

House Bill 998, Proposed Senate Committee Substitute, H998-CSRbx-41
July 1, 2013

	<i>HB 998, 3rd Edition (House)</i>	<i>HB 998, 4th Edition (Senate)</i>	<i>New Senate PCS to H998 H998-CSRbx-40</i>
INDIVIDUAL INCOME TAX CHANGE			
Rates	Flat rate of 5.9%, 2014	Flat rate of 5.4%, 2014 Reduces rate to 5.25%, 2015	Flat Rate of 5.75%, 2014
Zero Tax Bracket	N/A	\$15,000 (MFJ); \$12,000 (H/H); \$7,500 (MFS & Single)	N/A
Standard deduction	\$12,000 (MFJ)	Eliminate	\$15,000 (MFJ) \$12,000 (H/H) \$7,500 (MFS & Single)
Itemized deductions	Unlimited charitable contributions Mtg. interest + property taxes paid on real estate (not to exceed \$25,000)	Eliminate	Unlimited charitable contributions \$15,000 cap on Mtg. interest + property taxes on real estate
Personal exemption	Eliminate	Eliminate	Eliminate
Social security	No change	Included to the extent included in federal AGI	Current law; no change
\$4,000 retirement income exemption	No change	Eliminate	Eliminate
Deduction for severance wages	Eliminate	Eliminate	Eliminate
\$50k business deduction	Eliminate , 2013	Eliminate, 2014	Eliminate, 2014
Child credit	AGI =< \$100K = \$250 AGI > \$100K = \$100	No change	Current law; no change
Credit for non-itemizers charitable deductions	Eliminate	Eliminate	Eliminate
Credits scheduled to sunset 2014 <i>Long term care insurance premium,</i>	No change	No change	No change

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earned income tax credit, adoption expenses			
Credits with no sunset Child care, disabled, 529 Plan, gleaned crop, handicapped dwelling units, conservation tillage equipment, real property donations, poultry composting facility	No change	Eliminate	Eliminate
CORPORATE INCOME TAX CHANGES			
Rate	2014 – 6.5% 2015 – 6.35% 2016 – 6.2% 2017 – 5.6% Thereafter – 5.4%	2014 – 6% 2015 – 4% 2016 – 2% 2017 – Eliminate CIT	2014 – 6.4% 2015 – 5% 2016 – 4% 2017 – 2% 2018 – Eliminate
Credit -- real property donation	No change	Eliminate	Eliminate
Credit – low-income housing	Limit to Tier 1 and 2 Remove sunset Rename it	No change	Limit to tier 1 and 2 Rename it "Work Force Housing Credit" Phase it down 25% a year until it is eliminated in 2018
CIT credits without a sunset, that parallel PIT credits	No change	Eliminate	Eliminate, 2014, same as PIT
Credit – S&L supervisory fees	No change	Eliminate, 2017 when CIT eliminated	Eliminate, 2018 when CIT eliminated
Credit – manufacturing cigarettes for exportation	No change, sunsets 2018	Eliminate, 2017 when CIT eliminated	Eliminate, 2018 when CIT eliminated
Credit – recycling	No change	Eliminate, 2017 when CIT eliminated	Eliminate, 2018 when CIT eliminated

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facilities Article 3C					
Credit – Intermodal RR Facilities	No change, sunsets 2038	Eliminate, 2017 when CIT eliminated	Eliminate, 2018 when CIT eliminated		
Business Privilege Tax (New)					
Taxpayers	N/A	All limited liability entities except C corporations, 2015 All limited liability entities, 2018	All business entities with limited liability		
Rate	N/A	2015 - \$400 2016 - \$600 2017 - \$750 2018 – C corporations = \$5,000; all others = \$750	Income Year	C Corps	All others (LLC, Sub S)
			2015		\$400
			2016 and 2017		\$500
			2018 and thereafter	\$3,500	\$500
FRANCHISE TAX CHANGES					
Rate \$1.50 per \$1000 Minimum tax = \$35 Maximum tax for holding company = \$75,000	\$1.35 per \$1000 No change to minimum tax of \$35 No change to maximum tax on holding company	2015 - \$1.20 per \$1,000 with minimum tax of \$500 2016 - \$0.90 per \$1,000 with minimum tax of \$1,000 2017 - \$0.60 per \$1,000 with minimum tax of \$2,000 2018 – eliminated & replaced with business privilege tax No change to maximum tax on holding company; tax eliminated in 2018	2015 - \$1.25 per \$1,000 with minimum tax of \$500 2016 - \$1.00 per \$1,000 with minimum tax of \$2,000 2017 - \$0.75 per \$1,000 with minimum tax of \$3,000 2018 – eliminated & replaced with business privilege tax		
GR tax on electricity	Eliminate, include it in the sales tax base July 1, 2014	Eliminate, include it in the sales tax base July 1, 2014	Eliminate, include it in the sales tax base July 1, 2014		
Taxpayers	No change	Exclude S corporations, 2015	Exclude S corporations, Income Year 2015		
Annual report filing fee	No change	Eliminate, 2015	Eliminate, 2015		

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PRIVILEGE TAX CHANGES			
Local authority in 153A and 160A	No change	Eliminate, 2018	Current law; no change.
Amusements, movies	Eliminate, include in the sales tax base	Eliminate, include in sales tax base	Eliminate and include in the sales tax base, effective October 1, 2013
Various State taxes	No change	Eliminate, 2018	Current law; no change
SALES TAX CHANGES			
State Rate = 4.75%	No change	No change	No change
Local Rate = 2% Optional ¼ cent	No change	No change	No change
Tax rate: manufactured home 2%, \$300 maximum	No change	State general rate; not in local base	State general rate; not in local base July 1, 2014
Tax rate: modular homes 2.5%	No change	State general rate; not in local base	State general rate; not in local base July 1, 2014
Tax rate: Electricity <ul style="list-style-type: none"> • 3% • 2.83% - dry cleaners • Exempt – mfgs, farmers, datacenters 	State tax only Combined general rate July 1, 2014 Retain current exemptions for farmers, eligible internet datacenter, and manufacturing	State tax only Combined general rate July 1, 2014 Retain current exemptions for farmers, eligible internet datacenter, and manufacturing	State tax only Combined general rate July 1, 2014 Retain current exemptions for farmers, eligible internet datacenter, and manufacturing
Add service contracts	Yes July 1, 2014	No	Yes, July 1, 2014 Exempt if item for which service contract provided is exempt (except motor vehicles)
Add – alteration, repair, maintenance, cleaning, installation	Yes July 1, 2014 Exempt if to an item exempt from tax	No	No
Add - Amusements from privilege GR tax	Yes October 1, 2013	Yes October 1, 2013	Yes October 1, 2013

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Add – Attractions for which admission charged	Yes October 1, 2013	Yes October 1, 2013	Yes July 1, 2014
Amusement exemptions	14	4	5 (add State attractions)
Add – PNG	State tax only Combined general rate July 1, 2014	State tax only Combined general rate July 1, 2014	State tax only Combined general rate July 1, 2014
Exemption – nutritional supplements	Eliminate July 1, 2013	Eliminate October 1, 2013	Eliminate October 1, 2013
Exemption – newspapers	No change	Eliminate October 1, 2013	Eliminate October 1, 2013
Exemption – penny vending machines	No change	Eliminate October 1, 2013	Eliminate October 1, 2013
Exemption – 50% of sales from vending machines	No change	Eliminate October 1, 2013	Phase out exemption over 4 years, beginning July 1, 2014
Exemption – free distribution periodicals	No change	Phased elimination	Repeal exemption; allow refund; phased elimination of refund (See below)
Sales tax holiday for school	No change	Eliminate July 1, 2014	Eliminate July 1, 2014
Sales tax holiday for Energy Star	Eliminate July 1, 2013	Eliminate July 1, 2014	Eliminate July 1, 2014
Exemption – Food	No change	<ul style="list-style-type: none"> Eliminate local sales tax on food, November 2014 Give counties the authority to impose a local sales tax on food at the county's local sales tax rate, January 2015 	Current law; no change

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Exemptions – farm related <i>Fuel and electricity, fertilizer, etc., farm machinery, containers, substances used on animals or plants, baby chicks</i>	No change	Annual gross income requirement of \$10,000	Annual gross income requirement of \$10,000; effective July 1, 2014
Various exemptions/refunds <i>Farm facilities and bulk barns, commercial logging, wood chippers, telephone companies, radio or television companies, cable service providers, commercial fishing, commercial laundries, diesel fuel sold to railroad, fuel sold to passenger air carrier</i>	No change	Phased elimination	Remove packaging, remains exempt 2014 – 80% refund of State and local sales tax paid 2015 – 60% 2016 – 40% 2017 – 20% 2018 -- Eliminate
Tax refunds – existing sunset of 2014 <i>Passenger air carrier, motorsports, analytical services, industrial</i>	No change	No change	Current law; no change except as follows: <ul style="list-style-type: none"> • Passenger air carrier moved to phased elimination of refund (-164.14A(1)) • Motorsports extended 6 months, until July 1, 2014 (-164.14A(4) & (5))
Tax refunds – nonprofits	No change	Capped 2014 - \$7.5M State, \$2.25M local 2015 - \$5M State, \$1.5M local 2016 - \$1M State, \$300,000 local 2017 - \$100,000 State, \$30,000 local	Move UNC Healthcare to State agencies exemption. Cap remaining refunds: 2014-15 - \$10.5 million (State and local) 2015-16 - \$7 million (State and local) 2016-17 - \$5 (State and local) 2017-18 - \$2.85 (State and local)

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Tax refunds – local governments	No change	Eliminate, July 1, 2014	Eliminate, January 1, 2016
EXCISE TAX CHANGES			
Excise tax on PNG	Eliminate, include in the sales tax base July 1, 2014	Eliminate, include in the sales tax base July 1, 2014	Eliminate and include in the sales tax base
Excise tax on motor fuel	N/A	N/A	Cap for one year at current rate, beginning September 1, 2013 – until July 1, 2014
LOCAL GOVERNMENT DISTRIBUTIONS			
CIT earmark for Public School Building Capital Fund (No funds applied since 2008)	Eliminate	Eliminate	Eliminate
GR tax on electricity distributed to cities	Formula to preserve local distribution Re-calculate formula every 5 years, beginning 2020	Formula to preserve local distribution	Formula to preserve local distribution Recalculate every five years, beginning 2020
Excise tax on PNG distributed to cities	Formula to preserve local distribution	Formula to preserve local distribution	Formula to preserve local distribution
Earmarking 20% of sales tax from modular homes	No change	Eliminate	Eliminate
ESTATE TAX			
Tax Levy	Eliminate, HB 101 2013	Eliminate 2013	Eliminate 2013
EARMARKING			
Real estate conveyance tax	No change	Eliminate earmarks, State proceeds credited to General Fund	Eliminate earmarks, State proceeds credited to General Fund
Scrap tire disposal tax	No change	Eliminate earmarks, proceeds credited to General Fund	Eliminate earmarks, State proceeds credited to General Fund
TOBACCO DISCOUNTS			
2% discount to taxpayers of cigarettes and OTP	No change	Eliminate, July 2014	Eliminate, July 2014

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REVENUE LAWS STUDY			
Revenue Law Study	N/A	N/A	<ul style="list-style-type: none"> • The 1%/\$80 privilege tax that applies to mill machinery and on other machinery and equipment purchased by certain industries and companies. • The feasibility of a preferential tax rate on diesel fuel sold to railroads, fuel sold to passenger air carriers, and fuel sold to motorsports. • The authority of cities and counties to impose a privilege tax on businesses and the various State privilege license taxes. • The impact of the elimination of the State and local sales and use tax refund on nonprofit entities and their ability to fulfill their stated mission. • The benefits of allowing corporations to deduct NOLs instead of NELs. • The simplification of the franchise tax base calculation. • The feasibility of expanding the sales tax base to additional services.

TOTAL PLAN					
	FY13-14	FY14-15	FY15-16	FY16-17	FY17-18
Total GF Revenues Forecast (\$ billions)	20.47	21.39	22.31	23.27	24.27
House Plan	20.51	21.04	21.92	22.80	23.69
Difference from Forecast (\$ millions) ¹	(4.7)	(353.4)	(383.2)	(461.1)	(570.9)
Senate Plan 4th Edition	20.29	20.88	21.27	21.94	22.94
Difference from Forecast (\$ millions)	(173.8)	(523.2)	(1,108.1)	(1,414.8)	(1,382.1)
Senate Plan PCS to H998	20.30	20.91	21.55	22.35	23.30
Difference from Forecast (\$ millions)	(168.5)	(480.3)	(757.1)	(911.5)	(962.9)

¹ This item includes the estate tax repeal in HB 101.