales of electricity subject to tax under another~~
40 ~~subdivision in this section. A person who sells electricity is considered a~~
41 ~~retailer under this Article.~~

42 ~~(4b) A person who sells tangible personal property at a specialty market, other~~
43 ~~than the person's own household personal property, is considered a retailer~~
44 ~~under this Article. A tax at the general rate of tax is levied on the sales price~~
45 ~~of each article sold by the retailer at the specialty market. The term~~
46 ~~"specialty market" has the same meaning as defined in G.S. 66-250.~~

47 ~~(4c) The combined general rate applies to the gross receipts derived from~~
48 ~~providing telecommunications service and ancillary service. A person who~~
49 ~~provides telecommunications service or ancillary service is considered a~~
50 ~~retailer under this Article. These services are taxed in accordance with~~
51 ~~G.S. 105-164.4C.~~

- 1 ~~(4d) The sale or recharge of prepaid telephone calling service is taxable at the~~
2 ~~general rate of tax. The tax applies regardless of whether tangible personal~~
3 ~~property, such as a card or a telephone, is transferred. The tax applies to a~~
4 ~~service that is sold in conjunction with prepaid wireless calling service.~~
5 ~~Prepaid telephone calling service is taxable at the point of sale instead of at~~
6 ~~the point of use and is sourced in accordance with G.S. 105-164.4B. Prepaid~~
7 ~~telephone calling service taxed under this subdivision is not subject to tax as~~
8 ~~a telecommunications service.~~
- 9 ~~(5) Repealed by Session Laws 1998-212, s. 29A.1(a), effective May 1, 1999.~~
- 10 ~~(6) The combined general rate applies to the gross receipts derived from~~
11 ~~providing video programming to a subscriber in this State. A cable service~~
12 ~~provider, a direct-to-home satellite service provider, and any other person~~
13 ~~engaged in the business of providing video programming is considered a~~
14 ~~retailer under this Article.~~
- 15 ~~(6a) The general rate applies to the gross receipts derived from providing satellite~~
16 ~~digital audio radio service. For services received by a mobile or portable~~
17 ~~station, the service is sourced to the subscriber's business or home address. A~~
18 ~~person engaged in the business of providing satellite digital audio radio~~
19 ~~service is a retailer under this Article.~~
- 20 ~~(6b) The general rate applies to the digital property that is listed in this~~
21 ~~subdivision, is delivered or accessed electronically, is not considered~~
22 ~~tangible personal property, and would be taxable under this Article if sold in~~
23 ~~a tangible medium. The tax applies regardless of whether the purchaser of~~
24 ~~the item has a right to use it permanently or to use it without making~~
25 ~~continued payments. The tax does not apply to a service that is taxed under~~
26 ~~another subdivision of this subsection or to an information service. The~~
27 ~~following property is subject to tax under this subdivision:~~
- 28 ~~a. An audio work.~~
29 ~~b. An audiovisual work.~~
30 ~~c. A book, a magazine, a newspaper, a newsletter, a report, or another~~
31 ~~publication.~~
32 ~~d. A photograph or a greeting card.~~
- 33 ~~(7) The combined general rate applies to the sales price of spirituous liquor~~
34 ~~other than mixed beverages. As used in this subdivision, the terms~~
35 ~~"spirituous liquor" and "mixed beverage" have the meanings provided in~~
36 ~~G.S. 18B-101.~~
- 37 ~~(8) The rate of two and one-half percent (2.5%) applies to the sales price of each~~
38 ~~modular home sold at retail, including all accessories attached to the~~
39 ~~modular home when it is delivered to the purchaser. The sale of a modular~~
40 ~~home to a modular homebuilder is considered a retail sale. A person who~~
41 ~~sells a modular home at retail is allowed a credit against the tax imposed by~~
42 ~~this subdivision for sales or use tax paid to another state on tangible personal~~
43 ~~property incorporated in the modular home. The retail sale of a modular~~
44 ~~home occurs when a modular home manufacturer sells a modular home to a~~
45 ~~modular homebuilder or directly to the end user of the modular home.~~
- 46 ~~(b) The tax levied in this section shall be collected from the retailer and paid by him at~~
47 ~~the time and in the manner as hereinafter provided. Provided, however, that any person~~
48 ~~engaging or continuing in business as a retailer shall pay the tax required on the net taxable~~
49 ~~sales of such business at the rates specified when proper books are kept showing separately the~~
50 ~~gross proceeds of taxable and nontaxable sales of tangible personal property in such form as~~
51 ~~may be accurately and conveniently checked by the Secretary or his duly authorized agent. If~~

1 ~~such records are not kept separately the tax shall be paid as a retailer on the gross sales of~~
2 ~~business and the exemptions and exclusions provided by this Article shall not be allowed. The~~
3 ~~tax levied in this section is in addition to all other taxes whether levied in the form of excise,~~
4 ~~license or privilege or other taxes.~~

5 (e) ~~Certificate of Registration.—Before a person may engage in business as a retailer or~~
6 ~~a wholesale merchant, the person must obtain a certificate of registration from the Department~~
7 ~~in accordance with G.S. 105-164.29."~~

8 **SECTION 2.3.**(c) Article 5 of Chapter 105 of the General Statutes is amended by
9 adding the following new sections to read:

10 "**§ 105-164.4E. Accommodation rentals.**

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

12 (1) Accommodation. – A hotel room, a motel room, a residence, a cottage, a
13 campground, a camp site, or a similar lodging facility or site for occupancy
14 by an individual.

15 (2) Facilitator. – A person who is not a rental agent and who contracts with a
16 provider of an accommodation to market the accommodation and to accept
17 payment from the consumer for the accommodation.

18 (3) Rental agent. – The term includes a real estate broker, as defined in
19 G.S. 93A-2.

20 (b) Tax. – The gross receipts derived from the rental of an accommodation are taxed at
21 the rate set in G.S. 105-164.4. Gross receipts derived from the rental of an accommodation
22 include the sales price of the rental of the accommodation. The sales price of the rental of an
23 accommodation is determined as if the rental were a rental of tangible personal property. The
24 sales price of the rental of an accommodation marketed by a facilitator includes charges
25 designated as facilitation fees and any other charges necessary to complete the rental.

26 (c) Facilitator Transactions. – A facilitator must report to the retailer with whom it has a
27 contract the sales price a consumer pays to the facilitator for an accommodation rental
28 marketed by the facilitator. A retailer must notify a facilitator when an accommodation rental
29 marketed by the facilitator is completed and, within three business days of receiving the notice,
30 the facilitator must send the retailer the portion of the sales price the facilitator owes the retailer
31 and the tax due on the sales price. A facilitator that does not send the retailer the tax due on the
32 sales price is liable for the amount of tax the facilitator fails to send. A facilitator is not liable
33 for tax sent to a retailer but not remitted by the retailer to the Secretary. Tax payments received
34 by a retailer from a facilitator are held in trust by the retailer for remittance to the Secretary. A
35 retailer that receives a tax payment from a facilitator must remit the amount received to the
36 Secretary. A retailer is not liable for tax due but not received from a facilitator. The
37 requirements imposed by this section on a retailer and a facilitator are considered terms of the
38 contract between the retailer and the facilitator.

39 (d) Rental Agent. – A person who, by written contract, agrees to be the rental agent for
40 the provider of an accommodation is considered a retailer under this Article and is liable for the
41 tax imposed by this section. The liability of a rental agent for the tax imposed by this section
42 relieves the provider of the accommodation from liability.

43 (e) Exemptions. – The tax imposed by this section does not apply to the following:

44 (1) A private residence or cottage that is rented for fewer than 15 days in a
45 calendar year.

46 (2) An accommodation supplied to the same person for a period of 90 or more
47 continuous days.

48 "**§ 105.164.4F. Entertainment and recreation.**

49 (a) Tax. – Charges for an entertainment or recreational activity listed in this subsection
50 are taxed at the general rate set in G.S. 105-164.4. Charges include admission charges, user

1 charges, registration charges, membership charges, and charges for amenities. Offering an
 2 activity listed in this subsection is a service.

3 (1) Charges for admittance to any of the following entertainment or recreational
 4 activities:

5 a. A live performance or live event of any kind.

6 b. A movie.

7 c. A museum, a cultural site, a garden, an exhibit, a show, or a similar
 8 attraction or a guided tour at any of these attractions.

9 (2) Charges that enable a consumer to play or participate in, or use property or a
 10 facility to play or participate in, any of the entertainment or recreational
 11 activities listed in this subdivision. A consumer's play or participation can be
 12 in person or online. Charges for online play or participation include charges
 13 to acquire virtual goods or attributes.

14 a. A game.

15 b. A sport.

16 c. A fitness activity.

17 d. A dining facility.

18 (b) Exclusion for Charitable Contribution. – The tax imposed by this section does not
 19 apply to the portion of a membership charge that is deductible as a charitable contribution
 20 under section 170 of the Code.

21 (c) Ticket Resales. – When an admission ticket is resold and the price of the admission
 22 ticket is printed on the face of the ticket, the tax does not apply to the face price. When an
 23 admission ticket is resold and the price of the admission ticket is not printed on the face of the
 24 ticket, the tax applies to the difference between the amount the reseller paid for the ticket and
 25 the amount the reseller charges for the ticket."

26 **SECTION 2.3.(d)** G.S. 105-164.13 reads as rewritten:

27 "**§ 105-164.13. Retail sales and use tax.**

28 The sale at retail and the use, storage, or consumption in this State of the following tangible
 29 personal property, digital property, and services are specifically exempted from the tax imposed
 30 by this Article:

31 **Agricultural Group.**

32
 33 (1) Any of the following items sold to a farmer for use by the farmer in the
 34 planting, cultivating, harvesting, or curing of farm crops or in the production
 35 of dairy products, eggs, or animals. A "farmer" includes a dairy operator, a
 36 poultry farmer, an egg producer, a livestock farmer, a farmer of crops, and a
 37 farmer of an aquatic species, as defined in G.S. 106-758.

38 a. Commercial fertilizer, lime, land plaster, plastic mulch, plant bed covers,
 39 potting soil, baler twine, and seeds.

40 ~~b. Farm machinery, attachment and repair parts for farm machinery, and~~
 41 ~~lubricants applied to farm machinery. The term "machinery" includes~~
 42 ~~implements that have moving parts or are operated or drawn by an animal.~~
 43 ~~The term does not include implements operated wholly by hand or motor~~
 44 ~~vehicles required to be registered under Chapter 20 of the General Statutes.~~

45 e. ~~A horse or mule.~~

46 d. ~~Fuel.~~

47 (1a) ~~Sales of the following to a farmer, as defined in subdivision (1) of this~~
 48 ~~section:~~

49 a. ~~A container used for a purpose set out in subdivision (1) of this~~
 50 ~~section or in packaging and transporting the farmer's product for sale.~~

- 1 b. ~~A grain, feed, or soybean storage facility, and parts and accessories~~
2 ~~attached to the facility.~~
- 3 (1b) Electricity sold to a farmer to be used for any farming purpose other than
4 preparing food, heating dwellings, and other household purposes.
- 5 (2) Repealed by Session Laws 2001, c. 514, s. 1, effective February 1, 2002.
- 6 (2a) ~~Any of the following substances when Feed purchased for use on animals or~~
7 ~~plants, as appropriate, held or produced for commercial purposes. This~~
8 ~~exemption does not apply to any equipment or devices used to administer,~~
9 ~~release, apply, or otherwise dispense these substances:~~
- 10 a. ~~Remedies, vaccines, medications, litter materials, and feeds for~~
11 ~~animals.~~
- 12 b. ~~Rodenticides, insecticides, herbicides, fungicides, and pesticides.~~
- 13 c. ~~Defoliant for use on cotton or other crops.~~
- 14 d. ~~Plant growth inhibitors, regulators, or stimulators, including systemic~~
15 ~~and contact or other sucker control agents for tobacco and other~~
16 ~~crops.~~
- 17 e. ~~Semen.~~
- 18 (3) Products of forests and mines in their original ~~or unmanufactured~~ state when
19 such sales are made by the producer in the capacity of producer.
- 20 (4) Cotton, tobacco, peanuts or other farm products sold to manufacturers for
21 further manufacturing or processing.
- 22 (4a) Baby chicks and poults sold for commercial poultry or egg production.
- 23 (4b) Products of a farm sold in their original state by the producer of the products
24 if the producer is not primarily a retail ~~merchant and ice used to preserve~~
25 ~~agriculture, aquaculture and commercial fishery products until the products~~
26 ~~are sold at retail merchant.~~
- 27 (4c) ~~Any of the following items concerning the housing, raising, or feeding of~~
28 ~~animals:~~
- 29 a. ~~Commercially manufactured facilities to be used for commercial~~
30 ~~purposes for housing, raising, or feeding animals or for housing~~
31 ~~equipment necessary for these commercial activities.~~
- 32 b. ~~Building materials, supplies, fixtures, and equipment that become a~~
33 ~~part of and are used in the construction, repair, or improvement of an~~
34 ~~enclosure or a structure specifically designed, constructed, and used~~
35 ~~for housing, raising, or feeding animals or for housing equipment~~
36 ~~necessary for one of these commercial activities.~~
- 37 c. ~~Commercially manufactured equipment, and parts and accessories~~
38 ~~for the equipment, used in a facility that is exempt from tax under~~
39 ~~this subdivision or in an enclosure or a structure whose building~~
40 ~~materials are exempt from tax under this subdivision.~~
- 41 (4d) ~~Any of the following tobacco items:~~
- 42 a. ~~The lease or rental of tobacco sheets used in handling tobacco in the~~
43 ~~warehouse and transporting tobacco to and from the warehouse.~~
- 44 b. ~~A metal flue sold for use in curing tobacco, whether the flue is~~
45 ~~attached to a handfired furnace or used in connection with a~~
46 ~~mechanical burner.~~
- 47 c. ~~A bulk tobacco barn or rack, parts and accessories attached to the~~
48 ~~tobacco barn or rack, and any similar apparatus, part, or accessory~~
49 ~~used to cure or dry tobacco or another crop.~~
- 50 (4e) Repealed by Session Laws 2006-162, s. 8(b), effective July 24, 2006.

- 1 (7) Sales of products of waters in their original ~~or unmanufactured~~ state when
 2 such sales are made by the producer in the capacity of producer. Fish and
 3 seafoods are likewise exempt when sold by the fisherman in that capacity.
- 4 (8) Sales to a manufacturer of tangible personal property that enters into or
 5 becomes an ingredient or component part of tangible personal property that
 6 is manufactured. This exemption does not apply to sales of electricity.
- 7 (8a) Sales to a small power production facility, as defined in 16 U.S.C. §
 8 796(17)(A), of fuel used by the facility to generate electricity.
- 9 ~~(9) Boats, fuel oil, lubricating oils, machinery, equipment, nets, rigging, paints,
 10 parts, accessories, and supplies sold to any of the following:~~
- 11 ~~a. The holder of a standard commercial fishing license issued under
 12 G.S. 113-168.2 for principal use in commercial fishing operations.~~
- 13 ~~b. The holder of a shellfish license issued under G.S. 113-169.2 for
 14 principal use in commercial shellfishing operations.~~
- 15 ~~c. The operator of a for hire boat, as defined in G.S. 113-174, for
 16 principal use in the commercial use of the boat.~~
- 17 ~~(10) Sales of the following to commercial laundries or to pressing and dry
 18 cleaning establishments:~~
- 19 ~~a. Articles or materials used for the identification of garments being
 20 laundered or dry cleaned, wrapping paper, bags, hangers, starch,
 21 soaps, detergents, cleaning fluids and other compounds or chemicals
 22 applied directly to the garments in the direct performance of the
 23 laundering or the pressing and cleaning service.~~
- 24 ~~b. Laundry and dry cleaning machinery, parts and accessories attached
 25 to the machinery, and lubricants applied to the machinery.~~
- 26 ~~c. Fuel, other than electricity, used in the direct performance of the
 27 laundering or the pressing and cleaning service.~~

Motor Fuels Group.

- 29 (10a) Sales of ~~the following electricity~~ to a major recycling ~~facility~~:
 30 ~~a. Lubricants and other additives for motor vehicles or machinery and
 31 equipment used at the facility.~~
- 32 ~~b. Materials, supplies, parts, and accessories, other than machinery and
 33 equipment, that are not capitalized by the taxpayer and are used or
 34 consumed in the manufacturing and material handling processes at
 35 the facility.~~
- 36 ~~c. Electricity used at the facility.~~
- 37 (10b) Recodified as G.S. 105-164.13(10a)c. by Session Laws 2005-276, s. 33.9,
 38 effective January 1, 2006.
- 39 (11) Any of the following fuel:
- 40 a. Motor fuel, as taxed in Article 36C of this Chapter, except motor fuel
 41 for which a refund of the per gallon excise tax is allowed under
 42 G.S. 105-449.105A or G.S. 105-449.107.
- 43 b. Alternative fuel taxed under Article 36D of this Chapter, unless a
 44 refund of that tax is allowed under G.S. 105-449.107.
- 45 ~~(11a) Sales of diesel fuel to railroad companies for use in rolling stock other than
 46 motor vehicles. The definitions in G.S. 105-333 apply in this subdivision.~~

Medical Group.

- 48 (12) Sales of any of the following ~~items~~:
 49 items to the extent the items are
 50 purchased with insurance proceeds and the amounts purchased with
 51 insurance proceeds are separately identified on the billing document given to
the consumer:

- 1 a. Prosthetic devices for human use.
2 b. Mobility enhancing equipment sold on a prescription.
3 c. Durable medical equipment sold on prescription.
4 d. Durable medical supplies sold on prescription.
5 (13) All of the following drugs, including their packaging materials and any
6 instructions or information about the drugs included in the package with
7 ~~them; them, to the extent the drugs are purchased with insurance proceeds~~
8 ~~and the amounts purchased with insurance proceeds are separately identified~~
9 ~~on the billing document given to the consumer:~~
10 a. Drugs required by federal law to be dispensed only on prescription.
11 b. Over-the-counter drugs sold on prescription.
12 c. Insulin.
13 (13a) Repealed by Session Laws 1996, Second Extra Session, c. 14, s. 16.
14 (13b) Repealed by Session Laws 1999, c. 438, s. 7, effective October 1, 1999.
15 ~~(13c) Nutritional supplements sold by a chiropractic physician at a chiropractic~~
16 ~~office to a patient as part of the patient's plan of treatment, as authorized by~~
17 ~~G.S. 90-151.1.~~
18 ~~(13d) Health care and dental care services, to the extent the services are purchased~~
19 ~~with insurance proceeds and the services purchased with insurance proceeds~~
20 ~~are separately identified on the billing document given to the purchaser.~~

21 **Printed Materials Group.**

- 22 ~~(14) Public school books on the adopted list, the selling price of which is fixed by~~
23 ~~State contract.~~
24 (14a) Recodified as subdivision (33a) by Session Laws 2000-120, s. 5, effective
25 July 14, 2000.

26 **Transactions Group.**

- 27 (15) Accounts of purchasers, representing taxable sales, on which the tax
28 imposed by this Article has been paid, that are found to be worthless and
29 actually charged off for income tax purposes may, at corresponding periods,
30 be deducted from gross sales. In the case of a municipality that sells
31 electricity, the account may be deducted if it meets all the conditions for
32 charge-off that would apply if the municipality were subject to income tax.
33 Any accounts deducted pursuant to this subdivision must be added to gross
34 sales if afterwards collected.
35 (16) Sales of an article repossessed by the vendor if tax was paid on the sales
36 price of the article.

37 **Exempt Status Group.**

- 38 (17) Sales which a state would be without power to tax under the limitations of
39 the Constitution or laws of the United States or under the Constitution of this
40 State.

41 **Unclassified Group.**

- 42 (18) Repealed by Session Laws 2005-276, s. 33.9, effective January 1, 2006.
43 (19) Repealed by Session Laws 1991, c. 618, s. 1.
44 ~~(20) Sales by blind merchants operating under supervision of the Department of~~
45 ~~Health and Human Services.~~
46 ~~(21) The lease or rental of motion picture films used for exhibition purposes~~
47 ~~where the lease or rental of such property is an established business or part~~
48 ~~of an established business or the same is incidental or germane to said~~
49 ~~business of the lessee.~~

- 1 ~~(22) The lease or rental of films, motion picture films, transcriptions and~~
2 ~~recordings to radio stations and television stations operating under a~~
3 ~~certificate from the Federal Communications Commission.~~
- 4 ~~(22a) Sales of audiovisual masters made or used by a production company in~~
5 ~~making visual and audio images for first generation reproduction. For the~~
6 ~~purpose of this subdivision, an "audiovisual master" is an audio or video~~
7 ~~film, tape, or disk or another audio or video storage device from which all~~
8 ~~other copies are made.~~
- 9 ~~(23) Sales of the following packaging items:~~
- 10 ~~a. Wrapping paper, labels, wrapping twine, paper, cloth, plastic bags,~~
11 ~~cartons, packages and containers, cores, cones or spools, wooden~~
12 ~~boxes, baskets, coops and barrels, including paper cups, napkins and~~
13 ~~drinking straws and like articles sold to manufacturers, producers and~~
14 ~~retailers, when such materials are used for packaging, shipment or~~
15 ~~delivery of tangible personal property which is sold either at~~
16 ~~wholesale or retail and when such articles constitute a part of the sale~~
17 ~~of such tangible personal property and are delivered with it to the~~
18 ~~customer.~~
- 19 ~~b. A container that is used as packaging by the owner of the container~~
20 ~~or another person to enclose tangible personal property for delivery~~
21 ~~to a purchaser of the property and is required to be returned to its~~
22 ~~owner for reuse.~~
- 23 (24) Sales of fuel and other items of tangible personal property for use or
24 consumption by or on ocean-going vessels ~~which~~ that ply the high seas in
25 interstate or foreign commerce in the transport of freight and/or passengers
26 for hire exclusively, when delivered to an officer or agent of such vessel for
27 the use of such vessel; provided, however, that sales of fuel and other items
28 of tangible personal property made to officers, agents, members of the crew
29 or passengers of such vessels for their personal use shall not be exempted
30 from payment of the sales tax.
- 31 (25) Sales by merchants on the Cherokee Indian Reservation when such
32 merchants are authorized to do business on the Reservation and are paying
33 the tribal gross receipts levy to the Tribal Council.
- 34 (26) Food sold not for profit by public or private school cafeterias within school
35 buildings during the regular school day.
- 36 (26a) Food sold not for profit by a public school cafeteria to a child care center
37 that participates in the Child and Adult Care Food Program of the
38 Department of Health and Human Services.
- 39 ~~(27) Meals and food products served to students in dining rooms regularly~~
40 ~~operated by State or private educational institutions or student organizations~~
41 ~~thereof.~~
- 42 ~~(27a) Bread, rolls, and buns sold at a bakery thrift store. A "bakery thrift store" is a~~
43 ~~retail outlet of a bakery that sells at wholesale over ninety percent (90%) of~~
44 ~~the items it makes and sells at the retail outlet day-old bread, rolls, and buns~~
45 ~~returned to it by retailers that acquired these items from the bakery.~~
- 46 ~~(28) Sales of newspapers by newspaper street vendors, by newspaper carriers~~
47 ~~making door-to-door deliveries, and by means of vending machines.~~
- 48 (29) Repealed by Session Laws 2005-435, s. 30, effective September 27, 2005.
- 49 (29a) Repealed by Session Laws 1995 (Regular Session, 1996), c. 646, s. 5.
- 50 ~~(30) Sales from vending machines when sold by the owner or lessee of said~~
51 ~~machines at a price of one cent (1¢) per sale.~~

1 (31) Sales of meals not for profit to elderly and incapacitated persons by
2 charitable or religious organizations not operated for profit which are
3 entitled to the refunds provided by G.S. 105-164.14(b), when such meals are
4 delivered to the purchasers at their places of abode.

5 ~~(31a) Food sold by a church or religious organization not operated for profit when
6 the proceeds of the sales are actually used for religious activities.~~

7 (31b) Repealed by Session Laws 1996, Second Extra Session, c. 14, s. 16.

8 ~~(32) Sales of motor vehicles, the sale of a motor vehicle body to be mounted on a
9 motor vehicle chassis when a certificate of title has not been issued for the
10 chassis, and the sale of a A motor vehicle body mounted on a motor vehicle
11 chassis that temporarily enters the State so the manufacturer of the body can
12 mount the body on the chassis.~~

13 ~~(33) Tangible personal property purchased solely for the purpose of export to a
14 foreign country for exclusive use or consumption in that or some other
15 foreign country, either in the direct performance or rendition of professional
16 or commercial services, or in the direct conduct or operation of a trade or
17 business, all of which purposes are actually consummated, or purchased by
18 the government of a foreign country for export which purpose is actually
19 consummated. "Export" shall include the acts of possessing and marshalling
20 such property, by either the seller or the purchaser, for transportation to a
21 foreign country, but shall not include devoting such property to any other
22 use in North Carolina or the United States. "Foreign country" shall not
23 include any territory or possession of the United States.~~

24 ~~In order to qualify for this exemption, an affidavit of export indicating
25 compliance with the terms and conditions of this exemption, as prescribed
26 by the Secretary of Revenue, must be submitted by the purchaser to the
27 seller, and retained by the seller to evidence qualification for the exemption.~~

28 ~~If the purposes qualifying the property for exemption are not
29 consummated, the purchaser shall be liable for the tax which was avoided by
30 the execution of the aforesaid affidavit as well as for applicable penalties and
31 interest and the affidavit shall contain express provision that the purchaser
32 has recognized and assumed such liability.~~

33 ~~The principal purpose of this exemption is to encourage the flow of
34 commerce through North Carolina ports that is now moving through
35 out of state ports. However, it is not intended that property acquired for
36 personal use or consumption by the purchaser, including gifts, shall be
37 exempt hereunder.~~

38 ~~(33a) Tangible personal property sold by a retailer to a purchaser within or without
39 this State, when the property is delivered by the retailer in this State to a
40 common carrier or to the United States Postal Service for delivery to the
41 purchaser or the purchaser's designees outside this State and the purchaser
42 does not subsequently use the property in this State.~~

43 ~~(34) Sales of items by a nonprofit civic, charitable, educational, scientific or
44 literary organization when the net proceeds of the sales will be given or
45 contributed to the State of North Carolina or to one or more of its agencies
46 or instrumentalities, or to one or more nonprofit charitable organizations,
47 one of whose purposes is to serve as a conduit through which such net
48 proceeds will flow to the State or to one or more of its agencies or
49 instrumentalities.~~

50 (35) Sales by a nonprofit civic, charitable, educational, scientific, literary, or
51 fraternal organization when all of the following conditions are met:

- 1 a. The sales are conducted only upon an annual basis for the purpose of
2 raising funds for the organization's activities.
- 3 b. The proceeds of the sale are actually used for the organization's
4 activities.
- 5 c. The products sold are delivered to the purchaser within 60 days after
6 the first solicitation of any sale made during the organization's annual
7 sales period.
- 8 ~~(36) Advertising supplements and any other printed matter ultimately to be
9 distributed with or as part of a newspaper.~~
- 10 (37) Repealed by Session Laws 2001-424, s. 34.23(a), effective December 1,
11 2001, and applicable to sales made on or after that date.
- 12 (38) Food and other items lawfully purchased under the Food Stamp Program, 7
13 U.S.C. § 2011, and supplemental foods lawfully purchased with a food
14 instrument issued under the Special Supplemental Nutrition Program, 42
15 U.S.C. § 1786, and supplemental foods purchased for direct distribution by
16 the Special Supplemental Nutrition Program.
- 17 ~~(39) Sales of paper, ink, and other tangible personal property to commercial
18 printers and commercial publishers for use as ingredients or component parts
19 of free distribution periodicals and sales by printers of free distribution
20 periodicals to the publishers of these periodicals. As used in this subdivision,
21 the term "free distribution periodical" means a publication that is
22 continuously published on a periodic basis monthly or more frequently, is
23 provided without charge to the recipient, and is distributed in any manner
24 other than by mail.~~
- 25 (40) Sales to the Department of Transportation.
- 26 ~~(41) Sales of mobile classrooms to local boards of education or to local boards of
27 trustees of community colleges.~~
- 28 ~~(42) Tangible personal property that is purchased by a retailer for resale or is
29 manufactured or purchased by a wholesale merchant for resale and then
30 withdrawn from inventory and donated by the retailer or wholesale merchant
31 to either a governmental entity or a nonprofit organization, contributions to
32 which are deductible as charitable contributions for federal income tax
33 purposes.~~
- 34 (43) Custom computer software. – Custom computer software and the portion of
35 prewritten computer software that is modified or enhanced if the
36 modification or enhancement is designed and developed to the specifications
37 of a specific purchaser and the charges for the modification or enhancement
38 are separately stated.
- 39 (43a) Computer software that meets any of the following descriptions:
40 a. It is designed to run on an enterprise server operating system.
41 b. It is sold to a person who operates a datacenter and is used within the
42 datacenter.
43 c. It is sold to a person who provides cable service, telecommunications
44 service, or video programming and is used to provide ancillary
45 service, cable service, Internet access service, telecommunications
46 service, or video programming.
- 47 (43b) Computer software or digital property that becomes a component part of
48 other computer software or digital property that is offered for sale or of a
49 service that is offered for sale.
- 50 ~~(44) Piped natural gas. This item is exempt because it is taxed under Article 5E
51 of this Chapter.~~

- 1 ~~(45) Sales of aircraft lubricants, aircraft repair parts, and aircraft accessories to an~~
2 ~~interstate passenger air carrier for use at its hub.~~
- 3 ~~(45a) Sales to an interstate air business of tangible personal property that becomes~~
4 ~~a component part of or is dispensed as a lubricant into commercial aircraft~~
5 ~~during its maintenance, repair, or overhaul. For the purpose of this~~
6 ~~subdivision, commercial aircraft includes only aircraft that has a certified~~
7 ~~maximum take-off weight of more than 12,500 pounds and is regularly used~~
8 ~~to carry for compensation passengers, commercial freight, or individually~~
9 ~~addressed letters and packages.~~
- 10 ~~(45b) Sales of the following items to an interstate air courier for use at its hub:~~
11 ~~a. Aircraft lubricants, aircraft repair parts, and aircraft accessories.~~
12 ~~b. Materials handling equipment, racking systems, and related parts and~~
13 ~~accessories for the storage or handling and movement of tangible~~
14 ~~personal property at an airport or in a warehouse or distribution~~
15 ~~facility.~~
- 16 ~~(45c) Sales of aircraft simulators to a company for flight crew training and~~
17 ~~maintenance training.~~
- 18 (46) Sales of electricity by a municipality whose only wholesale supplier of
19 electric power is a federal agency and who is required by a contract with that
20 federal agency to make payments in lieu of taxes.
- 21 ~~(47) An amount charged as a deposit on a beverage container that is returnable to~~
22 ~~the vendor for reuse when the amount is refundable or creditable to the~~
23 ~~vendee, whether or not the deposit is separately charged.~~
- 24 ~~(48) An amount charged as a deposit on an aeronautic, automotive, industrial,~~
25 ~~marine, or farm replacement part that is returnable to the vendor for~~
26 ~~rebuilding or remanufacturing when the amount is refundable or creditable~~
27 ~~to the vendee, whether or not the deposit is separately charged. This~~
28 ~~exemption does not include tires or batteries.~~
- 29 ~~(49) Installation charges when the charges are separately stated on an invoice or~~
30 ~~similar billing document given to the purchaser at the time of sale.~~
- 31 ~~(49a) Delivery charges for delivery of direct mail if the charges are separately~~
32 ~~stated on an invoice or similar billing document given to the purchaser at the~~
33 ~~time of sale.~~
- 34 ~~(50) Fifty percent (50%) of the sales price of tangible personal property sold~~
35 ~~through a coin-operated vending machine, other than tobacco.~~
- 36 (51) Water delivered by or through main lines or pipes for either commercial or
37 domestic use or consumption.
- 38 (52) Items subject to sales and use tax under G.S. 105-164.4, other than
39 electricity, telecommunications service, and ancillary service as defined in
40 G.S. 105-164.4, if all of the following conditions are met:
41 a. The items are purchased by a State agency for its own use and in
42 accordance with G.S. 105-164.29A.
43 b. The items are purchased pursuant to a valid purchase order issued by
44 the State agency that contains the exemption number of the agency
45 and a description of the property purchased, or the items purchased
46 are paid for with a State-issued check, electronic deposit, credit card,
47 procurement card, or credit account of the State agency.
48 c. For all purchases other than by an agency-issued purchase order, the
49 agency must provide to or have on file with the retailer the agency's
50 exemption number.

1 ~~(53) Sales to a professional land surveyor of tangible personal property on which~~
2 ~~custom aerial survey data is stored in digital form or is depicted in graphic~~
3 ~~form. Data is custom if it was created to the specifications of the~~
4 ~~professional land surveyor purchasing the property. A professional land~~
5 ~~surveyor is a person licensed as a surveyor under Chapter 89C of the~~
6 ~~General Statutes.~~

7 (54) The following telecommunications services and charges:

- 8 a. Telecommunications service that is a component part of or is
9 integrated into a telecommunications service that is resold. This
10 exemption does not apply to service purchased by a pay telephone
11 provider who uses the service to provide pay telephone service.
12 Examples of services that are resold include carrier charges for
13 access to an intrastate or interstate interexchange network,
14 interconnection charges paid by a provider of mobile
15 telecommunications service, and charges for the sale of unbundled
16 network elements. An unbundled network element is a network
17 element, as defined in 47 U.S.C. § 153(29), to which access is
18 provided on an unbundled basis pursuant to 47 U.S.C. § 251(c)(3).
- 19 b. Pay telephone service.
- 20 c. 911 charges imposed under G.S. 62A-43 and remitted to the 911
21 Fund under that section.
- 22 d. Charges for telecommunications service made by a hotel, motel, or
23 another entity whose gross receipts are taxable under
24 G.S. 105-164.4(a)(3) when the charges are incidental to the
25 occupancy of the entity's accommodations.
- 26 e. Telecommunications service purchased by a State agency or a unit of
27 local government for the North Carolina Information Highway or
28 another data network owned or leased by the State or unit of local
29 government.

30 (55) Sales of electricity for use at an eligible Internet datacenter and eligible
31 business property to be located and used at an eligible Internet datacenter.
32 As used in this subdivision, "eligible business property" is property that is
33 capitalized for tax purposes under the Code and is used either:

- 34 a. For the provision of a service included in the business of the primary
35 user of the datacenter, including equipment cooling systems for
36 managing the performance of the property.
- 37 b. For the generation, transformation, transmission, distribution, or
38 management of electricity, including exterior substations and other
39 business personal property used for these purposes.
- 40 c. To provide related computer engineering or computer science
41 research.

42 If the level of investment required by G.S. 105-164.3(8e)d. is not timely
43 made, then the exemption provided under this subdivision is forfeited. If the
44 level of investment required by G.S. 105-164.3(8e)d. is timely made but any
45 specific eligible business property is not located and used at an eligible
46 Internet datacenter, then the exemption provided for such eligible business
47 property under this subdivision is forfeited. If the level of investment
48 required by G.S. 105-164.3(8e)d. is timely made but any portion of the
49 electricity is not used at an eligible Internet datacenter, then the exemption
50 provided for such electricity under this subdivision is forfeited. A taxpayer
51 that forfeits an exemption under this subdivision is liable for all past taxes

1 avoided as a result of the forfeited exemption, computed from the date the
2 taxes would have been due if the exemption had not been allowed, plus
3 interest at the rate established under G.S. 105-241.21. If the forfeiture is
4 triggered due to the lack of a timely investment required by
5 G.S. 105-164.3(8e)d., then interest is computed from the date the taxes
6 would have been due if the exemption had not been allowed. For all other
7 forfeitures, interest is computed from the time as of which the eligible
8 business property or electricity was put to a disqualifying use. The past taxes
9 and interest are due 30 days after the date the exemption is forfeited. A
10 taxpayer that fails to pay the past taxes and interest by the due date is subject
11 to the provisions of G.S. 105-236.

12 ~~(56) Sales to the owner or lessee of an eligible railroad intermodal facility of~~
13 ~~intermodal cranes, intermodal hostler trucks, and railroad locomotives that~~
14 ~~reside on the premises of the facility and are used at the facility.~~

15 (57) ~~Fuel and electricity~~ Electricity sold to a manufacturer for use in connection
16 with the operation of a manufacturing facility.

17 (58) ~~Tangible personal property purchased with a client assistance debit card~~
18 ~~issued for disaster assistance relief by a State agency or a federal agency or~~
19 ~~instrumentality.~~

20 (59) ~~Interior design services provided in conjunction with the sale of tangible~~
21 ~~personal property.~~

22 (60) A service taxable under G.S. 105-164.4(b)(13) through (25) that is provided
23 to a business subject to the franchise tax under Article 3 of this Chapter for
24 use in that business.

25 (61) Any of the following provided for tangible personal property that is exempt
26 from tax under this Article, other than an item exempt from tax under
27 G.S. 105-164.13(32):

28 a. A service contract.

29 b. Alteration, repair, maintenance, cleaning, or installation services.

30 (62) A service provided by a self-employed individual who is 17 years of age or
31 younger.

32 (63) Admission charges to any of the following recreational or entertainment
33 activities:

34 a. An event that is held at an elementary or secondary school and is
35 sponsored by the school.

36 b. A commercial agricultural fair that meets the requirements of
37 G.S. 106-520.1, as determined by the Commissioner of Agriculture.

38 c. A festival that lasts no more than seven consecutive days and is
39 sponsored by a nonprofit entity that is exempt from tax under Article
40 4 of this Chapter and uses the entire proceeds of the activity
41 exclusively for the entity's nonprofit purposes. This exemption
42 applies to no more than two activities sponsored by the entity during
43 a calendar year.

44 d. A youth athletic contest with an admissions price that does not
45 exceed ten dollars (\$10.00) and is sponsored by a nonprofit entity
46 that is exempt from tax under Article 4 of this Chapter. For the
47 purpose of this subdivision, a youth athletic contest is a contest in
48 which each participating athlete is less than 20 years of age.

49 (64) Construction services provided for a newly constructed building or other
50 structure."

51 **SECTION 2.3.(e)** G.S. 105-164.13B, 105-164.13C, and 105-164.13D are repealed.

1 **SECTION 2.3(f)** Article 5F of Chapter 105 of the General Statutes is repealed.

2 **SECTION 2.3(g)** G.S. 105-228.90(b)(4b) reads as rewritten:

3 "(4b) NAICS. – The North American Industry Classification System adopted by
4 the United States Office of Management and Budget as of December 31,
5 [2007-2012.](#)"

6 **SECTION 2.3(h)** G.S. 105-237.1(a) reads as rewritten:

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

10 ...

11 (6) [The taxpayer is a retailer or a consumer under Article 5 of this Chapter, the](#)
12 [assessment is for sales or use tax the retailer failed to collect or the consumer](#)
13 [failed to pay on an item that first became taxable under that Article on or](#)
14 [after January 1, 2015, and the retailer or consumer made a good faith effort](#)
15 [to comply with the sales and use tax laws. This subdivision expires January](#)
16 [1, 2025.](#)"

17 **SECTION 2.3(i)** G.S. 105-467(a) reads as rewritten:

18 "(a) Sales Tax. – The sales tax that may be imposed under this Article is limited to a tax
19 at the rate of one percent (1%) of the following:

20 (1) A retailer's net taxable sales and gross receipts that are subject to the general
21 rate of sales tax imposed by the State under
22 [G.S. 105-164.4](#)~~G.S. 105-164.4(b).~~

23 (2) through (4) Repealed by Session Laws 2011-330, s. 45, effective June 27,
24 2011.

25 (5) ~~The sales price of food that is not otherwise exempt from tax pursuant to~~
26 ~~G.S. 105-164.13 but is exempt from the State sales and use tax pursuant to~~
27 ~~G.S. 105-164.13B.~~

28 (5a) ~~The sales price of a bundled transaction that includes food subject to tax~~
29 ~~under subdivision (5) of this subsection, if the price of the food exceeds ten~~
30 ~~percent (10%) of the price of the bundle. A retailer must determine the price~~
31 ~~of food in a bundled transaction in accordance with G.S. 105-164.4D.~~

32 (5b) ~~The sales price of bread, rolls, and buns that are sold at a bakery thrift store~~
33 ~~and are exempt from State tax under G.S. 105-164.13(27a).~~

34 (6), (7) Repealed by Session Laws 2011-330, s. 45, effective June 27, 2011."

35 **SECTION 2.3(j)** This section becomes effective January 1, 2015, and applies to
36 sales made on or after that date and to gross receipts received on or after January 1, 2015, from
37 admissions purchased on or after that date. Gross receipts received on or after January 1, 2015,
38 from admissions purchased before that date are taxable under G.S. 105-37.1 or G.S. 105-38.1,
39 as appropriate.

40 **SECTION 2.4(a)** G.S. 105-164.14(c) and G.S. 105-164.14A are repealed.

41 **SECTION 2.4(b)** G.S. 105-164.14(b) reads as rewritten:

42 "(b) Nonprofit Entities and Hospital Drugs. – A nonprofit entity is allowed a semiannual
43 refund of sales and use taxes paid by it under this Article on direct purchases of tangible
44 personal property and services, other than electricity, telecommunications service, and ancillary
45 service, for use in carrying on the work of the nonprofit entity. Sales and use tax liability
46 indirectly incurred by a nonprofit entity on building materials, supplies, fixtures, and equipment
47 that become a part of or annexed to any building or structure that is owned or leased by the
48 nonprofit entity and is being erected, altered, or repaired for use by the nonprofit entity for
49 carrying on its nonprofit activities is considered a sales or use tax liability incurred on direct
50 purchases by the nonprofit entity. A request for a refund must be in writing and must include
51 any information and documentation required by the Secretary. A request for a refund for the

1 first six months of a calendar year is due the following October 15; a request for a refund for
 2 the second six months of a calendar year is due the following April 15. The aggregate annual
 3 refund amount allowed under this subsection for a fiscal may not exceed the amount set in the
 4 table below:

<u>Fiscal Year</u>	<u>Amount</u>
<u>Beginning July 1, 2014</u>	<u>\$5,000,000</u>
<u>Beginning July 1, 2015</u>	<u>\$1,000,000</u>
<u>Beginning on or after July 1, 2016</u>	<u>\$ 100,000.</u>

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

- 14 (1) Hospitals not operated for profit, including hospitals and medical
 15 accommodations operated by an authority or other public hospital described
 16 in Article 2 of Chapter 131E of the General Statutes.
- 17 (2) An organization that is exempt from income tax under section 501(c)(3) of
 18 the Code, other than an organization that is properly classified in any of the
 19 following major group areas of the National Taxonomy of Exempt Entities:
 20 a. Community Improvement and Capacity Building.
 21 b. Public and Societal Benefit.
 22 c. Mutual and Membership Benefit.
- 23 (2a) An organization that is exempt from income tax under the Code and is one
 24 of the following:
 25 a. A volunteer fire department.
 26 b. A volunteer emergency medical services squad.
- 27 (3) Repealed by Session Laws 2008-107, s. 28.22(a), effective July 1, 2008, and
 28 applicable to purchases made on or after that date.
- 29 (4) Qualified retirement facilities whose property is excluded from property tax
 30 under G.S. 105-278.6A.
- 31 (5) A university affiliated nonprofit organization that procures, designs,
 32 constructs, or provides facilities to, or for use by, a constituent institution of
 33 The University of North Carolina. For purposes of this subdivision, a
 34 nonprofit organization includes an entity exempt from taxation as a
 35 disregarded entity of the nonprofit organization."

36 **SECTION 2.4.(c)** This section becomes effective July 1, 2014, and applies to
 37 purchases made on or after that date.

38
 39 **PART III. EXPAND STATE REVENUE RELIANCE ON CONSUMPTION BY**
 40 **INCREASING THE STATE'S SHARE OF THE REAL ESTATE CONVEYANCE TAX**

41 **SECTION 3.(a)** G.S. 105-228.30(b) reads as rewritten:

42 (b) The register of deeds of each county must remit the proceeds of the tax levied by
 43 this section to the county finance officer. The finance officer of each county must credit
 44 ~~one-half of the proceeds to the county's general fund and remit the remaining one-half of the~~
 45 ~~proceeds, less taxes refunded and the county's allowance for administrative expenses, to the~~
 46 ~~Department of Revenue on a monthly basis. A county may retain two percent (2%) two-tenths~~
 47 ~~of one percent (.2%)~~ of the amount of tax proceeds allocated for remittance to the Department
 48 of Revenue as compensation for the county's cost in collecting and remitting the State's share of
 49 the tax. ~~Of the funds remitted to it pursuant to this section, the Department of Revenue must~~
 50 ~~credit seventy five percent (75%) to the Parks and Recreation Trust Fund established under~~

~~G.S. 113-44.15 and twenty-five percent (25%) to the Natural Heritage Trust Fund established under G.S. 113-77.7."~~

SECTION 3.(b) G.S. 113-44.15 reads as rewritten:

"§ 113-44.15. Parks and Recreation Trust Fund.

(a) Fund Created. – There is established a Parks and Recreation Trust Fund in the State Treasurer's Office. The Trust Fund shall be a nonreverting special revenue fund consisting of gifts and grants to the Trust ~~Fund, monies credited to the Trust Fund pursuant to G.S. 105-228.30(b), Fund~~ and other monies appropriated to the Trust Fund by the General Assembly. Investment earnings credited to the assets of the Fund shall become part of the Fund.

...

(d) Debt. – The Authority may allocate up to fifty percent (50%) of the portion of the annual appropriation identified in subdivision (b)(1) of this section to reimburse the General Fund for debt service on special indebtedness to be issued or incurred under Article 9 of Chapter 142 of the General Statutes for the purposes provided in subdivision (b)(1) of this section and for waterfront access. In order to allocate funds for debt service reimbursement, the Authority must identify to the State Treasurer the specific parks projects for which it would like special indebtedness to be issued or incurred and the annual amount it intends to make available, and request the State Treasurer to issue or incur the indebtedness. After special indebtedness has been issued or incurred for a parks project requested by the Authority, the Authority must credit to the General Fund each year the actual aggregate principal and interest payments to be made in that year on the special indebtedness, as identified by the State Treasurer."

SECTION 3.(c) G.S. 113-77.9 reads as rewritten:

"§ 113-77.9. Acquisition of lands with funds from the Natural Heritage Trust Fund.

...

(b) Land Acquisition and Debt Service. – The Trustees may authorize expenditures from the Fund for the following purposes:

- (1) To acquire land that represents the ecological diversity of North Carolina, including natural features such as riverine, montane, coastal, and geologic systems and other natural areas to ensure their preservation and conservation for recreational, scientific, educational, cultural, and aesthetic purposes, and to retire debt incurred for this purpose under Article 9 of Chapter 142 of the General Statutes.
- (2) To acquire land as additions to the system of parks, State trails, aesthetic forests, fish and wildlife management areas, wild and scenic rivers, and natural areas for the beneficial use and enjoyment of the public, and to retire debt incurred for this purpose under Article 9 of Chapter 142 of the General Statutes.
- ~~(3) Subject to the limitations of subsection (b2) of this section, to acquire land that contributes to the development of a balanced State program of historic properties.~~

...

~~(b2) Historic Properties.—The Trustees may authorize expenditure of up to twenty-five percent (25%) of the funds credited to the Fund pursuant to G.S. 105-228.30 during the preceding fiscal year to acquire land under subdivision (3) of subsection (b) of this section. No other funds in the Fund may be used for expenditures to acquire land under subdivision (3) of subsection (b) of this section.~~

~~(b3) Debt.—Of the funds credited annually to the Fund pursuant to G.S. 105-228.30, the Trustees may authorize expenditure of up to sixty percent (60%) to reimburse the General Fund for debt service on special indebtedness to be issued or incurred under Article 9 of Chapter 142~~

~~of the General Statutes for the purposes provided in subdivisions (b)(1) and (2) of this section. In order to authorize expenditure of funds for debt service reimbursement, the Trustees must identify to the State Treasurer and the Department of Administration the specific natural heritage projects for which they would like special indebtedness to be issued or incurred and the annual amount they intend to make available, and request the State Treasurer to issue or incur the indebtedness. After special indebtedness has been issued or incurred for a natural heritage project requested by the Trustees, the Trustees must direct the State Treasurer to credit to the General Fund each year the actual aggregate principal and interest payments to be made in that year on the special indebtedness, as identified by the State Treasurer.~~

...".

SECTION 3.(d) This section becomes effective January 1, 2015, and applies to transfers made on or after that date.

PART IV. SIMPLIFY AND REDUCE CORPORATE INCOME TAXES

SECTION 4.1.(a) G.S. 105-130.3 reads as rewritten:

"§ 105-130.3. Corporations.

A tax is imposed on the State net income of every C Corporation doing business in this State. An S Corporation is not subject to the tax levied in this section. The tax is a percentage of the taxpayer's State net income computed as follows:

Income Years Beginning	Tax
In 1997	7.5%
In 1998	7.25%
In 1999	7%
After 1999	6.9%
In 2014	6.5%
In 2015	6.25%
After 2015	6%.

SECTION 4.1.(b) This section becomes effective for taxable years beginning on or after January 1, 2014.

SECTION 4.2.(a) Effective for taxable years beginning on or after January 1, 2014, 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-three times~~ the sales factor, and the denominator of which is ~~four-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 ~~one-two~~."

SECTION 4.2.(b) Effective for taxable years beginning on or after January 1, 2015, G.S. 105-130.4(i), as amended by subsection (a) of this section, 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 ~~three-five~~ times the sales factor, and the denominator of which is ~~five-seven~~. 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-four~~."

SECTION 4.2.(c) Effective for taxable years beginning on or after January 1, 2016, G.S. 105-130.4(i), as amended by subsection (b) of this section reads as rewritten:

"(i) All apportionable income of corporations other than public ~~utilities, excluded corporations, and qualified capital intensive corporations~~ utilities shall be apportioned to this

1 State by multiplying the income by ~~a fraction, the numerator of which is the property factor~~
2 ~~plus the payroll factor plus five times the sales factor, and the denominator of which is seven.~~
3 ~~the sales factor as determined under subsection (l) of this section. If the sales factor does not~~
4 ~~exist, the denominator of the fraction is the number of existing factors and if the sales factor~~
5 ~~exists but the payroll factor or the property factor does not exist, the denominator of the~~
6 ~~fraction is the number of existing factors plus four."~~

7 **SECTION 4.2.(d)** Effective for taxable years beginning on or after January 1,
8 2016, G.S. 105-130.4(a)(4), (r), and (s1) are repealed.

9 **SECTION 4.2.(e)** Except as otherwise provided, this section is effective when it
10 becomes law.

11 **SECTION 4.3.(a)** G.S. 105-130.5, as amended by S.L. 2013-10, reads as rewritten:
12 **"§ 105-130.5. Adjustments to federal taxable income in determining State net income.**

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

- 15 (1) Taxes based on or measured by net income by whatever name called and
16 excess profits taxes.
- 17 (2) Interest paid in connection with income exempt from taxation under this
18 Part.
- 19 (3) The contributions deduction allowed by the Code.
- 20 (4) Interest income earned on bonds and other obligations of other states or their
21 political subdivisions, less allowable amortization on any bond acquired on
22 or after January 1, 1963.
- 23 ~~(5) The amount by which gains have been offset by the capital loss carryover~~
24 ~~allowed under the Code. All gains recognized on the sale or other disposition~~
25 ~~of assets must be included in determining State net income or loss in the year~~
26 ~~of disposition.~~
- 27 ~~(6) Any amount allowed as a net operating loss deduction under the Code.~~
- 28 (7) Repealed by Session Laws 2001-327, s. 3(a), effective for taxable years
29 beginning on or after January 1, 2001.
- 30 (8) Repealed by Session Laws 1987, c. 778, s. 2.
- 31 (9) Payments to or charges by a parent, subsidiary or affiliated corporation in
32 excess of fair compensation in all intercompany transactions of any kind
33 whatsoever pursuant to the Revenue Laws of this State.
- 34 (10) The total amounts allowed under this Chapter during the taxable year as a
35 credit against the taxpayer's income tax. This subdivision does not apply to a
36 credit allowed under G.S. 105-130.47. A corporation that apportions part of
37 its income to this State shall make the addition required by this subdivision
38 after it determines the amount of its income that is apportioned and allocated
39 to this State and shall not apply to a credit taken under this Chapter the
40 apportionment factor used by it in determining the amount of its apportioned
41 income.
- 42 (11) The amount by which the percentage depletion allowance allowed by
43 sections 613 and 613A of the Code for mines, oil and gas wells, and other
44 natural deposits exceeds the cost depletion allowance for these items under
45 the Code, except as otherwise provided herein. This subdivision does not
46 apply to depletion deductions for clay, gravel, phosphate rock, lime, shells,
47 stone, sand, feldspar, gemstones, mica, talc, lithium compounds, tungsten,
48 coal, peat, olivine, pyrophyllite, and other solid minerals or rare earths
49 extracted from the soil or waters of this State. Corporations required to
50 apportion income to North Carolina shall first add to federal taxable income
51 the amount of all percentage depletion in excess of cost depletion that was

1 subtracted from the corporation's gross income in computing its federal
 2 income taxes and shall then subtract from the taxable income apportioned to
 3 North Carolina the amount by which the percentage depletion allowance
 4 allowed by sections 613 and 613A of the Code for solid minerals or rare
 5 earths extracted from the soil or waters of this State exceeds the cost
 6 depletion allowance for these items.

7 (12) The amount allowed under the Code for depreciation or as an expense in lieu
 8 of depreciation for a utility plant acquired by a natural gas local distribution
 9 company, to the extent the plant is included in the company's rate base at
 10 zero cost in accordance with G.S. 62-158.

11 (13) Repealed by Session Laws 2001-427, s. 4(b), effective for taxable years
 12 beginning on or after January 1, 2002.

13 (14) Royalty payments required to be added by G.S. 105-130.7A, to the extent
 14 deducted in calculating federal taxable income.

15 (15) ~~For taxable years 2002-2005, the applicable percentage of the amount~~
 16 ~~allowed as a special accelerated depreciation deduction under section 168(k)~~
 17 ~~or section 1400L of the Code, as set out in the table below. In addition, a~~
 18 ~~taxpayer who was allowed a special accelerated depreciation deduction~~
 19 ~~under section 168(k) or section 1400L of the Code in a taxable year~~
 20 ~~beginning before January 1, 2002, and whose North Carolina taxable income~~
 21 ~~in that earlier year reflected that accelerated depreciation deduction must add~~
 22 ~~to federal taxable income in the taxpayer's first taxable year beginning on or~~
 23 ~~after January 1, 2002, an amount equal to the amount of the deduction~~
 24 ~~allowed in the earlier taxable year. These adjustments do not result in a~~
 25 ~~difference in basis of the affected assets for State and federal income tax~~
 26 ~~purposes. The applicable percentage is as follows:~~

Taxable Year	Percentage
2002	100%
2003	70%
2004	70%
2005	0%

27
 28
 29
 30
 31
 32 (15a) ~~The applicable percentage of the amount allowed as a special accelerated~~
 33 ~~depreciation deduction under section 168(k) or 168(n) of the Code for~~
 34 ~~property placed in service after December 31, 2007, but before January 1,~~
 35 ~~2010. The applicable percentage under this subdivision is eighty five percent~~
 36 ~~(85%).~~

37 ~~In addition, a taxpayer who was allowed a special accelerated~~
 38 ~~depreciation deduction in taxable year 2007 or 2008 for property placed in~~
 39 ~~service during that year, and whose North Carolina taxable income for that~~
 40 ~~year reflected that accelerated depreciation deduction must make the~~
 41 ~~adjustments set out below. These adjustments do not result in a difference in~~
 42 ~~basis of the affected assets for State and federal income tax purposes.~~

43 a. ~~A taxpayer must add to federal taxable income in the taxpayer's 2008~~
 44 ~~taxable year an amount equal to the applicable percentage of the~~
 45 ~~accelerated depreciation deduction reflected in the taxpayer's 2007~~
 46 ~~North Carolina taxable income.~~

47 b. ~~A taxpayer must add to federal taxable income in the taxpayer's 2009~~
 48 ~~taxable year an amount equal to the applicable percentage of the~~
 49 ~~accelerated depreciation deduction reflected in the taxpayer's 2008~~
 50 ~~North Carolina taxable income.~~

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

(16) The amount excluded from gross income under Subchapter R of Chapter 1 of the Code.

(17) The amount excluded from gross income under section 199 of the Code.

(18) Repealed by Session Laws 2006-220, s. 1, effective for taxable years beginning on and after January 1, 2007.

(19) The dividend paid deduction allowed under the Code to a captive REIT, as defined in G.S. 105-130.12.

(20) The amount of a donation made to a nonprofit organization or a unit of State or local government for which a credit is claimed under G.S. 105-129.16H.

(21) The amount of income deferred under section 108(i)(1) of the Code from the discharge of indebtedness in connection with a reacquisition of an applicable debt instrument.

(22) The amount allowed as a deduction under section 163(e)(5)(F) of the Code for an original issue discount on an applicable high yield discount obligation.

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

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

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

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

(1) Interest upon the obligations of the United States or its possessions, to the extent included in federal taxable income: Provided, interest upon the obligations of the United States shall not be an allowable deduction unless

- 1 interest upon obligations of the State of North Carolina or any of its political
2 subdivisions is exempt from income taxes imposed by the United States.
- 3 (1a) Interest upon the obligations of any of the following, net of related expenses,
4 to the extent included in federal taxable income:
- 5 a. This State, a political subdivision of this State, or a commission, an
6 authority, or another agency of this State or of a political subdivision
7 of this State.
- 8 b. A nonprofit educational institution organized or chartered under the
9 laws of this State.
- 10 (2) Payments received from a parent, subsidiary or affiliated corporation in
11 excess of fair compensation in intercompany transactions which in the
12 determination of the net income or net loss of such corporation were not
13 allowed as a deduction under the Revenue Laws of this State.
- 14 (3) Repealed by Session Laws 2003-349, s. 1.1, effective January 1, 2003.
- 15 (3a) Dividends treated as received from sources outside the United States as
16 determined under section 862 of the Code, net of related expenses, to the
17 extent included in federal taxable income. ~~Notwithstanding the proviso in~~
18 ~~subdivision (c)(3) of this section, the netting of related expenses shall be~~
19 ~~calculated in accordance with subdivision (c)(3) of this section and~~
20 ~~G.S. 105-130.6A.~~
- 21 (3b) Any amount included in federal taxable income under section 78 or section
22 951 of the Code, net of related expenses.
- 23 (4) Losses in the nature of State net economic losses sustained by the
24 corporation in any or all of the 15 preceding years pursuant to the provisions
25 of G.S. 105-130.8. A corporation required to allocate and apportion its net
26 income under the provisions of G.S. 105-130.4 shall deduct its allocable and
27 apportionable State net ~~economic~~ loss only from total income allocable and
28 apportionable to this State pursuant to the provisions of G.S. 105-130.8.
- 29 (4a) Any unused portion of a net economic loss sustained by the corporation in
30 taxable years beginning before January 1, 2014, pursuant to the provisions of
31 G.S. 105-130.8. This subdivision expires for taxable years beginning on or
32 after January 1, 2029.
- 33 (5) ~~Contributions or gifts made by any corporation within the income year to the~~
34 ~~extent provided under G.S. 105-130.9.~~
- 35 (6) ~~Amortization in excess of depreciation allowed under the Code on the cost~~
36 ~~of any sewage or waste treatment plant, and facilities or equipment used for~~
37 ~~purposes of recycling or resource recovery of or from solid waste, or for~~
38 ~~purposes of reducing the volume of hazardous waste generated as provided~~
39 ~~in G.S. 105-130.10.~~
- 40 (7) ~~Depreciation of emergency facilities acquired prior to January 1, 1955. Any~~
41 ~~corporation shall be permitted to depreciate any emergency facility, as such~~
42 ~~is defined in section 168 of the Code, over its useful life, provided such~~
43 ~~facility was acquired prior to January 1, 1955, and no amortization has been~~
44 ~~claimed on such facility for State income tax purposes.~~
- 45 (8) ~~The amount of losses realized on the sale or other disposition of assets not~~
46 ~~allowed under section 1211(a) of the Code. All losses recognized on the sale~~
47 ~~or other disposition of assets must be included in determining State net~~
48 ~~income or loss in the year of disposition.~~
- 49 (9) With respect to a shareholder of a regulated investment company, the portion
50 of undistributed capital gains of such regulated investment company
51 included in such shareholder's federal taxable income and on which the

- 1 federal tax paid by the regulated investment company is allowed as a credit
2 or refund to the shareholder under section 852 of the Code.
- 3 (10) Repealed by Session Laws 1987, c. 778, s. 2.
- 4 (11) If a deduction for an ordinary and necessary business expense was required
5 to be reduced or was not allowed under the Code because the corporation
6 claimed a federal tax credit against its federal income tax liability for the
7 income year in lieu of a deduction, the amount by which the deduction was
8 reduced and the amount of the deduction that was disallowed. This
9 deduction is allowed only to the extent that a similar credit is not allowed by
10 this Chapter for the amount.
- 11 ~~(12) Reasonable expenses, in excess of deductions allowed under the Code, paid
12 for reforestation and cultivation of commercially grown trees; provided, that
13 this deduction shall be allowed only to those corporations in which the real
14 owners of all the shares of such corporation are natural persons actively
15 engaged in the commercial growing of trees, or the spouse, siblings, or
16 parents of such persons. Provided, further, that in no case shall a corporation
17 be allowed a deduction for the same reforestation or cultivation expenditure
18 more than once.~~
- 19 ~~(13) The eligible income of an international banking facility to the extent
20 included in determining federal taxable income, determined as follows:~~
- 21 ~~a. "International banking facility" shall have the same meaning as is set
22 forth in the laws of the United States or regulations of the board of
23 governors of the federal reserve system.~~
- 24 ~~b. The eligible income of an international banking facility for the
25 taxable year shall be an amount obtained by multiplying State taxable
26 income as determined under G.S. 105-130.3 (determined without
27 regard to eligible income of an international banking facility and
28 allocation and apportionment, if applicable) for such year by a
29 fraction, the denominator of which shall be the gross receipts for
30 such year derived by the bank from all sources, and the numerator of
31 which shall be the adjusted gross receipts for such year derived by
32 the international banking facility from:~~
- 33 ~~1. Making, arranging for, placing or servicing loans to foreign
34 persons substantially all the proceeds of which are for use
35 outside the United States;~~
- 36 ~~2. Making or placing deposits with foreign persons which are
37 banks or foreign branches of banks (including foreign
38 subsidiaries or foreign branches of the taxpayer) or with other
39 international banking facilities; or~~
- 40 ~~3. Entering into foreign exchange trading or hedging
41 transactions related to any of the transactions described in this
42 paragraph.~~
- 43 ~~e. The adjusted gross receipts shall be determined by multiplying the
44 gross receipts of the international banking facility by a fraction the
45 numerator of which is the average amount for the taxable year of all
46 assets of the international banking facility which are employed
47 outside the United States and the denominator of which is the
48 average amount for the taxable year of all assets of the international
49 banking facility.~~
- 50 ~~d. For the purposes of this subsection the term "foreign person" means:~~
- 51 ~~1. An individual who is not a resident of the United States;~~

- 1 ~~(21a) An amount equal to twenty percent (20%) of the amount added to federal~~
2 ~~taxable income as accelerated depreciation under subdivision (a)(15a) of this~~
3 ~~section. For a taxpayer who made the addition for accelerated depreciation in~~
4 ~~the 2008 taxable year, the deduction allowed by this subdivision applies to~~
5 ~~the first five taxable years beginning on or after January 1, 2009. For a~~
6 ~~taxpayer who made the addition for accelerated depreciation in the 2009~~
7 ~~taxable year, the deduction allowed by this subdivision applies to the first~~
8 ~~five taxable years beginning on or after January 1, 2010.~~
- 9 ~~(21b) An amount equal to twenty percent (20%) of the amount added to federal~~
10 ~~taxable income as accelerated depreciation under subdivision (a)(15b) of this~~
11 ~~section. For the amount added to taxable income in the 2010 taxable year,~~
12 ~~the deduction allowed by this subdivision applies to the first five taxable~~
13 ~~years beginning on or after January 1, 2011. For the amount added to taxable~~
14 ~~income in the 2011 taxable year, the deduction allowed by this subdivision~~
15 ~~applies to the first five taxable years beginning on or after January 1, 2012.~~
16 ~~For the amount added to taxable income in the 2012 taxable year, the~~
17 ~~deduction allowed by this subdivision applies to the first five taxable years~~
18 ~~beginning on or after January 1, 2013. For the amount added to taxable~~
19 ~~income in the 2013 taxable year, the deduction allowed by this subdivision~~
20 ~~applies to the first five taxable years beginning on or after January 1, 2014.~~
- 21 ~~(22) To the extent included in federal taxable income, the amount paid to the~~
22 ~~taxpayer during the taxable year from the Disaster Relief Reserve Fund in~~
23 ~~the Office of State Budget and Management for hurricane relief or~~
24 ~~assistance, but not including payments for goods or services provided by the~~
25 ~~taxpayer.~~
- 26 ~~(23) A dividend received from a captive REIT, as defined in G.S. 105-130.12.~~
- 27 ~~(24) Five percent (5%) of the gross purchase price of a qualified sale of a~~
28 ~~manufactured home community. A qualified sale is a transfer of land~~
29 ~~comprising a manufactured home community in a single purchase to a group~~
30 ~~composed of a majority of the manufactured home community leaseholders~~
31 ~~or to a nonprofit organization that represents such a group. To be eligible for~~
32 ~~this deduction, a taxpayer must give notice of the sale to the North Carolina~~
33 ~~Housing Finance Agency under G.S. 42-14.3.~~
- 34 ~~(25) The amount added to federal taxable income as deferred income under~~
35 ~~section 108(i)(1) of the Code. This deduction applies to taxable years~~
36 ~~beginning on or after January 1, 2014.~~
- 37 ~~(26) An amount equal to twenty percent (20%) of the amount added to federal~~
38 ~~taxable income under subdivision (a)(23) of this section. For the amount~~
39 ~~added to taxable income in the 2010 taxable year, the deduction allowed by~~
40 ~~this subdivision applies to the first five taxable years beginning on or after~~
41 ~~January 1, 2011. For the amount added to taxable income in the 2011 taxable~~
42 ~~year, the deduction allowed by this subdivision applies to the first five~~
43 ~~taxable years beginning on or after January 1, 2012.~~
- 44 ~~(26a) An amount equal to twenty percent (20%) of the amount added to federal~~
45 ~~taxable income under subdivision (a)(23a) of this section. For the amount~~
46 ~~added to taxable income in the 2012 taxable year, the deduction allowed by~~
47 ~~this subdivision applies to the first five taxable years beginning on or after~~
48 ~~January 1, 2013. For the amount added to taxable income in the 2013 taxable~~
49 ~~year, the deduction allowed by this subdivision applies to the first five~~
50 ~~taxable years beginning on or after January 1, 2014.~~

- 1 (27) [The amount allowed as a deduction under G.S. 105-130.5B as a result of an](#)
2 [add-back for federal accelerated depreciation and expensing.](#)
3 (c) The following other adjustments to federal taxable income shall be made in
4 determining State net income:
5 (1) In determining State net income, no deduction shall be allowed for annual
6 amortization of bond premiums applicable to any bond acquired prior to
7 January 1, 1963. The amount of premium paid on any such bond shall be
8 deductible only in the year of sale or other disposition.
9 (2) Federal taxable income must be increased or decreased to account for any
10 difference in the amount of depreciation, amortization, or gains or losses
11 applicable to property which has been depreciated or amortized by use of a
12 different basis or rate for State income tax purposes than used for federal
13 income tax purposes prior to the effective date of this Part.
14 (3) No deduction is allowed for any direct or indirect expenses related to income
15 not taxed under this Part; provided, no adjustment shall be made under this
16 subsection for adjustments addressed in G.S. 105-130.5(a) and (b).
17 ~~G.S. 105-130.6A applies to the adjustment for expenses related to dividends~~
18 ~~received that are not taxed under this Part.~~
19 (4) The taxpayer shall add to federal taxable income the amount of any recovery
20 during the taxable year not included in federal taxable income, to the extent
21 the taxpayer's deduction of the recovered amount in a prior taxable year
22 reduced the taxpayer's tax imposed by this Part but, due to differences
23 between the Code and this Part, did not reduce the amount of the taxpayer's
24 tax imposed by the Code. The taxpayer may deduct from federal taxable
25 income the amount of any recovery during the taxable year included in
26 federal taxable income under section 111 of the Code, to the extent the
27 taxpayer's deduction of the recovered amount in a prior taxable year reduced
28 the taxpayer's tax imposed by the Code but, due to differences between the
29 Code and this Part, did not reduce the amount of the taxpayer's tax imposed
30 by this Part.
31 (5) A savings and loan association may deduct interest earned on deposits at the
32 Federal Home Loan Bank of Atlanta, or its successor, to the extent included
33 in federal taxable income.
34 (d) Repealed by Session Laws 1987, c. 778, s. 3.
35 (e) Notwithstanding any other provision of this section, any recapture of depreciation
36 required under the Code must be included in a corporation's State net income to the extent
37 required for federal income tax purposes.
38 (f) Expired."

39 **SECTION 4.3.(b)** Part 1 of Article 4 of Chapter 105 of the General Statutes is
40 amended by adding a new section to read:

41 **"§ 105-130.5B. Adjustments when State decouples from federal accelerated depreciation**
42 **and expensing.**

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

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

51 Taxable Year of

Five Taxable Years of

85% Add-Back20% Deduction20102011 through 201520112012 through 201620122013 through 201720132014 through 2018

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

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

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

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

SECTION 4.3.(c) G.S. 105-130.8 reads as rewritten:

"§ 105-130.8. Net ~~economic loss~~ **loss provisions.**

(a) Net ~~economic~~ losses sustained by a corporation in any or all of the 15 preceding income years shall be allowed as a deduction to the corporation subject to the following limitations:

- (1) ~~The purpose in allowing the deduction of a net economic loss of a prior year is to grant some measure of relief to the corporation that has incurred economic misfortune or is otherwise materially affected by strict adherence to the annual accounting rule in the determination of net income. The deduction allowed in this section does not authorize the carrying forward of any particular items or category of loss except to the extent that the loss results in the impairment of the net economic situation of the corporation so as to result in a net economic loss as defined in this section. A State net loss means the taxpayer's federal taxable income (loss) as determined under the Code, adjusted as provided in G.S. 105-130.5 and, in the case of a corporation that has income from business activity that is taxable both within and without this State, allocated and apportioned to this State as provided in G.S. 105-130.4. For purposes of this deduction, a State net loss does not include prior year losses.~~
- (2) ~~The net economic loss for any year means the amount by which allowable deductions for the year other than prior year losses exceed income from all sources in the year including any income not taxable under this Part.~~
- (3) ~~Any net economic loss of prior years brought forward and claimed as a deduction in any income year may be deducted from net income of the year only to the extent that the loss carried forward from the prior years exceeds any income not taxable under this Part received in the same year in which the deduction is claimed, except that in the case of a corporation required to~~

~~allocate and apportion to North Carolina its net income, only that proportionate part of the net economic loss of a prior year shall be deductible from total income allocable to this State as would be determined by the use of the allocation and apportionment provisions of G.S. 105-130.4 for the year of the loss.~~

~~(4)(2)~~ A net economic loss carried forward from any year shall first be applied to, or offset by, any income taxable or nontaxable of to the next succeeding year before any portion of the loss may be carried forward to a succeeding year.

~~(5)~~ For purposes of this section, any income item deductible in determining State net income under the provisions of G.S. 105-130.5 and any nonapportionable income not allocable to this State under the provisions of G.S. 105-130.4 shall be considered as income not taxable under this Part. The amount of the income item considered income not taxable under this Part is determined after subtracting related expenses for which a deduction was allowed under this Part.

~~(6)(3)~~ No loss shall either directly or indirectly be carried forward more than 15 years.

(b) A corporation claiming a deduction for a loss for the current year or carried forward from a prior year must maintain and make available for inspection by the Secretary all records necessary to determine and verify the amount of the deduction. The Secretary or the taxpayer may redetermine an item originating in a taxable year that is closed under the statute of limitations for the purpose of determining the amount of net economic loss that can be carried forward to a taxable year that remains open under the statute of limitations."

SECTION 4.3.(d) This section is effective for taxable years beginning on or after January 1, 2014.

SECTION 4.4.(a) Article 3C of Chapter 105 of the General Statutes is repealed.

SECTION 4.4.(b) The following statutes are repealed:

G.S. 105-130.6A (Adjustments for expenses related to dividends)

G.S. 105-130.9 (Contributions)

G.S. 105-130.10 (Amortization of air-cleaning devices, waste treatment facilities, and recycling facilities)

G.S. 105-130.10A (Amortization of equipment mandated by OSHA)

G.S. 105-130.22 (Tax credit for construction of dwelling units for handicapped person)

G.S. 105-151.1

G.S. 105-130.25 (Credit against corporate income tax for construction of cogenerating power plants)

G.S. 105-130.34 (Credit for certain real property donations)

G.S. 105-151.12

G.S. 105-130.36 (Credit for conservation tillage equipment)

G.S. 105-151.13

G.S. 105-130.37 (Credit for gleaned crop)

G.S. 105-151.14

G.S. 105-130.39 (Credit for certain telephone subscriber line charges)

G.S. 105-130.43 (Credit for savings and loan supervisory fees)

G.S. 105-130.44 (Credit for construction of poultry composting facility)

G.S. 105-151.25

SECTION 4.4.(c) This section becomes effective for taxable years beginning on or after January 1, 2014.

SECTION 4.5.(a) Article 3K of Chapter 105 of the General Statutes is repealed.

1 **SECTION 4.5.(b)** This section becomes effective for taxable years beginning on or
2 after January 1, 2015.

3
4 **PART V. ADJUST LOCAL TAX RATES, MODIFY LOCAL DISTRIBUTIONS,**
5 **AND AUTHORIZE MUNICIPALITIES TO IMPOSE AN ANNUAL PRIVILEGE TAX**
6 **NOT TO EXCEED FIVE HUNDRED DOLLARS ON A BUSINESS OPERATING**
7 **WITHIN THE MUNICIPALITY**

8 **SECTION 5.1.(a)** Article 42 of Chapter 105 of the General Statutes is repealed.

9 **SECTION 5.1.(b)** This section becomes effective January 1, 2015, and applies to
10 sales made on or after that date.

11 **SECTION 5.2.(a)** G.S. 105-472 reads as rewritten:

12 **"§ 105-472. Disposition and distribution of taxes collected.**

13 (a) County Allocation. – The Secretary shall, on a monthly basis, allocate ~~to each taxing~~
14 ~~county for which the Secretary collects the tax~~ the net proceeds of the tax collected ~~in that~~
15 ~~county under this Article.~~ under this Article to the taxing counties as provided in this
16 subsection. For the purpose of this section, "net proceeds" means the gross proceeds of the tax
17 collected in each county under this Article less taxes refunded, the cost to the State of
18 collecting and administering the tax in the county as determined by the Secretary, and other
19 deductions that may be charged to the county. If the Secretary collects local sales or use taxes
20 in a month and the taxes cannot be identified as being attributable to a particular taxing county,
21 the Secretary shall allocate the taxes among the taxing counties in proportion to the amount of
22 taxes collected in each county under this Article during that month and shall include them in
23 the monthly distribution. Amounts collected by electronic funds transfer payments are included
24 in the distribution for the month in which the return that applies to the payment is received. The
25 net proceeds are allocated as follows:

26 (1) Sixty percent (60%) to the taxing county where the tax was collected.

27 (2) Forty percent (40%) to the taxing county on a per capita basis according to
28 the most recent annual population estimates certified to the Secretary by the
29 State Budget Officer.

30 ...

31 (e) Deductions. – The costs incurred by the State to provide the functions listed in this
32 subsection that support local governments are deductible from the collections to be allocated
33 each month for distribution.

34 (1) The Department's cost of the following for the preceding month must be
35 deducted and credited to the Department:

36 a. The Local Government Division.

37 b. The Property Tax Commission.

38 (2) The Department of State Treasurer's costs for personnel and operations of
39 the Local Government Commission.

40 (3) One-twelfth of the costs of the following for the preceding fiscal year must
41 be deducted and credited to the General Fund:

42 a. The School of Government at the University of North Carolina at
43 Chapel Hill in operating a training program in property tax appraisal
44 and assessment.

45 b. Seventy percent (70%) of the expenses of the Department of
46 Revenue in performing the duties imposed by Article 2D of this
47 Chapter."

48 **SECTION 5.2.(b)** G.S. 105-486(a) reads as rewritten:

49 (a) County Allocation. – The Secretary shall, on a monthly basis, allocate the net
50 proceeds of the additional one-half percent (1/2%) sales and use taxes levied under this Article
51 to the taxing counties as follows:

1 (1) [Sixty percent \(60%\) to the taxing county where the tax was collected.](#)

2 (2) [Forty percent \(40%\) to the taxing county](#) on a per capita basis according to
3 the most recent annual population estimates certified to the Secretary by the
4 State Budget Officer."

5 **SECTION 5.2.(c)** This section becomes effective January 1, 2015, and applies to
6 distributions for collections for quarters beginning on or after that date.

7 **SECTION 5.3.(a)** G.S. 105-469 reads as rewritten:

8 "**§ 105-469. Secretary to collect and administer local sales and use tax.**

9 (a) [Collection and Administration. –](#) The Secretary ~~shall~~must collect and administer a
10 tax levied by a county pursuant to this Article. [Except as provided in this section, the net tax](#)
11 [proceeds must be allocated and distributed as provided in G.S. 105-472.](#)

12 (a1) [Food. –](#) As directed by G.S. 105-164.13B, taxes levied by a county on food are
13 administered as if they were levied by the State under Article 5 of this Chapter. The Secretary
14 must, on a monthly basis, distribute local taxes levied on food to the taxing counties as follows:

15 (1) The Secretary must allocate one-half of the net proceeds on a per capita
16 basis according to the most recent annual population estimates certified to
17 the Secretary by the State Budget Officer. The Secretary must then adjust the
18 amount allocated to each county as provided in G.S. 105-486(b). The
19 Secretary must include one-half of the amount allocated under this
20 subdivision in the distribution made under Article 40 of this Chapter and
21 must include the remaining one-half in the distribution made under Article
22 42 of this Chapter.

23 (2) The Secretary must allocate the remaining net proceeds proportionately to
24 each taxing county based upon the amount of sales tax on food collected in
25 the taxing county in the 1997-1998 fiscal year under Article 39 of this
26 Chapter or under Chapter 1096 of the 1967 Session Laws relative to the total
27 amount of sales tax on food collected in all taxing counties in the 1997-1998
28 fiscal year under Article 39 of this Chapter and under Chapter 1096 of the
29 1967 Session Laws. The Secretary must include the amount allocated under
30 this subdivision in the distribution made under Article 39 of this Chapter.

31 (a2) [Electricity and Piped Natural Gas. – The Secretary must, on a monthly basis,](#)
32 [allocate to each taxing county for which the Secretary collects the tax the net proceeds of the](#)
33 [tax collected in that county on electricity and piped natural gas. The Secretary must divide one](#)
34 [hundred percent \(100%\) of the amount allocated to each taxing county among the](#)
35 [municipalities in that county on a per capita basis, as determined under G.S. 105-472\(b\)\(1\). The](#)
36 [term "net proceeds" has the same meaning as defined in G.S. 105-472.](#)

37 (b) The Secretary shall require retailers who collect use tax on sales to North Carolina
38 residents to ascertain the county of residence of each buyer and provide that information to the
39 Secretary along with any other information necessary for the Secretary to allocate the use tax
40 proceeds to the correct taxing county."

41 **SECTION 5.3.(b)** G.S. 105-486 is amended by adding a new subsection to read:

42 "[\(e\) Electricity and Piped Natural Gas. – The Secretary must allocate and distribute the](#)
43 [net proceeds of the tax collected on electricity and piped natural gas in accordance with](#)
44 [G.S. 105-469\(a2\).](#)"

45 **SECTION 5.3.(c)** This section becomes effective January 1, 2015, and applies to
46 distributions for collections for quarters beginning on or after that date.

47 **SECTION 5.4.(a)** G.S. 105-113.82 is repealed.

48 **SECTION 5.4.(b)** G.S. 108A-93 reads as rewritten:

49 "**§ 108A-93. Withholding of State moneys from counties failing to pay public assistance**
50 **costs.**

1 The Director of the Budget may withhold from any county that does not pay its full share of
 2 public assistance costs to the State and has not obtained a loan for repayment under
 3 G.S. 108A-89, any State moneys appropriated from the General Fund for public assistance and
 4 related administrative costs, or may direct the Secretary of Revenue and State Controller to
 5 withhold any tax owed to a county under ~~G.S. 105-113.82~~, Subchapter VIII of Chapter 105 of
 6 the General ~~Statutes, Statutes~~ or Chapter 1096 of the Session Laws of 1967. The Director of the
 7 Budget ~~shall must~~ notify the chair of the board of county commissioners of the proposed action
 8 prior to the withholding of funds."

9 **SECTION 5.4.(c)** This section becomes effective July 1, 2015.

10 **SECTION 5.5.(a)** G.S. 105-523 is repealed.

11 **SECTION 5.5.(b)** This section becomes effective July 1, 2015.

12 **SECTION 5.6.(a)** G.S. 115C-546.1 reads as rewritten:

13 **"§ 115C-546.1. Creation of Fund; administration.**

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

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

22 Period	22 Fraction
23 10/1/97 to 9/30/98	23 One-fifteenth (1/15)
24 10/1/98 to 9/30/99	24 Two-twenty-ninths (2/29)
25 10/1/99 to 9/30/00	25 One-fourteenth (1/14)
26 After 9/30/00	26 Five-sixty-ninths (5/69)

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

28 **SECTION 5.6.(b)** G.S. 115C-546.2(a) is repealed.

29 **SECTION 5.6.(c)** This section becomes effective April 1, 2015, and applies to
 30 distributions for collections for quarters beginning on or after that date.

31 **SECTION 5.7.(a)** G.S. 160A-211 is repealed.

32 **SECTION 5.7.(b)** Article 9 of Chapter 160A is amended by adding the following
 33 new section:

34 **"§160A-211.2. Privilege license tax.**

35 (a) Levy. – Except as otherwise provided by law, a city may levy an annual privilege
 36 license tax of up to five hundred dollars (\$500.00) on a business operating within a city if the
 37 business does any of the following activities within the city limits:

- 38 (1) Maintains a permanent or temporary business location.
- 39 (2) Solicits business, either personally or through agents.
- 40 (3) Picks up or delivers goods or services.

41 (b) Limitations. – A city may not impose a privilege license tax on any of the following
 42 businesses but may require that the business obtain a license:

- 43 (1) A business that is exempt from federal income tax under section 501 of the
 44 Code.
- 45 (2) A business engaged in the wholesale sales of alcoholic beverages.
- 46 (3) A business that supplies electricity.
- 47 (4) A business that supplies piped natural gas.
- 48 (5) A business that provides telecommunications service.
- 49 (6) A business that provides video programming.

50 (c) Administration. – If a city levies a tax under this section, a business must obtain the
 51 required license and pay the tax before it begins to operate within a city. The tax is due by July

1 1 of each year. The tax is imposed for the privilege of engaging in business during the fiscal
2 year that begins on the July 1 due date of the tax. The full amount of the privilege license tax
3 applies to a business that, during a fiscal year, begins to operate a business for which a license
4 is required. If a licensee discontinues its business during the license year, the licensee is not
5 entitled to a refund.

6 (d) Multiple Locations. – A separate license is required and a separate license tax must
7 be paid for each place of business unless two or more places of business under common
8 ownership are contiguous to each other, communicate directly with and open into each other,
9 and are operated as a unit.

10 (e) Penalties. – The penalties in G.S. 105-236 apply to this section. A city may collect a
11 tax due in any manner allowed under Article 9 of Chapter 105 of the General Statutes.

12 (f) Definition. – For purposes of this section, the term "business" means a retailer,
13 wholesale merchant, service provider, or franchise, whether it is a sole proprietorship,
14 partnership, LLC, or corporation; whether it is home-based or at another location, whether it is
15 full-time, part-time, or seasonal, and regardless of size."

16 **SECTION 5.7.(c)** This section becomes effective July 1, 2015, and applies to
17 licenses issued or renewed on or after that date.

18 **SECTION 5.8.(a)** Article 44 of Chapter 105 of the General Statutes is amended by
19 adding two new subsections to read:

20 **"§ 105-522A. Transitional city hold harmless for repealed local taxes.**

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

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

25 (1) Hold harmless threshold. – The amount of sales and use tax revenue
26 allocated for distribution to a municipality under G.S. 105-472 and
27 G.S. 105-486.

28 (2) Repealed tax amounts. – The sum of the following amounts divided by
29 twelve:

30 a. The amount of beer and wine taxes distributed to a municipality
31 under G.S. 105-113.82 for the twelve-month period ending March
32 31, 2015.

33 b. The amount of electricity franchise tax distributed to a municipality
34 under G.S. 105-116.1 for the twelve-month period ending December
35 31, 2014.

36 c. The amount of excise tax from piped natural gas distributed to a
37 municipality under G.S. 105-187.44 for the twelve-month period
38 ending December 31, 2014.

39 d. The annual refund amount of sales and use taxes received by a
40 municipality under G.S. 105-164.14(c) for fiscal year 2013-2014.

41 e. The amount of sales and use tax revenue allocated for distribution to
42 a municipality under G.S. 105-501 for the twelve-month period
43 ending December 31, 2014.

44 f. An amount determined by subtracting the amount allocated to a
45 municipality for distribution under G.S. 105-472 and G.S. 105-486
46 for the 12-month period ending December 31, 2014, from the amount
47 that would have been allocated to the municipality for distribution if
48 the sales and use tax revenues collected under G.S. 105-472 and
49 G.S. 105-486 for that same 12-month period had been allocated for
50 distribution to the counties on the following basis: sixty percent

(60%) on the basis of point of origin and forty percent (40%) on a per capita basis.

(b) Requirement. – If an eligible municipality's repealed tax amount for a month exceeds the municipality's hold harmless threshold for that month, the State is required to pay the municipality a percentage of the difference. The Secretary must withhold from sales and use tax collection under Article 5 of this Chapter the amount needed to make the city hold harmless payments required by this section.

<u>Fiscal Year</u>	<u>Percentage of Hold Harmless Payment</u>
<u>2014-2015</u>	<u>100%</u>
<u>2015-2016</u>	<u>100%</u>
<u>2016-2017</u>	<u>90%</u>
<u>2017-2018</u>	<u>80%</u>
<u>2018-2019</u>	<u>70%</u>
<u>2019-2020</u>	<u>60%</u>
<u>2020-2021</u>	<u>50%</u>
<u>2021-2022</u>	<u>40%</u>
<u>2022-2023</u>	<u>30%</u>
<u>2023-2024</u>	<u>20%</u>
<u>2024-2025</u>	<u>10%</u>

(c) Sunset. –This section expires July 1, 2025.

§ 105-523A. Transitional county hold harmless for repealed local taxes.

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

(1) Hold harmless threshold. – The amount of sales and use tax revenue allocated for distribution to the county under G.S. 105-472 and G.S. 105-486.

(2) Repealed tax amounts. – The sum of the following amounts divided by twelve:

- a. The amount of beer and wine taxes distributed to the county under G.S. 105-113.82 for the twelve-month period ending March 31, 2015.
- b. The amount of excise tax retained by the county under G.S. 105-228.30 for the twelve-month period ending December 31, 2014.
- c. The annual refund amount of sales and use taxes received by the county under G.S. 105-164.14(c) for fiscal year 2013-2014.
- d. The amount of hold harmless payment received by the county under G.S. 105-523 for fiscal year 2013-14.
- e. The amount of sales and use tax revenue allocated for distribution to the county under G.S. 105-501 for the twelve-month period ending December 31, 2014.
- f. An amount determined by subtracting the amount allocated to the county for distribution under G.S. 105-472 and G.S. 105-486 for the 12-month period ending December 31, 2014, from the amount that would have been allocated to the county for distribution if the sales and use tax revenues collected under G.S. 105-472 and G.S. 105-486 for that same 12-month period had been distributed on the following basis: sixty percent (60%) on the basis of point of origin and forty percent (40%) on a per capita basis.

(b) Requirement. – If a county's repealed tax amount for a month exceeds the county's hold harmless threshold for that month, the State is required to pay the county a percentage of

1 [the difference. The Secretary must withhold from sales and use tax collection under Article 5 of](#)
 2 [this Chapter the amount needed to make the county hold harmless payments required by this](#)
 3 [section.](#)

<u>Fiscal Year</u>	<u>Percentage of Hold Harmless Payment</u>
2014-2015	100%
2015-2016	100%
2016-2017	90%
2017-2018	80%
2018-2019	70%
2019-2020	60%
2020-2021	50%
2021-2022	40%
2022-2023	30%
2023-2024	20%
2024-2025	10%

16 [\(c\) Sunset. –This section expires July 1, 2025.](#)

17 **SECTION 5.8.(b)** This section becomes effective January 1, 2015, and applies to
 18 distributions for collections for quarters beginning on or after that date.

20 **PART VI. TRANSITIONAL PROVISIONS**

21 **SECTION 6.(a)** The Revenue Laws Study Committee is directed to study the fiscal
 22 impact of the changes proposed by this act and to recommend to the General Assembly any
 23 adjustments needed. The Committee is specifically directed to address the following:

- 24 (1) The amount of additional revenue received by the State as a result of the
 25 expansion of the sales tax base in the act and to recommend to the General
 26 Assembly any adjustment to the tax rate sufficient to offset a phased down
 27 of the personal income tax rate to zero.
- 28 (2) The application of the business privilege tax on related business entities and
 29 to recommend to the General Assembly any changes needed to prevent
 30 vertical or horizontal pyramiding of the tax.
- 31 (3) The amount of additional revenue received by counties and cities as a result
 32 of the expansion of the sales tax base in this act and the amount by which
 33 local revenue is reduced by the repeal of local privilege license taxes.
- 34 (4) The reasons for the remaining distributions of State tax revenue to local
 35 governments and ways to eliminate as many of these distributions as
 36 possible.

37 **SECTION 6.(b)** This act does not affect the rights or liabilities of the State, a
 38 taxpayer, or another person arising under a statute amended or repealed by this act before the
 39 effective date of its amendment or repeal; nor does it affect the right to any refund or credit of a
 40 tax that accrued under the amended or repealed statute before the effective date of its
 41 amendment or repeal.

42 **SECTION 6.(c)** This section is effective when it becomes law.

44 **PART VII. CORPORATE INCOME TAX CONFORMING CHANGES**

45 **SECTION 7.(a)** G.S. 105-129.50 reads as rewritten:

46 **"§ 105-129.50. Definitions.**

47 The definitions in section 41 of the Code apply in this Article. In addition, the following
 48 definitions apply in this Article:

- 49 (1) Reserved.
- 50 (2) [Development tier. – The classification assigned to an area pursuant to](#)
 51 [G.S. 143B-437.08.](#)

- 1 (3) Establishment. – Defined in 29 C.F.R. § 1904.46, as it existed on January 1,
2 2002.
- 3 (4) North Carolina university research expenses. – Any amount the taxpayer
4 paid or incurred to a research university for qualified research performed in
5 this State or basic research performed in this State.
- 6 (5) Period of measurement. – Defined in the Small Business Size Regulations of
7 the federal Small Business Administration.
- 8 (6) Qualified North Carolina research expenses. – Qualified research expenses,
9 other than North Carolina university research expenses, for research
10 performed in this State.
- 11 (7) Receipts. – Defined in the Small Business Size Regulations of the federal
12 Small Business Administration.
- 13 (8) Related person. – ~~Defined in G.S. 105-163.010.~~ A person described in one of
14 the relationships set forth in section 267(b) or 707(b) of the Code.
- 15 (9) Research university. – An institution of higher education that meets one or
16 both of the following conditions:
- 17 a. It is classified as one of the following in the most recent edition of
18 "A Classification of Institutions of Higher Education", the official
19 report of The Carnegie Foundation for the Advancement of
20 Teaching:
- 21 1. Doctoral/Research Universities, Extensive or Intensive.
22 2. Masters Colleges and Universities, I or II.
23 3. Baccalaureate Colleges, Liberal Arts or General.
- 24 b. It is a constituent institution of The University of North Carolina.
- 25 (10) Small business. – A business whose annual receipts, combined with the
26 annual receipts of all related persons, for the applicable period of
27 measurement did not exceed one million dollars (\$1,000,000)."

28 **SECTION 7.(b)** G.S. 105-129.51, as amended by Section 4 of this act, reads as

29 rewritten:

30 "**§ 105-129.51. ~~Administration;~~ Additional eligibility requirements and sunset.**

31 (a) Requirements. – A taxpayer is eligible for the credit allowed in this Article if it
32 satisfies the requirements of G.S. 105-129.83(e), (d), (e), and (f) relating to wage standard,
33 health insurance, environmental impact, and safety and health programs, respectively following
34 standards:

- 35 (1) Wage. – For research performed at an establishment in a development tier
36 two or development tier three area, the taxpayer must meet the general wage
37 standard or, if applicable, the zone wage standard published by the Secretary
38 of Commerce under G.S. 143B-437.010A. For research performed at an
39 establishment in a development tier one area, no wage standard applies.
- 40 (2) Health insurance. – The health insurance standard set in
41 G.S. 143B-437.010A applies to all the jobs at an establishment for which a
42 credit or a carryforward of a credit is claimed under this Article. If a
43 taxpayer qualifies for a credit under this Article and then fails to meet the
44 health insurance standard during a taxable year, the credit expires, and the
45 taxpayer may not take any remaining carryforwards of the credit.
- 46 (3) Environmental impact. – The environmental standard set in
47 G.S. 143B-437.010A applies to a taxpayer who claims a credit under this
48 Article. A taxpayer must meet the standard at the time the taxpayer claims
49 the credit.
- 50 (4) Employee safety and health. – The employee safety and health standard set
51 in G.S. 143B-437.010A applies to a taxpayer who claims a credit under this

1 Article. A taxpayer must meet the standard at the time the taxpayer claims
2 the credit.

3 (b) Sunset. – This Article is repealed for taxable years beginning on or after January 1,
4 2020.

5 (c) Repealed by Session Laws 2004-124, s. 32D.4, effective for taxable years beginning
6 on or after January 1, 2006."

7 **SECTION 7.(c)** G.S. 105-130.9(4) is repealed.

8 **SECTION 7.(d)** G.S. 105-230 reads as rewritten:

9 "**§ 105-230. Charter suspended for failure to report.Suspension of business entity's right**
10 **to do business for noncompliance.**

11 (a) Suspension. ~~If a corporation or a limited liability company fails to file any~~ Failure of
12 a business entity, as defined in G.S. 105-114.2, to file a report or return or to pay any a tax or
13 fee required by this Subchapter for 90 days after it is due, the Secretary shall inform the
14 Secretary of State of this failure. The Secretary of State shall due is grounds to suspend the
15 business entity's articles of incorporation, articles of organization, ~~or~~ certificate of authority, as
16 appropriate, of the corporation or limited liability company. The Secretary of State shall
17 immediately notify by mail every domestic or foreign corporation or limited liability company
18 so suspended of its suspension, or certificate of registration, as appropriate. The Secretary must
19 notify the Secretary of State when a business entity's authority to transact business is subject to
20 suspension. The Secretary of State must then immediately suspend the business entity's articles
21 of incorporation or other authority to transact business and must notify the business entity by
22 mail of the suspension. The powers, privileges, and franchises conferred upon the ~~corporation~~
23 ~~or limited liability company by the articles of incorporation, the articles of organization, or the~~
24 ~~certificate of authority~~ business entity by its articles of incorporation or other authority to
25 transact business terminate upon suspension.

26 (b) Effect. – Any act performed or attempted to be performed during the period ~~of~~
27 suspension the business entity's authority to transact business is suspended under this section is
28 invalid and of no effect, unless the Secretary of State reinstates the ~~corporation or limited~~
29 ~~liability company~~ business entity's authority pursuant to G.S. 105-232."

30 **SECTION 7.(e)** G.S. 105-232 reads as rewritten:

31 "**§ 105-232. Rights restored; receivership and liquidation.Procedure for reinstatement**
32 **after suspension of business entity's authority to do business for**
33 **noncompliance.**

34 (a) ~~Any corporation or limited liability company whose articles of incorporation,~~
35 ~~articles of organization, or certificate of authority to do business in this State has been~~
36 ~~suspended by the Secretary of State under G.S. 105-230, that complies with all the~~
37 ~~requirements of this Subchapter and pays all State taxes, fees, or penalties due from it (which~~
38 ~~total amount due may be computed, for years prior and subsequent to the suspension, in the~~
39 ~~same manner as if the suspension had not taken place), and pays to the Secretary of Revenue a~~
40 ~~fee of twenty five dollars (\$25.00) to cover the cost of reinstatement, is entitled to exercise~~
41 ~~again its rights, privileges, and franchises in this State. The Secretary of Revenue shall notify~~
42 ~~the Secretary of State of this compliance and the Secretary of State shall reinstate the~~
43 ~~corporation or limited liability company by appropriate entry upon the records of the office of~~
44 ~~the Secretary of State. Upon entry of reinstatement, it relates back to and takes effect as of the~~
45 ~~date of the suspension by the Secretary of State and the corporation or limited liability~~
46 ~~company resumes carrying on its business as if the suspension had never occurred, subject to~~
47 ~~the rights of any person who reasonably relied, to that person's prejudice, upon the suspension.~~
48 ~~The Secretary of State shall immediately notify by mail the corporation or limited liability~~
49 ~~company of the reinstatement.~~ The suspension under G.S. 105-230 of the authority of a business
50 entity to transact business terminates when the business entity resolves the noncompliance that
51 resulted in the suspension and pays a reinstatement fee of fifty dollars (\$50.00) to the Secretary

1 of Revenue. The Secretary of Revenue must notify the Secretary of State when a business
2 entity whose authority is suspended resolves the noncompliance. The Secretary of State must
3 then immediately reinstate the business entity's authority and must notify the business entity by
4 mail of the reinstatement. Reinstatement of a business entity's authority to do business relates
5 back to and takes effect as of the date of the suspension, subject to the rights of a person who
6 reasonably relied to that person's prejudice on the suspension.

7 ~~(b) When the articles of incorporation, articles of organization, or certificate of~~
8 ~~authority to do business in this State has been suspended by the Secretary of State under~~
9 ~~G.S. 105-230, and the corporation or limited liability company has ceased to operate as a going~~
10 ~~concern, if there remains property held in the name of the corporation or limited liability~~
11 ~~company or undisposed of at the time of the suspension, or there remain future interests that~~
12 ~~may accrue to the corporation, the limited liability company, or its successors, members, or~~
13 ~~stockholders, any interested party may apply to the superior court for the appointment of a~~
14 ~~receiver. Application for the receiver may be made in a civil action to which all stockholders,~~
15 ~~members, or their representatives or next of kin shall be made parties. Stockholders or members~~
16 ~~whose whereabouts are unknown, unknown stockholders or members, unknown heirs and next~~
17 ~~of kin of deceased stockholders, members, creditors, dealers, and other interested persons may~~
18 ~~be served by publication. A guardian ad litem may be appointed for any stockholders,~~
19 ~~members, or their representatives who are infants or incompetent. The receiver shall enter into~~
20 ~~a bond if the court requires one and shall give notice to creditors by publication or otherwise as~~
21 ~~the court may prescribe. Any creditor who fails to file a claim with the receiver within the time~~
22 ~~set shall be barred of the right to participate in the distribution of the assets. The receiver may~~
23 ~~(i) sell the property interests of the corporation or limited liability company upon such terms~~
24 ~~and in such manner as the court may order, (ii) apply the proceeds to the payment of any debts~~
25 ~~of the corporation or limited liability company, and (iii) distribute the remainder among the~~
26 ~~stockholders, the members, or their representatives in proportion to their interests in the~~
27 ~~property interests. Shares due to any stockholder or member who is unknown or whose~~
28 ~~whereabouts are unknown shall be paid into the office of the clerk of the superior court, to be~~
29 ~~disbursed according to law. In the event the records of the corporation or limited liability~~
30 ~~company are lost or do not reflect the owners of the property interests, the court shall determine~~
31 ~~the owners from the best evidence available, and the receiver shall be protected in acting in~~
32 ~~accordance with the court's finding. This proceeding is authorized for the sole purpose of~~
33 ~~providing a procedure for disposing of the assets of the corporation or limited liability company~~
34 ~~by the payment of its debts and by the transfer to its stockholders, its members, or their~~
35 ~~representatives their proportionate shares of its assets."~~

36 **SECTION 7.(f)** G.S. 105-259(b)(24), (37), and (38) are repealed.

37 **SECTION 7.(g)** G.S. 105-269.13 is repealed.

38 **SECTION 7.(h)** Article 10 of Chapter 143B of the General Statutes is amended by
39 adding a new section to read:

40 **"§ 143B-437.08A. Wage, health insurance, and other standards applicable to economic**
41 **development incentives.**

42 (a) Wage. – The Department must annually determine the average weekly wage for a
43 calendar year for all insured private employers in each county and in the State and must publish
44 the following wage standards applicable to economic development incentives:

45 (1) General wage standard. – A job meets the general wage standard if it pays an
46 average weekly wage that is at least equal to the lesser of one hundred ten
47 percent (110%) of the average wage for all insured private employers in the
48 State and ninety percent (90%) of the average wage for all insured private
49 employers in the county.

50 (2) Zone wage standard. – A job that is located within an urban progress zone or
51 an agrarian growth zone in a development tier two or tier three area satisfies

1 the wage standard if it pays an average weekly wage that is at least equal to
2 ninety percent (90%) of the lesser of the average wage for all insured private
3 employers in the State and the average wage for all insured private
4 employers in the county.

5 (3) Calculation. – In determining whether an employer meets a wage standard,
6 the employer may include only full-time jobs and must include any jobs that
7 were filled for at least 1,600 hours during the calendar year even if the jobs
8 are not filled at the time the employer applies for or claims an economic
9 incentive benefit. An employer whose taxable year is not a calendar year
10 must use the wage standard for the calendar year in which the taxable year
11 begins. A full-time job is a position that requires at least 1,600 hours of work
12 per year and is intended to be held by one employee during the entire year. A
13 full-time employee is an employee who holds a full-time job.

14 (b) Health Insurance. – An employer meets the health insurance standard if the
15 employer does all of the following:

16 (1) Provides health insurance for all of its full-time jobs. A full-time job is a
17 position that requires at least 1,600 hours of work per year and is intended to
18 be held by one employee during the entire year.

19 (2) Pays at least fifty percent (50%) of the premiums for health care coverage
20 that equals or exceeds the minimum provisions of the basic health care plan
21 of coverage recommended by the Small Employer Carrier Committee
22 pursuant to G.S. 58-50-125.

23 (c) Environmental Impact. – A person meets the environmental standard if the person
24 has no final determination of responsibility for an environmental disqualifying event. For the
25 purposes of this section, a "final determination unfavorable to the taxpayer" occurs when there
26 is no further opportunity for the taxpayer to seek administrative or judicial appeal, review,
27 certiorari, or rehearing of the environmental disqualifying event and the disqualifying event has
28 not been reversed or withdrawn. The Secretary of Environment and Natural Resources must
29 notify the Department of Commerce and the Department of Revenue annually of every person
30 that currently has any of these pending actions and every person that has had any of these final
31 determinations within the last five years.

32 An environmental disqualifying event is any of the following occurrences:

33 (1) A civil penalty was assessed against the person by the Department of
34 Environment and Natural Resources for failure to comply with an order
35 issued by an agency of the Department to abate or remediate a violation of
36 any program administered by the agency.

37 (2) Any of the following that occurs within current year or in the prior two
38 years:

39 a. A finding was made by the Department of Environment and Natural
40 Resources that the taxpayer knowingly and willfully, as defined in
41 G.S. 143-215.6B, including all limitations thereto, committed a
42 violation of any program implemented by an agency of the
43 Department.

44 b. An assessment for damages to fish or wildlife pursuant to
45 G.S. 143-215.3(a)(7) was made against the taxpayer.

46 c. A judicial order for injunctive relief was issued against the taxpayer
47 in connection with a violation of any program implemented by an
48 agency of the Department of Environment and Natural Resources.

49 (3) A criminal penalty was imposed on the person in connection with a violation
50 of any program implemented by an agency of the Department of

Environment and Natural Resources within the current year or within the past four years.

(d) Employee Safety and Health. – An employer meets the employee safety and health standard if the employer has no citations under the Occupational Safety and Health Act that have become a final order within the past three years for willful serious violations or for failing to abate serious violations. As used in this subsection, the term "serious violation" has the same meaning as in G.S. 95-127. The Commissioner of Labor must notify the Department of Commerce and the Department of Revenue annually of every person that has had these citations become final orders within the past three years."

SECTION 7.(i) G.S. 143B-437.01(a) and (a1) read as rewritten:

(a) Creation and Purpose of Fund. – There is created in the Department of Commerce the Industrial Development Fund to provide funds to assist the local government units of the most economically distressed counties in the State in creating and retaining jobs in certain industries. The Department of Commerce shall adopt rules providing for the administration of the program. Those rules shall include the following provisions, which shall apply to each grant from the fund:

...

(6) The funds shall not be used for any nonmanufacturing project that does not meet the general wage standard set out in G.S. 105-129.4(b), G.S. 143B-437.08A.

(a1) Definitions. – The following definitions apply in this section:

(1) Air courier services. – Defined in G.S. 105-129.81. The furnishing of air delivery of individually addressed letters and packages for compensation, in interstate commerce, except by the United States Postal Service.

(2) Repealed by Session Laws 2006-252, s. 2.4, effective January 1, 2007.

(2a) Company headquarters. – Defined in G.S. 105-129.81. A corporate, subsidiary, or regional managing office, as defined by NAICS in United States industry 551114, that is responsible for strategic or organizational planning and decision making for the business on an international, national, or multistate regional basis.

...

(6) Information technology and services. – Defined in G.S. 105-129.81. An industry in one of the following:

a. Internet service providers, Web search portals, and data processing subsector 518 as defined by NAICS.

b. Software publishers industry group 5112 as defined by NAICS.

c. Computer systems design and related services industry group 5415 as defined by NAICS.

...

(8) Manufacturing. – Defined in G.S. 105-129.81. An industry in manufacturing sectors 31 through 33, as defined by NAICS, but not including quick printing or retail bakeries.

(9) NAICS. – Defined in G.S. 105-228.90.

(10) Warehousing. – Defined in G.S. 105-129.81. An industry in warehousing and storage subsector 493 as defined by NAICS.

(11) Wholesale trade. – Defined in G.S. 105-129.81. An industry in wholesale trade sector 42 as defined by NAICS."

SECTION 7.(j) This section becomes effective January 1, 2015.

PART VIII. INDIVIDUAL INCOME TAX CONFORMING CHANGES

SECTION 8.(a) G.S. 105-131.2 reads as rewritten:

1 **"§ 105-131.2. Adjustment and characterization of income.**

2 (a) Adjustment. – Each shareholder's pro rata share of an S Corporation's income is
3 subject to the adjustments provided in ~~G.S. 105-134.6~~[G.S. 105-153.5](#).

4 (b) Repealed by Session Laws 1989, c. 728, s. 1.35.

5 (c) Characterization of Income. – S Corporation items of income, loss, deduction, and
6 credit taken into account by a shareholder pursuant to G.S. 105-131.1(b) are characterized as
7 though received or incurred by the S Corporation and not its shareholder."

8 **SECTION 8.(b)** G.S. 105-131.5 reads as rewritten:

9 **"§ 105-131.5. Part-year resident shareholder.**

10 If a shareholder of an S Corporation is both a resident and nonresident of this State during
11 any taxable period, the shareholder's pro rata share of the S Corporation's income attributable to
12 the State and income not attributable to the State for the taxable period shall be further prorated
13 between the shareholder's periods of residence and nonresidence, in accordance with the
14 number of days in each period, as provided in ~~G.S. 105-134.5~~[G.S. 105-153.4](#)."

15 **SECTION 8.(c)** G.S. 105-131.7(c) reads as rewritten:

16 "(c) An S Corporation ~~shall~~[must](#) file with the Department, on a form prescribed by the
17 Secretary, the agreement of each nonresident shareholder of the corporation (i) to file a return
18 and make timely payment of all taxes imposed by this State on the shareholder with respect to
19 the income of the S Corporation, and (ii) to be subject to personal jurisdiction in this State for
20 purposes of the collection of any unpaid income tax, together with related interest and
21 penalties, owed by the nonresident shareholder. If the corporation fails to timely file an
22 agreement required by this subsection on behalf of any of its nonresident shareholders, then the
23 corporation ~~shall~~[must](#) at the time specified in subsection (d) of this section pay to the
24 Department on behalf of each nonresident shareholder with respect to whom an agreement has
25 not been timely filed an estimated amount of the tax due the State. The estimated amount of tax
26 due the State ~~shall be~~[is](#) computed at the rates levied in ~~G.S. 105-134.2(a)(3)~~
27 [G.S. 105-153.6\(a\)\(3\)](#) on the shareholder's pro rata share of the S Corporation's income
28 attributable to the State reflected on the corporation's return for the taxable period. An S
29 Corporation may recover a payment made pursuant to the preceding sentence from the
30 shareholder on whose behalf the payment was made."

31 **SECTION 8.(d)** G.S. 105-131.8(a) reads as rewritten:

32 "(a) For purposes of ~~G.S. 105-151~~[G.S. 105-153.8](#) and G.S. 105-160.4, each resident
33 shareholder is considered to have paid a tax imposed on the shareholder in an amount equal to
34 the shareholder's pro rata share of any net income tax paid by the S Corporation to a state that
35 does not measure the income of S Corporation shareholders by the income of the S
36 Corporation. For purposes of the preceding sentence, the term "net income tax" means any tax
37 imposed on or measured by a corporation's net income."

38 **SECTION 8.(e)** G.S. 105-134.5, recodified by Section 5 of this act as
39 G.S. 105-153.4, reads as rewritten:

40 **"§ 105-153.4. North Carolina taxable income defined.**

41 (a) Residents. – For an individual who is a resident of this State, the term "North
42 Carolina taxable income" means the taxpayer's adjusted gross income as modified in
43 ~~G.S. 105-134.6~~[G.S. 105-153.5](#).

44 (b) Nonresidents. – For a nonresident individual, the term "North Carolina taxable
45 income" means the taxpayer's adjusted gross income as modified in ~~G.S. 105-134.6~~
46 [G.S. 105-153.5](#), multiplied by a fraction the denominator of which is the taxpayer's gross
47 income as modified in ~~G.S. 105-134.6~~[G.S. 105-153.5](#), and the numerator of which is the
48 amount of that gross income, as modified, that is derived from North Carolina sources and is
49 attributable to the ownership of any interest in real or tangible personal property in this State, is
50 derived from a business, trade, profession, or occupation carried on in this State, or is derived
51 from gambling activities in this State.

1 (c) Part-year Residents. – If an individual was a resident of this State for only part of
2 the taxable year, having moved into or removed from the State during the year, the term "North
3 Carolina taxable income" has the same meaning as in subsection (b) of this section except that
4 the numerator includes adjusted gross income, as modified under ~~G.S. 105-134.6,~~
5 G.S. 105-153.5, derived from all sources during the period the individual was a resident.

6 (d) S Corporations and Partnerships. – In order to calculate the numerator of the
7 fraction provided in subsection (b) of this section, the amount of a shareholder's pro rata share
8 of S Corporation income that is includable in the numerator is the shareholder's pro rata share
9 of the S Corporation's income attributable to the State, as defined in G.S. 105-131(b)(4). In
10 order to calculate the numerator of the fraction provided in subsection (b) of this section for a
11 member of a partnership or other unincorporated business that has one or more nonresident
12 members and operates in one or more other states, the amount of the member's distributive
13 share of income of the business that is includable in the numerator is determined by multiplying
14 the total net income of the business by the ratio ascertained under the provisions of
15 G.S. 105-130.4. As used in this subsection, total net income means the entire gross income of
16 the business less all expenses, taxes, interest, and other deductions allowable under the Code
17 that were incurred in the operation of the business.

18 (e) Tax Year. – A taxpayer must compute North Carolina taxable income on the basis
19 of the taxable year used in computing the taxpayer's income tax liability under the Code."

20 **SECTION 8.(f)** G.S. 105-152 and G.S. 105-151, recodified by Section 5 of this act
21 as G.S. 105-153.7 and G.S. 105-153.8, read as rewritten:

22 "**§ 105-153.7. Income tax returns.**

23 (a) Who Must File. – The following individuals ~~shall~~must file with the Secretary an
24 income tax return under affirmation:

25 (1) Every resident ~~required to file an income tax return for the taxable year~~
26 ~~under the Code and every whose North Carolina taxable income exceeds the~~
27 ~~exemption amount under G.S. 105-153.6.~~

28 (1a) Every nonresident individual who ~~(i) derived~~meets all of the following
29 requirements:

30 a. Receives during the taxable year gross income that is derived from
31 North Carolina sources ~~during the taxable year~~and is attributable to
32 the ownership of any interest in real or tangible personal property in
33 this ~~State or State, is~~ derived from a business, trade, profession, or
34 occupation carried on in this ~~State and (ii) is~~State, or is derived from
35 gambling activities in this State.

36 b. Is required to file an income tax return for the taxable year under the
37 Code.

38 (2) Repealed by Session Laws 1991 (Reg. Sess., 1992), c. 930, s. 1.

39 (3) Any individual whom the Secretary believes to be liable for a tax under this
40 Part, when so notified by the Secretary and requested to file a return.

41 (b) Taxpayer Deceased or Unable to Make Return. – If ~~the a~~ taxpayer is unable to file
42 ~~the an~~ income tax return, ~~the return shall be filed by~~ a duly authorized agent of the taxpayer or
43 ~~by~~ a guardian or other person charged with the care of the person or property of the
44 ~~taxpayer. taxpayer must file the return.~~ If an individual who was required to file an income tax
45 return for the taxable year while living has died before making the return, the administrator or
46 executor of the estate ~~shall~~must file the return in the decedent's name and behalf, and the tax
47 ~~shall be levied upon and collected from~~is payable by the estate.

48 (c) Information Required With Return. – The income tax return ~~shall~~must show the
49 ~~taxable income and adjustments~~adjusted gross income and modifications required by this ~~Part~~
50 ~~Part,~~ and any other information the Secretary requires. The Secretary may require some or all
51 individuals required to file an income tax return to attach to the return a copy of their federal

1 income tax return for the taxable year. The Secretary may require a taxpayer to provide the
2 Department with copies of any other return the taxpayer has filed with the Internal Revenue
3 Service and to verify any information in the return.

4 (d) Secretary May Require Additional Information. – When the Secretary has reason to
5 believe that any taxpayer conducts a trade or business in a way that directly or indirectly
6 distorts the taxpayer's ~~taxable income~~adjusted gross income or North Carolina taxable income,
7 the Secretary may require any additional information for the proper computation of the
8 taxpayer's ~~taxable income~~adjusted gross income and North Carolina taxable income. In
9 computing the taxpayer's ~~taxable income~~adjusted gross income and North Carolina taxable
10 income, the Secretary ~~shall~~must consider the fair profit that would normally arise from the
11 conduct of the trade or business.

12 (e) Joint Returns. – A husband and wife whose ~~federal taxable income~~adjusted gross
13 income is determined on a joint federal return ~~shall~~must file a single income tax return jointly
14 if each spouse either is a resident of this State or has North Carolina taxable income and may
15 file a single income tax return jointly if one spouse is not a resident and has no North Carolina
16 taxable income. Except as otherwise provided in this Part, a wife and husband filing jointly are
17 treated as one taxpayer for the purpose of determining the tax imposed by this Part. A husband
18 and wife filing jointly are jointly and severally liable for the tax imposed by this Part reduced
19 by the sum of all credits allowable including tax payments made by or on behalf of the husband
20 and wife. However, if a spouse qualifies for relief of liability for federal tax attributable to a
21 substantial understatement by the other spouse pursuant to section 6015 of the Code, that
22 spouse is not liable for the corresponding tax imposed by this Part attributable to the same
23 substantial understatement by the other spouse. A wife and husband filing jointly have
24 expressly agreed that if the amount of the payments made by them with respect to the taxes for
25 which they are liable, including withheld and estimated taxes, exceeds the total of the taxes
26 due, refund of the excess may be made payable to both spouses jointly or, if either is deceased,
27 to the survivor alone.

28 (f) Repealed by Session Laws 1991.

29 **"§ 105-153.8. Tax credits for income taxes paid to other states by individuals.**

30 (a) An individual who is a resident of this State is allowed a credit against the taxes
31 imposed by this Part for income taxes imposed by and paid to another state or country on
32 income taxed under this Part, subject to the following conditions:

33 (1) The credit is allowed only for taxes paid to another state or country on
34 income that is derived from sources within that state or country ~~that and~~ is
35 taxed under its laws irrespective of the residence or domicile of the recipient,
36 except that whenever a taxpayer who is ~~deemed to be considered~~ a resident
37 of this State under ~~the provisions of~~ this Part is ~~deemed also to be considered~~
38 a resident of another state or country under the laws of that state or country,
39 the Secretary may allow a credit against the taxes imposed by this Part for
40 taxes imposed by and paid to the other state or country on income taxed
41 under this Part.

42 (2) The fraction of the adjusted gross income, as ~~calculated under the Code and~~
43 ~~adjusted as provided in G.S. 105-134.6 and G.S. 105-134.7, modified in~~
44 G.S. 105-153.5, that is subject to income tax in another state or country shall
45 be ascertained, and the North Carolina net income tax before credit under
46 this section shall be multiplied by that fraction. The credit allowed is either
47 the product thus calculated or the income tax actually paid the other state or
48 country, whichever is smaller.

49 (3) Receipts showing the payment of income taxes to another state or country
50 and a true copy of a return or returns upon the basis of which the taxes are
51 assessed shall be filed with the Secretary when the credit is claimed. If credit

1 is claimed on account of a deficiency assessment, a true copy of the notice
2 assessing or proposing to assess the deficiency, as well as a receipt showing
3 the payment of the deficiency, shall be filed.

4 (b) If any taxes paid to another state or country for which a taxpayer has been allowed a
5 credit under this section are at any time credited or refunded to the taxpayer, a tax equal to that
6 portion of the credit allowed for the taxes so credited or refunded is due and payable from the
7 taxpayer and is subject to the penalties and interest provided in Subchapter I of this Chapter."

8 **SECTION 8.(g)** G.S. 105-154(d) reads as rewritten:

9 "(d) Payment of Tax on Behalf of Nonresident Owner or Partner. – If a business
10 conducted in this State is owned by a nonresident individual or by a partnership having one or
11 more nonresident members, the manager of the business ~~shall~~must report the earnings of the
12 business in this State, the distributive share of the income of each nonresident owner or partner,
13 and any other information required by the Secretary. The manager of the business ~~shall~~must
14 pay with the return the tax on each nonresident owner or partner's share of the income
15 computed at the rate levied on individuals under ~~G.S. 105-134.2(a)(3)~~G.S. 105-153.6(a)(3).
16 The business may deduct the payment for each nonresident owner or partner from the owner or
17 partner's distributive share of the profits of the business in this State. If the nonresident partner
18 is not an individual and the partner has executed an affirmation that the partner will pay the tax
19 with its corporate, partnership, trust, or estate income tax return, the manager of the business is
20 not required to pay the tax on the partner's share. In this case, the manager ~~shall~~must include a
21 copy of the affirmation with the report required by this subsection."

22 **SECTION 8.(h)** G.S. 105-159 reads as rewritten:

23 **"§ 105-159. Federal corrections.**

24 If a taxpayer's ~~federal taxable income adjusted gross income or federal tax credit~~ is
25 corrected or otherwise determined by the federal government, the taxpayer must, within six
26 months after being notified of the correction or final determination by the federal government,
27 file an income tax return with the Secretary reflecting the corrected or determined ~~taxable~~
28 ~~income adjusted gross income or federal tax credit~~. The Secretary must propose an assessment
29 for any additional tax due from the taxpayer as provided in Article 9 of this Chapter. The
30 Secretary must refund any overpayment of tax as provided in Article 9 of this Chapter. A
31 taxpayer who fails to comply with this section is subject to the penalties in G.S. 105-236 and
32 forfeits the right to any refund due by reason of the determination."

33 **SECTION 8.(i)** G.S. 105-163.1 reads as rewritten:

34 **"§ 105-163.1. Definitions.**

35 The following definitions apply in this Article:

36 ...

37 (6) Individual. – Defined in ~~G.S. 105-134.1~~G.S. 105-153.3.

38 ...

39 (13) Wages. – The term has the same meaning as in section 3401 of the Code
40 except it does not include ~~either of the following~~:

41 a. ~~The amount of severance wages paid to an employee during the~~
42 ~~taxable year that is exempt from State income tax for that taxable~~
43 ~~year under G.S. 105-134.6(b)(11).~~

44 b. ~~The~~the amount an employer pays an employee as reimbursement for
45 ordinary and necessary expenses incurred by the employee on behalf
46 of the employer and in the furtherance of the business of the
47 employer.

48"

49 **SECTION 8.(j)** G.S. 105-163.22 reads as rewritten:

50 **"§ 105-163.22. Reciprocity.**

1 The Secretary may, with the approval of the Attorney General, enter into agreements with
2 the taxing authorities of states having income tax withholding statutes with such agreements to
3 govern the amounts to be withheld from the wages and salaries of residents of such other state
4 or states under the provisions of this Article when such other state or states grant similar
5 treatment to the residents of this State. Such agreements may provide for recognition of the
6 anticipated tax credits allowed under the provisions of ~~G.S. 105-151~~ G.S. 105-153.8 in
7 determining the amounts to be withheld."

8 **SECTION 8.(k)** G.S. 105-259(b) reads as rewritten:

9 (b) Disclosure Prohibited. – An officer, an employee, or an agent of the State who has
10 access to tax information in the course of service to or employment by the State may not
11 disclose the information to any other person except as provided in this subsection. Standards
12 used or to be used for the selection of returns for examination and data used or to be used for
13 determining the standards may not be disclosed for any purpose. All other tax information may
14 be disclosed only if the disclosure is made for one of the following purposes:

15 ...

16 (34) To exchange information concerning a tax credit claimed under
17 G.S. 105-130.47 or ~~G.S. 105-151.29~~ G.S. 105-153.12 with the North
18 Carolina Film Office of the Department of Commerce and with the regional
19 film commissions.

20 ...

21 (36) To furnish to a taxpayer claiming a credit under G.S. 105-130.47 or
22 ~~G.S. 105-151.29~~ G.S. 105-153.12 information used by the Secretary to adjust
23 the amount of the credit claimed by the taxpayer.

24 ..."

25 **SECTION 8.(l)** G.S. 105-277.3(d1) reads as rewritten:

26 "(d1) ~~Exception for Easements on Qualified Conservation Lands Previously Appraised at~~
27 ~~Use Value. Exception.~~ – Property that is appraised at its present-use value under
28 G.S. 105-277.4(b) shall continue to qualify for appraisal, assessment, and taxation as provided
29 in G.S. 105-277.2 through G.S. 105-277.7 as long as (i) ~~the property is subject to an~~
30 ~~enforceable conservation easement that would qualify for the conservation tax credit provided~~
31 ~~in G.S. 105-130.34 and G.S. 105-151.12, without regard to actual production or income~~
32 ~~requirements of this section; and (ii) the taxpayer received no more than seventy five percent~~
33 ~~(75%) of the fair market value of the donated property interest in compensation; the property is~~
34 ~~subject to a conservation easement that meets the property eligibility requirements under~~
35 ~~G.S. 113A-232.~~ Notwithstanding G.S. 105-277.3(b) and (b1), subsequent transfer of the
36 property does not extinguish its present-use value eligibility as long as the property remains
37 subject to ~~an enforceable a qualifying conservation easement that qualifies for the conservation~~
38 ~~tax credit provided in G.S. 105-130.34 and G.S. 105-151.12. easement.~~ The exception provided
39 in this subsection applies only to that part of the property that is subject to the easement."

40 **SECTION 8.(m)** G.S. 105-309(d) reads as rewritten:

41 "(d) Personal property shall be listed to indicate the township and municipality, if any, in
42 which it is taxable and shall be itemized by the taxpayer in such detail as may be prescribed by
43 an abstract form approved by the Department of Revenue. ~~Personal property shall also be listed~~
44 ~~to indicate which property, if any, is subject to a tax credit under G.S. 105-151.21.~~

45 (1) If the assessor considers it necessary to obtain a complete listing of personal
46 property, the assessor may require a taxpayer to submit additional
47 information, inventories, or itemized lists of personal property.

48 (2) At the request of the assessor, the taxpayer shall furnish any information the
49 taxpayer has with respect to the true value of the personal property the
50 taxpayer is required to list."

51 **SECTION 8.(n)** G.S. 105-320(a)(16) is repealed.

1 **SECTION 8.(o)** G.S. 110-130.1(a) reads as rewritten:

2 "(a) All child support collection and paternity determination services provided under this
3 Article to recipients of public assistance shall be made available to any individual not receiving
4 public assistance in accordance with federal law and as contractually authorized by the
5 nonrecipient, upon proper application and payment of a nonrefundable application fee of
6 twenty-five dollars (\$25.00). The fee shall be reduced to ten dollars (\$10.00) if the individual
7 applying for the services is indigent. An indigent individual is an individual whose gross
8 income does not exceed one hundred percent (100%) of the federal poverty guidelines issued
9 each year in the Federal Register by the U.S. Department of Health and Human Services. For
10 the purposes of this subsection, the term "gross income" has the same meaning as defined in
11 G.S. 105-134.1, section 61 of the Code, and the term "Code" has the same meaning as defined
12 in G.S. 105-228.90.

13 In the case of an individual who has never received assistance under a State program
14 funded pursuant to Title IV-A of the Social Security Act and for whom the State has collected
15 and disbursed to the family in a federal fiscal year at least five hundred dollars (\$500.00) of
16 support, the State shall impose an annual fee of twenty-five dollars (\$25.00) for each case in
17 which services are furnished. The child support agency shall retain the fee from support
18 collected on behalf of the individual. However, the child support agency shall not retain the fee
19 from the first five hundred dollars (\$500.00) collected. The child support agency shall use the
20 fee to support the ongoing operation of the program."

21 **SECTION 8.(p)** G.S. 113-77.9(d) reads as rewritten:

22 "(d) Acquisition. – The Department of Administration may, pursuant to G.S. 143-341,
23 acquire by purchase, gift, or devise all lands selected by the Trustees for acquisition pursuant to
24 this Article. Title to any land acquired pursuant to this Article shall be vested in the State. A
25 State agency with management responsibility for land acquired pursuant to this Article may
26 enter into a management agreement or lease with a county, city, town, or private nonprofit
27 organization ~~qualified under G.S. 105-151.12 and G.S. 105-130.34 and~~ certified under section
28 501(c)(3) of the Internal Revenue Code to aid in managing the land. A management agreement
29 or lease shall be executed by the Department of Administration pursuant to G.S. 143-341."

30 **SECTION 8.(q)** G.S. 113A-231 reads as rewritten:

31 "**§ 113A-231. Program to accomplish conservation purposes.**

32 The Department of Environment and Natural Resources shall develop a nonregulatory
33 program ~~that uses conservation tax credits as a prominent tool~~ to accomplish conservation
34 purposes, including the maintenance of ecological systems. As a part of this program, the
35 Department shall exercise its powers to protect real property and interests in real ~~property;~~
36 ~~property~~ donated for ~~tax credit under G.S. 105-130.34 or G.S. 105-151.12; conserved with the~~
37 ~~use of other financial incentives; or, conserved through nonregulatory programs.~~ conservation
38 or conserved by other means. The Department shall call upon the Attorney General for legal
39 assistance in developing and implementing the program."

40 **SECTION 8.(r)** G.S. 113A-232 reads as rewritten:

41 "**§ 113A-232. Conservation Grant Fund.**

42 (a) Fund Created. – The Conservation Grant Fund is created within the Department of
43 Environment and Natural Resources. The Fund shall be administered by the Department. The
44 purpose of the Fund is to stimulate the use of conservation ~~easements and conservation tax~~
45 ~~credits, easements,~~ to improve the capacity of private nonprofit land trust organizations to
46 successfully accomplish conservation projects, to better equip real estate related professionals
47 to pursue opportunities for conservation, to increase landowner participation in land and water
48 conservation, and to provide an opportunity to leverage private and other public monies for
49 conservation easements.

50 (b) Fund Sources. – The Conservation Grant Fund shall consist of any monies
51 appropriated to it by the General Assembly and any monies received from public or private

1 sources. Unexpended monies in the Fund that were appropriated from the General Fund by the
 2 General Assembly shall revert at the end of the fiscal year unless the General Assembly
 3 otherwise provides. Unexpended monies in the Fund from other sources shall not revert and
 4 shall remain available for expenditure in accordance with this Article.

5 (c) Property Eligibility. – In order for real property or an interest in real property to be
 6 the subject of a grant under this Article, the real property or interest in real property must meet
 7 all of the following conditions:

- 8 (1) ~~possess~~ Possess or have a high potential to possess ecological ~~value, must be~~
 9 value.
- 10 (2) Be reasonably ~~restorable, and must qualify for tax credits under~~
 11 G.S. 105-130.34 or G.S. 105-151.12. ~~restorable.~~
- 12 (3) Be useful for one or more of the following purposes:
 - 13 a. Public beach access or use.
 - 14 b. Public access to public waters or trails.
 - 15 c. Fish and wildlife conservation.
 - 16 d. Forestland or farmland conservation.
 - 17 e. Watershed protection.
 - 18 f. Conservation of natural areas as that term is defined in
 19 G.S. 113A-164.3(3).
 - 20 g. Conservation of predominantly natural parkland.
- 21 (4) Be donated in perpetuity to and accepted by the State, a local government, or
 22 a body that is both organized to receive and administer lands for
 23 conservation purposes and qualified to receive charitable contributions under
 24 G.S. 105-130.9. Land required to be dedicated pursuant to local
 25 governmental regulation or ordinance and dedications made to increase
 26 building density levels permitted under a regulation or ordinance do not
 27 qualify.

28 (c1) Grant Eligibility. – State conservation land management agencies, local government
 29 conservation land management agencies, and private nonprofit land trust organizations are
 30 eligible to receive grants from the Conservation Grant Fund. Private nonprofit land trust
 31 organizations must be ~~qualified pursuant to G.S. 105-130.34 and G.S. 105-151.12 and must be~~
 32 certified under section 501(c)(3) of the Internal Revenue ~~Code.~~ Code to aid in managing the
 33 land.

34 (d) Use of Revenue. – Revenue in the Conservation Grant Fund may be used only for
 35 the following purposes:

- 36 (1) The administrative costs of the Department in administering the Fund.
- 37 (2) Conservation grants made in accordance with this Article.
- 38 (3) To establish an endowment account, the interest from which will be used for
 39 a purpose described in G.S. 113A-233(a)."

40 **SECTION 8.(s)** G.S. 113A-233 reads as rewritten:

41 "**§ 113A-233. Uses of a grant from the Conservation Grant Fund.**

42 (a) Allowable Uses. – A grant from the Conservation Grant Fund may be used only to
 43 pay for one or more of the following costs:

- 44 (1) Reimbursement for total or partial transaction costs for a donation of real
 45 property or an interest in real property from an individual or corporation
 46 satisfying either of the following:
 - 47 a. Insufficient financial ability to pay all costs or insufficient taxable
 48 income to allow these costs to be included in the donated value.
 - 49 b. Insufficient tax burdens to allow these costs to be offset by ~~the value~~
 50 ~~of tax credits under G.S. 105-130.34 or G.S. 105-151.12 or by~~
 51 charitable deductions.

- 1 (2) Management support, including initial baseline inventory and planning.
 2 (3) Monitoring compliance with conservation easements, the related use of
 3 riparian buffers, natural areas, and greenways, and the presence of ecological
 4 integrity.
 5 (4) Education on conservation, including information materials intended for
 6 landowners and education for staff and volunteers.
 7 (5) Stewardship of land.
 8 (6) Transaction costs for recipients, including legal expenses, closing and title
 9 costs, and unusual direct costs, such as overnight travel.
 10 (7) Administrative costs for short-term growth or for building capacity.
 11 (b) Prohibition. – The Fund shall not be used to pay the purchase price of real property
 12 or an interest in real property."

13 **SECTION 8.(t)** G.S. 113A-256(g) is repealed.

14 **SECTION 8.(u)** This section becomes effective January 1, 2015.
 15

16 **PART IX. SALES TAX CONFORMING CHANGES**

17 **SECTION 9.(a)** The following statutes are repealed:

18 G.S. 106-507

19 G.S. 106-516

20 G.S. 106-517

21 G.S. 106-518

22 G.S. 106-519

23 G.S. 106-520

24 G.S. 140-10.1

25 **SECTION 9.(b)** G.S. 105-164.9 is repealed.

26 **SECTION 9.(c)** G.S. 105-164.10 reads as rewritten:

27 **"§ 105-164.10. Retail bracket system.**

28 For the convenience of the retailer in collecting the tax due under this Article, the Secretary
 29 ~~shall~~must prescribe tables that compute the tax due on sales by rounding off the amount of tax
 30 due to the nearest whole cent. The Secretary ~~shall~~must issue a separate table for each rate of
 31 tax that may apply to a sale, including the general rate established in G.S. 105-164.4,
 32 preferential rates, and combined State and local rates. Use of the tables prescribed by the
 33 Secretary does not relieve a retailer of liability for the applicable rate of tax due on the ~~gross~~
 34 ~~receipts or~~ net taxable sales of the retailer."

35 **SECTION 9.(d)** G.S. 105-164.44F(a) reads as rewritten:

36 "(a) Amount. – The Secretary must distribute part of the taxes imposed by
 37 ~~G.S. 105-164.4(a)(4c)~~ G.S. 105-164.4 on telecommunications service and ancillary service.
 38 The Secretary must make the distribution within 75 days after the end of each calendar quarter.
 39 The amount the Secretary must distribute is the following percentages of the net proceeds of
 40 the taxes collected during the quarter:

- 41 (1) ~~Eighteen and seventy one hundredths percent (18.70%)~~ Nineteen and
 42 thirty-nine one-hundredths percent (19.39%) minus two million six hundred
 43 twenty thousand nine hundred forty-eight dollars (\$2,620,948), must be
 44 distributed to cities in accordance with this section. The deduction is
 45 one-fourth of the annual amount by which the distribution to cities of the
 46 gross receipts franchise tax on telephone companies, imposed by former
 47 G.S. 105-20, was required to be reduced beginning in fiscal year 1995-96 as
 48 a result of the "freeze deduction."
 49 (2) ~~Seven and seven tenths percent (7.7%)~~ Seven and ninety-nine
 50 one-hundredths percent (7.99%) must be distributed to counties and cities as
 51 provided in G.S. 105-164.44I."

1 **SECTION 9.(e)** G.S. 105-164.44I(a) reads as rewritten:

2 "(a) Distribution. – The Secretary must distribute to the counties and cities part of the
3 taxes imposed by ~~G.S. 105-164.4(a)(4c)~~ G.S. 105-164.4 on telecommunications service and
4 ~~G.S. 105-164.4(a)(6)~~ on video programming service. The Secretary must make the distribution
5 within 75 days after the end of each calendar quarter. The amount the Secretary must distribute
6 is the sum of the revenue listed in this subsection. The Secretary must distribute two million
7 dollars (\$2,000,000) of this amount in accordance with subsection (b) of this section and the
8 remainder in accordance with subsections (c) and (d) of this section. The revenue to be
9 distributed under this section consists of the following:

10 (1) The amount specified in G.S. 105-164.44F(a)(2).

11 (2) ~~Twenty three and six tenths percent (23.6%)~~ Twenty-four and forty-seven
12 one-hundredths percent (24.47%) of the net proceeds of the taxes collected
13 during the quarter on video programming, other than on direct-to-home
14 satellite service.

15 (3) ~~Thirty seven and one tenths percent (37.1%)~~ Thirty-eight and forty-seven
16 one hundredths percent (38.47%) of the net proceeds of the taxes collected
17 during the quarter on direct-to-home satellite service."

18 **SECTION 9.(f)** G.S. 105-449.106(c) reads as rewritten:

19 "(c) Special Mobile Equipment. – A person who purchases and uses motor fuel to
20 operate special mobile equipment off-highway may receive a quarterly refund, for the excise
21 tax paid during the preceding quarter, at a rate equal to the flat cents-per-gallon rate plus the
22 variable cents-per-gallon rate in effect during the quarter for which the refund is claimed, less
23 the amount of sales and use tax ~~or privilege tax~~ due on the fuel under this Chapter, as
24 determined in accordance with G.S. 105-449.107(c). An application for a refund must be made
25 in accordance with this Part."

26 **SECTION 9.(g)** G.S. 105-449.107 reads as rewritten:

27 "**§ 105-449.107. Annual refunds for off-highway use and use by certain vehicles with**
28 **power attachments.**

29 (a) Off-Highway. – A person who purchases and uses motor fuel for a purpose other
30 than to operate a licensed highway vehicle may receive an annual refund for the excise tax the
31 person paid on fuel used during the preceding calendar year. The amount of refund allowed is
32 the amount of the flat cents-per-gallon rate in effect during the year for which the refund is
33 claimed plus the average of the two variable cents-per-gallon rates in effect during that year,
34 less the amount of sales and use tax ~~or privilege tax~~ due on the fuel under this Chapter. An
35 application for a refund allowed under this section must be made in accordance with this Part.

36 (b) Certain Vehicles. – A person who purchases and uses motor fuel in one of the
37 vehicles listed below may receive an annual refund for the amount of fuel consumed by the
38 vehicle:

39 (1) A concrete mixing vehicle.

40 (2) A solid waste compacting vehicle.

41 (3) A bulk feed vehicle that delivers feed to poultry or livestock and uses a
42 power takeoff to unload the feed.

43 (4) A vehicle that delivers lime or fertilizer in bulk to farms and uses a power
44 takeoff to unload the lime or fertilizer.

45 (5) A tank wagon that delivers alternative fuel, as defined in G.S. 105-449.130,
46 or motor fuel or another type of liquid fuel into storage tanks and uses a
47 power takeoff to make the delivery.

48 (6) A commercial vehicle that delivers and spreads mulch, soils, composts, sand,
49 sawdust, and similar materials and that uses a power takeoff to unload, blow,
50 and spread the materials.

1 (7) A commercial vehicle that uses a power takeoff to remove and dispose of
2 septage and for which an annual fee is required to be paid to the Department
3 of Environment and Natural Resources under G.S. 130A-291.1.

4 (8) A sweeper.

5 The amount of refund allowed is thirty-three and one-third percent (33 1/3%) of the
6 following: the sum of the flat cents-per-gallon rate in effect during the year for which the
7 refund is claimed and the average of the two variable cents-per-gallon rates in effect during that
8 year, less the amount of sales and use tax ~~or privilege tax~~ due on the fuel under this Chapter.
9 An application for a refund allowed under this section must be made in accordance with this
10 Part. This refund is allowed for the amount of fuel consumed by the vehicle in its mixing,
11 compacting, or unloading operations, as distinguished from propelling the vehicle, which
12 amount is considered to be one-third of the amount of fuel consumed by the vehicle.

13 (c) Sales Tax Amount. – Article 5 of this Chapter determines the amount of sales and
14 use tax to be deducted under this section from a motor fuel excise tax refund. ~~Article 5F of this
15 Chapter determines the amount of privilege tax to be deducted under this section from a motor
16 fuel excise tax refund.~~ The sales price and the cost price of motor fuel to be used in determining
17 the amount to deduct is the average of the wholesale prices used under G.S. 105-449.80 to
18 determine the excise tax rates in effect for the two six-month periods of the year for which the
19 refund is claimed."

20 **SECTION 9.(h)** This section becomes effective January 1, 2015. Subsections (d)
21 and (e) of this section apply to distributions for months beginning on or after this date.
22 Subsections (f) and (g) of this section apply to a claim for refund of taxes paid on motor fuel on
23 or after January 1, 2015.

24 25 **PART X. LOCAL GOVERNMENT DISTRIBUTION CONFORMING CHANGES**

26 **SECTION 10.(a)** G.S. 153A-134 reads as rewritten:

27 "**§ 153A-134. Regulating and licensing businesses, trades, etc.**

28 A county may by ordinance, subject to the general law of the State, regulate and license
29 occupations, businesses, trades, professions, and forms of amusement or entertainment and
30 prohibit those that may be inimical to the public health, welfare, safety, order, or convenience.
31 In licensing trades, occupations, and professions, the county may, consistent with the general
32 law of the State, require applicants for licenses to be examined and charge a reasonable fee
33 ~~therefor for the examination. This~~

34 This section does not authorize a county to ~~examine~~ do any of the following:

35 (1) Examine or license a person holding a license issued by an occupational
36 licensing board of this State as to the profession or trade ~~that he the person~~
37 has been licensed to practice or pursue by the State.

38 (2) Levy a privilege license tax on an entity that is subject to regulation and
39 license under this section.

40 ~~This section does not impair the county's power to levy privilege license taxes on~~
41 ~~occupations, businesses, trades, professions, and other activities pursuant to G.S. 153A-152."~~

42 **SECTION 10.(b)** The catch line to G.S. 153A-156 reads as rewritten:

43 "**§ 153A-156. ~~Gross receipts tax on short-term leases or rentals.~~ Motor vehicle gross**
44 **receipts tax in lieu of property tax.**"

45 **SECTION 10.(c)** G.S. 153A-156(a) reads as rewritten:

46 "(a) ~~As a substitute for and in replacement of the ad valorem tax, which is excluded by~~
47 ~~G.S. 105-275(42), a~~ A county may levy a gross receipts tax on the gross receipts from the
48 short-term lease or rental of vehicles at retail to the general public. The tax rate shall not exceed
49 one and one-half percent (1.5%) of the gross receipts from ~~such the~~ short-term leases or rentals.
50 Motor vehicles subject to this tax are exempt from property tax under G.S. 105-275, and this
51 tax provides an alternative to the property tax on the motor vehicles."

1 **SECTION 10.(d)** G.S. 160A-194 reads as rewritten:

2 "**§ 160A-194. Regulating and licensing businesses, trades, etc.**

3 A city may by ordinance, subject to the general law of the State, regulate and license
4 occupations, businesses, trades, professions, and forms of amusement or entertainment and
5 prohibit those that may be inimical to the public health, welfare, safety, order, or convenience.
6 In licensing trades, occupations, and professions, the city may, consistent with the general law
7 of the State, require applicants for licenses to be examined and charge a reasonable fee ~~therefor~~
8 ~~for the examination. Nothing in this section shall impair the city's power to levy privilege~~
9 ~~license taxes on occupations, businesses, trades, professions, and other activities pursuant to~~
10 ~~G.S. 160A-211.~~

11 ~~Nothing in this section shall~~ This section does not authorize a city to ~~examine~~ do any of the
12 following:

13 (1) Examine or license a person holding a license issued by an occupational
14 licensing board of this State as to the profession or trade ~~that he~~ the person
15 has been licensed to practice or pursue by the State.

16 (2) Levy a privilege license tax on an entity that is subject to regulation and
17 license under this section."

18 **SECTION 10.(e)** The catch line to G.S. 160A-215.1 reads as rewritten:

19 "**§ 160A-215.1. ~~Gross receipts tax on short-term leases or rentals.~~Motor vehicle gross**
20 **receipts tax in lieu of property tax.**"

21 **SECTION 10.(f)** G.S. 160A-215.1(a) reads as rewritten:

22 "(a) ~~As a substitute for and in replacement of the ad valorem tax, which is excluded by~~
23 ~~G.S. 105-275(42), a~~ A city may levy a gross receipts tax on the gross receipts from the
24 short-term lease or rental of vehicles at retail to the general public. The tax rate shall not exceed
25 one and one-half percent (1.5%) of the gross receipts from ~~such the~~ short-term leases or rentals.
26 ~~This tax on gross receipts is in addition to the privilege taxes authorized by~~
27 ~~G.S. 160A-211.~~ Motor vehicles subject to this tax are exempt from property tax under
28 G.S. 105-275, and this tax provides an alternative to the property tax on the motor vehicles."

29 **SECTION 10.(g)** This section becomes effective July 1, 2015.

30 **PART XI. EFFECTIVE DATE**

31 **SECTION 11.** Except as otherwise provided, this act becomes effective when it
32 becomes law.
33
34