

GENERAL ASSEMBLY OF NORTH CAROLINA
SESSION 2013

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HOUSE BILL 998
Committee Substitute Favorable 6/4/13
PROPOSED COMMITTEE SUBSTITUTE H998-PCS10430-RBx-29

Short Title: Tax Simplification and Reduction Act.

(Public)

Sponsors:

Referred to:

April 18, 2013

1 A BILL TO BE ENTITLED
2 AN ACT TO REDUCE INDIVIDUAL AND BUSINESS TAX RATES AND TO EXPAND
3 THE SALES TAX BASE TO INCLUDE SERVICES COMMONLY TAXED IN OTHER
4 STATES.

5 The General Assembly of North Carolina enacts:

6
7 **PART I. GENERAL FINDINGS AND INTENT**

8 **SECTION 1.(a)** The General Assembly finds the following:

- 9 (1) North Carolina's current tax structure has not been comprehensively revised
10 since the Great Depression. The tax structure adopted then, while amended
11 extensively over the years in a piecemeal fashion, no longer reflects North
12 Carolina's 21st Century economy.
13 (2) Over the years, the multiplication of credits, allowances, special rates, and
14 exemptions has progressively narrowed the base of the State's individual and
15 corporate income taxes, with the result that the rates for those income taxes
16 are now among the highest in our region and among our peer states.
17 (3) North Carolina's current tax structure undermines the State's competitive
18 position and acts as a deterrent to new business investment and the creation
19 of new jobs.
20 (4) The State's reliance on temporary and expedient tax changes to meet budget
21 shortfalls has created a tax structure that is unpredictable for taxpayers and a
22 revenue stream that is unstable for the State.

23 **SECTION 1.(b)** It is the intent of this legislation to do the following:

- 24 (1) Begin the implementation of comprehensive tax reform.
25 (2) Simplify the process of tax preparation and tax administration.
26 (3) Lower tax rates to make them more competitive with our neighboring states
27 and to make the tax system more economically efficient.
28 (4) Increase the State's reliance on consumption taxes by expanding the sales tax
29 base to include services commonly taxed in other states.

30 **SECTION 1.(c)** It is the intent of the General Assembly to do the following:

- 31 (1) Phase out the State's reliance on income taxes.
32 (2) Increase the State's reliance on consumption taxes.
33 (3) Evaluate the changes made by this act and their impact on the State's
34 revenue structure.
35



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PART II. SIMPLE, FLAT TAX RATE FOR INDIVIDUAL INCOME TAX

SECTION 2.1.(a) G.S. 105-134.6(b)(22) is repealed.

SECTION 2.1.(b) This section is effective for taxable years beginning on or after January 1, 2013.

SECTION 2.2.(a) G.S. 105-134.2 reads as rewritten:

"§ 105-134.2. Individual income tax imposed.

(a) Tax. – A tax is imposed ~~upon~~ for each taxable year on the North Carolina taxable income of every individual. The tax shall be levied, collected, and ~~paid annually and shall be computed at the following percentages paid annually.~~ The tax is five and nine-tenths percent (5.9%) of the taxpayer's North Carolina taxable income.

(1) ~~For married individuals who file a joint return under G.S. 105-152 and for surviving spouses, as defined in section 2(a) of the Code:~~

Over	Up To	Rate
0	\$21,250	6%
\$21,250	\$100,000	7%
\$100,000	NA	7.75%

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

Over	Up To	Rate
0	\$17,000	6%
\$17,000	\$80,000	7%
\$80,000	NA	7.75%

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

Over	Up To	Rate
0	\$12,750	6%
\$12,750	\$60,000	7%
\$60,000	NA	7.75%

(4) ~~For married individuals who do not file a joint return under G.S. 105-152:~~

Over	Up To	Rate
0	\$10,625	6%
\$10,625	\$50,000	7%
\$50,000	NA	7.75%

(b) Withholding Tables. – In lieu of the tax imposed by subsection (a) of this section, there is imposed for each taxable year upon the North Carolina taxable income of every individual a tax determined under tables, applicable to the taxable year, which may be prescribed by the Secretary. The amounts of the tax determined under the tables shall be computed on the basis of the ~~rates~~ rate prescribed by subsection (a) of this section. This subsection does not apply to an individual making a return under section 443(a)(1) of the Code for a period of less than 12 months on account of a change in the individual's annual accounting period, or to an estate or trust. The tax imposed by this subsection shall be treated as the tax imposed by subsection (a) of this section."

SECTION 2.2.(b) G.S. 105-134.6, as amended by S.L. 2013-10 and by Section 2.1 of this act, reads as rewritten:

"§ 105-134.6. Modifications to adjusted gross income.

...

(a1) ~~Personal Exemption.~~ – ~~In calculating North Carolina taxable income, a taxpayer may deduct an exemption amount equal to the amount listed in the table below based on the taxpayer's filing status and adjusted gross income. The taxpayer is allowed the same personal exemptions allowed under section 151 of the Code for the taxable year.~~

Filing Status	Adjusted Gross Income	Personal Exemption
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1	Married, filing jointly	Up to \$100,000	\$2,500
2		Over \$100,000	\$2,000
3	Head of Household	Up to \$80,000	\$2,500
4		Over \$80,000	\$2,000
5	Single	Up to \$60,000	\$2,500
6		Over \$60,000	\$2,000
7	Married, filing separately	Up to \$50,000	\$2,500
8		Over \$50,000	\$2,000

(a2) Deduction Amount. – In calculating North Carolina taxable income, a taxpayer may deduct either the North Carolina standard deduction amount for that taxpayer's filing status or the itemized deductions amount claimed under the Code. The North Carolina standard deduction amount is the lesser of the amount shown in the table below or the amount allowed under the Code. In the case of a married couple filing separate returns, a taxpayer may not deduct the standard deduction amount if the taxpayer or the taxpayer's spouse claims itemized deductions for State purposes.

A taxpayer that deducts the standard deduction amount under this subsection and is entitled to an additional deduction amount under section 63(f) of the Code for the aged or blind may deduct an additional amount under this subsection. The additional amount the taxpayer may deduct is six hundred dollars (\$600.00) in the case of an individual who is married and seven hundred fifty dollars (\$750.00) in the case of an individual who is not married and is not a surviving spouse. The taxpayer is allowed the same number of additional amounts that the taxpayer claimed under the Code for the taxable year either the standard deduction amount or the itemized deductions amount. In the case of a married couple filing separate returns, a taxpayer may not deduct the standard deduction amount if the taxpayer or the taxpayer's spouse claims the itemized deductions amount.

(1) Standard deduction amount. – An amount equal to the amount listed in the table below based on the taxpayer's filing status:

Filing Status	Standard Deduction
Married, filing jointly	\$6,000\$12,000
Head of Household	4,4009,600
Single	3,0006,000
Married, filing separately	3,0006,000.

(2) Itemized deductions amount. – An amount equal to the sum of the following:

- a. The amount claimed by the taxpayer as a deduction for charitable contributions under section 170 of the Code for that taxable year.
- b. The amount claimed by the taxpayer as a deduction for interest paid or accrued during the taxable year under section 163(h) of the Code with respect to any qualified residence plus the amount claimed by the taxpayer as a deduction for property taxes paid or accrued on real estate under section 164 of the Code for that taxable year. The amount claimed under this sub-subdivision may not exceed the amount listed in the table below based on the taxpayer's filing status.

Filing Status	Maximum Amount
<u>Married, filing jointly</u>	<u>\$25,000</u>
<u>Head of Household</u>	<u>20,000</u>
<u>Single</u>	<u>12,500</u>
<u>Married, filing separately</u>	<u>12,500.</u>

(b) Other Deductions. – In calculating North Carolina taxable income, a taxpayer may deduct any of the following items to the extent those items are included in the taxpayer's adjusted gross income.

...

- 1 (11) ~~Severance wages received by a taxpayer from an employer as the result of~~
2 ~~the taxpayer's permanent, involuntary termination from employment through~~
3 ~~no fault of the employee. The amount of severance wages deducted as the~~
4 ~~result of the same termination may not exceed thirty five thousand dollars~~
5 ~~(\$35,000) for all taxable years in which the wages are received.~~
6 ...
- 7 (17) ~~In each of the taxpayer's first five taxable years beginning on or after~~
8 ~~January 1, 2005, an amount equal to twenty percent (20%) of the amount~~
9 ~~added to taxable income in a previous year as accelerated depreciation under~~
10 ~~subdivision (c)(8) of this section.~~
- 11 (17a) ~~An amount equal to twenty percent (20%) of the amount added to federal~~
12 ~~taxable income as accelerated depreciation under subdivision (c)(8a) of this~~
13 ~~section. For a taxpayer who made the addition for accelerated depreciation in~~
14 ~~the 2008 taxable year, the deduction allowed by this subdivision applies to~~
15 ~~the first five taxable years beginning on or after January 1, 2009. For a~~
16 ~~taxpayer who made the addition for accelerated depreciation in the 2009~~
17 ~~taxable year, the deduction allowed by this subdivision applies to the first~~
18 ~~five taxable years beginning on or after January 1, 2010.~~
- 19 (17b) ~~An amount equal to twenty percent (20%) of the amount added to federal~~
20 ~~taxable income as accelerated depreciation under subdivision (c)(8b) of this~~
21 ~~section. For the amount added to adjusted gross income in the 2010 taxable~~
22 ~~year, the deduction allowed by this subdivision applies to the first five~~
23 ~~taxable years beginning on or after January 1, 2011. For the amount added to~~
24 ~~taxable income in the 2011 taxable year, the deduction allowed by this~~
25 ~~subdivision applies to the first five taxable years beginning on or after~~
26 ~~January 1, 2012. For the amount added to taxable income in the 2012 taxable~~
27 ~~year, the deduction allowed by this subdivision applies to the first five~~
28 ~~taxable years beginning on or after January 1, 2013. For the amount added to~~
29 ~~adjusted gross income in the 2013 taxable year, the deduction allowed by~~
30 ~~this subdivision applies to the first five taxable years beginning on or after~~
31 ~~January 1, 2014.~~
- 32 ...
- 33 (21) ~~An amount equal to twenty percent (20%) of the amount added to federal~~
34 ~~taxable income under subdivision (c)(15) of this section. For the amount~~
35 ~~added to taxable income in the 2010 taxable year, the deduction allowed by~~
36 ~~this subdivision applies to the first five taxable years beginning on or after~~
37 ~~January 1, 2011. For the amount added to taxable income in the 2011 taxable~~
38 ~~year, the deduction allowed by this subdivision applies to the first five~~
39 ~~taxable years beginning on or after January 1, 2012.~~
- 40 (21a) ~~An amount equal to twenty percent (20%) of the amount added to adjusted~~
41 ~~gross income under subdivision (c)(15a) of this section. For the amount~~
42 ~~added to adjusted gross income in the 2012 taxable year, the deduction~~
43 ~~allowed by this subdivision applies to the first five taxable years beginning~~
44 ~~on or after January 1, 2013. For the amount added to adjusted gross income~~
45 ~~in the 2013 taxable year, the deduction allowed by this subdivision applies to~~
46 ~~the first five taxable years beginning on or after January 1, 2014.~~
- 47 (22) ~~An amount not to exceed twenty five thousand dollars (\$25,000) of net~~
48 ~~business income the taxpayer receives during the taxable year. In the case of~~
49 ~~a married couple filing a joint return where both spouses receive or incur net~~
50 ~~business income, the maximum dollar amounts apply separately to each~~
51 ~~spouse's net business income, not to exceed a total of fifty thousand dollars~~

1 (\$50,000). For purposes of this subdivision, the term "business income" does
 2 not include income that is considered passive income under the Code.

3 (23) The amount allowed as a deduction under G.S. 105-134.6A as a result of an
 4 add-back for federal accelerated depreciation and expensing.

5 (c) Additions. – In calculating North Carolina taxable income, a taxpayer must add any
 6 of the following items to the extent those items are not included in the taxpayer's adjusted gross
 7 income. For a taxpayer who deducts the itemized deductions amount under subsection (a2)-(a3)
 8 of this section, the taxpayer must add any of the following items to the extent those items are
 9 included in the itemized deductions amount.

10 ...
 11 (8) ~~For taxable years 2002-2005, the applicable percentage of the amount~~
 12 ~~allowed as a special accelerated depreciation deduction under section 168(k)~~
 13 ~~or section 1400L of the Code, as set out in the table below. In addition, a~~
 14 ~~taxpayer who was allowed a special accelerated depreciation deduction~~
 15 ~~under section 168(k) or section 1400L of the Code in a taxable year~~
 16 ~~beginning before January 1, 2002, and whose North Carolina taxable income~~
 17 ~~in that earlier year reflected that accelerated depreciation deduction must add~~
 18 ~~to federal taxable income in the taxpayer's first taxable year beginning on or~~
 19 ~~after January 1, 2002, an amount equal to the amount of the deduction~~
 20 ~~allowed in the earlier taxable year. These adjustments do not result in a~~
 21 ~~difference in basis of the affected assets for State and federal income tax~~
 22 ~~purposes. The applicable percentage is as follows:~~

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

23
 24
 25
 26
 27
 28 (8a) ~~The applicable percentage of the amount allowed as a special accelerated~~
 29 ~~depreciation deduction under section 168(k) or 168(n) of the Code for~~
 30 ~~property placed in service after December 31, 2007, but before January 1,~~
 31 ~~2010. The applicable percentage under this subdivision is eighty five percent~~
 32 ~~(85%).~~

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

39 a. ~~A taxpayer must add to federal taxable income in the taxpayer's 2008~~
 40 ~~taxable year an amount equal to the applicable percentage of the~~
 41 ~~accelerated depreciation deduction reflected in the taxpayer's 2007~~
 42 ~~North Carolina taxable income.~~

43 b. ~~A taxpayer must add to federal taxable income in the taxpayer's 2009~~
 44 ~~taxable year an amount equal to the applicable percentage of the~~
 45 ~~accelerated depreciation deduction reflected in the taxpayer's 2008~~
 46 ~~North Carolina taxable income.~~

47 (8b) ~~For taxable years 2010 through 2013, eighty five percent (85%) of the~~
 48 ~~amount allowed as a special accelerated depreciation deduction under~~
 49 ~~section 168(k) or 168(n) of the Code for property placed in service during~~
 50 ~~the taxable year. In addition, for taxable year 2010, a taxpayer who placed~~
 51 ~~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.

...

(15) 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.

(15a) 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.

(15a) 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.

...

(20) The amount required to be added under G.S. 105-134.6A when the State decouples from federal accelerated depreciation and expensing.

...."

SECTION 2.2.(c) Part 2 of Article 4 of Chapter 105 of the General Statutes is amended by adding a new section to read:

"§ 105-134.6A. Adjustments when State decouples from federal accelerated depreciation and expensing.

(a) Special Accelerated Depreciation. – A taxpayer who places property in service during a taxable year listed in the table below and who takes a special accelerated depreciation deduction for that property under section 168(k) or 168(n) of the Code must add to the taxpayer's federal taxable income or adjusted gross income, as appropriate, eighty-five percent (85%) of the amount taken for that year under those Code provisions. For taxable years before 2012, the taxpayer must add the amount to the taxpayer's federal taxable income. For taxable year 2012 and after, the taxpayer must add the amount to the taxpayer's adjusted gross income.

A taxpayer who made the addition 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 below indicates the applicable five-year period.

<u>Taxable Year of 85% Add-Back</u>	<u>Five Taxable Years of 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>

(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 who made the addition 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 subsection, 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 listed in the table below must add to the taxpayer's federal taxable income or adjusted gross income as appropriate, 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. For taxable years before 2012, the taxpayer must add the amount to the taxpayer's federal taxable income. For taxable year 2012 and after, the taxpayer must add the amount to the taxpayer's adjusted gross income.

A taxpayer who made the addition 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 2.2.(d) G.S. 105-151.26 is repealed.

SECTION 2.2.(e) G.S. 105-151.24(a) reads as rewritten:

"(a) Credit. – ~~An individual~~ A taxpayer who is allowed a federal child tax credit under section 24 of the Code for the taxable year and whose adjusted gross income (AGI), as calculated under the Code, is less than the amount listed below is allowed a credit against the tax imposed by this Part in an amount equal to one hundred dollars (\$100.00) for each dependent child for whom the ~~individual taxpayer~~ is allowed the federal credit for the taxable year; credit. The amount of credit allowed is equal to the amount listed in the table below based on the taxpayer's adjusted gross income.

<u>Filing Status</u>	<u>AGI</u>	<u>AGI</u>
<u>Married, filing jointly</u>		<u>\$100,000</u>
<u>Head of Household</u>		<u>80,000</u>
<u>Single</u>		<u>60,000</u>
<u>Married, filing separately</u>		<u>50,000.</u>
<u>Filing Status</u>	<u>AGI</u>	<u>Credit Amount</u>
<u>Married, filing jointly</u>	<u>Up to \$100,000</u>	<u>\$250.00</u>
	<u>Over \$100,000</u>	<u>\$125.00</u>
<u>Head of Household</u>	<u>Up to \$80,000</u>	<u>\$250.00</u>
	<u>Over \$80,000</u>	<u>\$125.00</u>
<u>Single</u>	<u>Up to \$50,000</u>	<u>\$250.00</u>
	<u>Over \$50,000</u>	<u>\$125.00</u>

<u>Married, filing separately</u>	<u>Up to \$50,000</u>	<u>\$250.00</u>
	<u>Over \$50,000</u>	<u>\$125.00."</u>

SECTION 2.2.(f) This section becomes effective for taxable years beginning on or after January 1, 2014.

SECTION 2.3.(a) G.S. 105-160.2 reads as rewritten:

"§ 105-160.2. Imposition of tax.

(a) Tax Imposed. – The tax imposed by this Part ~~shall apply~~ applies to the taxable income of estates and trusts as determined under the provisions of the Code ~~except as otherwise and adjusted as provided in this Part. The tax is computed on the amount of the taxable income of the estate or trust that is for the benefit of a resident of this State, or for the benefit of a nonresident to the extent that the income (i) is derived from North Carolina sources and is attributable to the ownership of any interest in real or tangible personal property in this State or (ii) is derived from a business, trade, profession, or occupation carried on in this State.~~

(b) Taxable Income. – The taxable income of an estate or trust ~~shall be the~~ is the same as taxable income for such an estate or trust under the provisions of the Code, ~~Code and adjusted as provided in G.S. 105-134.6 and G.S. 105-134.7, except that~~ except as follows:

(1) ~~The~~ the adjustments provided in G.S. 105-134.6 and G.S. 105-134.7 ~~shall~~ must be apportioned between the estate or trust and the beneficiaries based on the distributions made during the taxable year.

(2) The itemized deductions amount allowed under G.S. 105-134.6(a3) is not limited when computing tax under this Part. ~~The tax shall be computed on the amount of the taxable income of the estate or trust that is for the benefit of a resident of this State, or for the benefit of a nonresident to the extent that the income (i) is derived from North Carolina sources and is attributable to the ownership of any interest in real or tangible personal property in this State or (ii) is derived from a business, trade, profession, or occupation carried on in this State. For purposes of the preceding sentence, taxable income and gross income shall be computed subject to the adjustments provided in G.S. 105-134.6 and G.S. 105-134.7.~~

(c) Tax Rate. – The tax on the amount computed under this Part ~~above~~ shall be at the rates levied in G.S. 105-134.2(a)(3). The tax computed ~~under the provisions of this Part shall be paid~~ is payable by the fiduciary responsible for administering the estate or trust."

SECTION 2.3.(b) This section becomes effective for taxable years beginning on or after January 1, 2014.

PART III. REDUCE CORPORATE INCOME AND FRANCHISE TAX RATES

SECTION 3.1.(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%.
<u>In 2014</u>	<u>6.5%</u>
<u>In 2015</u>	<u>6.35%</u>
<u>In 2016</u>	<u>6.2%</u>
<u>In 2017</u>	<u>5.6%</u>

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

3 ...
4 (15) ~~For taxable years 2002-2005, the applicable percentage of the amount~~
5 ~~allowed as a special accelerated depreciation deduction under section 168(k)~~
6 ~~or section 1400L of the Code, as set out in the table below. In addition, a~~
7 ~~taxpayer who was allowed a special accelerated depreciation deduction~~
8 ~~under section 168(k) or section 1400L of the Code in a taxable year~~
9 ~~beginning before January 1, 2002, and whose North Carolina taxable income~~
10 ~~in that earlier year reflected that accelerated depreciation deduction must add~~
11 ~~to federal taxable income in the taxpayer's first taxable year beginning on or~~
12 ~~after January 1, 2002, an amount equal to the amount of the deduction~~
13 ~~allowed in the earlier taxable year. These adjustments do not result in a~~
14 ~~difference in basis of the affected assets for State and federal income tax~~
15 ~~purposes. The applicable percentage is as follows:~~

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

16
17
18
19
20
21 (15a) ~~The applicable percentage of the amount allowed as a special accelerated~~
22 ~~depreciation deduction under section 168(k) or 168(n) of the Code for~~
23 ~~property placed in service after December 31, 2007, but before January 1,~~
24 ~~2010. The applicable percentage under this subdivision is eighty five percent~~
25 ~~(85%).~~

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

32 a. ~~A taxpayer must add to federal taxable income in the taxpayer's 2008~~
33 ~~taxable year an amount equal to the applicable percentage of the~~
34 ~~accelerated depreciation deduction reflected in the taxpayer's 2007~~
35 ~~North Carolina taxable income.~~

36 b. ~~A taxpayer must add to federal taxable income in the taxpayer's 2009~~
37 ~~taxable year an amount equal to the applicable percentage of the~~
38 ~~accelerated depreciation deduction reflected in the taxpayer's 2008~~
39 ~~North Carolina taxable income.~~

40 (15b) ~~For taxable years 2010 through 2013, eighty five percent (85%) of the~~
41 ~~amount allowed as a special accelerated depreciation deduction under~~
42 ~~section 168(k) or 168(n) of the Code for property placed in service during~~
43 ~~the taxable year. In addition, for taxable year 2010, a taxpayer who placed~~
44 ~~property in service during the 2009 taxable year and whose North Carolina~~
45 ~~taxable income for the 2009 taxable year reflected a special accelerated~~
46 ~~depreciation deduction allowed for the property under section 168(k) of the~~
47 ~~Code must add eighty five percent (85%) of the amount of the special~~
48 ~~accelerated depreciation deduction. These adjustments do not result in a~~
49 ~~difference in basis of the affected assets for State and federal income tax~~
50 ~~purposes.~~

51 ...

- 1 (23) ~~For taxable years 2010 and 2011, eighty five percent (85%) of the amount~~
2 ~~by which the taxpayer's expense deduction under section 179 of the Code for~~
3 ~~property placed in service in taxable year 2010 or 2011 exceeds the amount~~
4 ~~that would have been allowed for the respective taxable year under section~~
5 ~~179 of the Code as of May 1, 2010. For purposes of this subdivision, the~~
6 ~~definition of section 179 property has the same meaning as under section~~
7 ~~179 of the Code as of January 1, 2011. These adjustments do not result in a~~
8 ~~difference in basis of the affected assets for State and federal income tax~~
9 ~~purposes.~~
- 10 (23a) ~~For taxable years 2012 and 2013, eighty five percent (85%) of the amount~~
11 ~~by which the taxpayer's expense deduction under section 179 of the Code for~~
12 ~~property placed in service in taxable year 2012 or 2013 exceeds the amount~~
13 ~~that would have been allowed for the respective taxable year under section~~
14 ~~179 of the Code as of May 1, 2010. For purposes of this subdivision, the~~
15 ~~definition of section 179 property has the same meaning as under section~~
16 ~~179 of the Code as of January 2, 2013. These adjustments do not result in a~~
17 ~~difference in basis of the affected assets for State and federal income tax~~
18 ~~purposes.~~
- 19 (24) The amount required to be added under G.S. 105-130.5B when the State
20 decouples from federal accelerated depreciation and expensing.
- 21 (b) The following deductions from federal taxable income shall be made in determining
22 State net income:
23 ...
- 24 (21) ~~In each of the taxpayer's first five taxable years beginning on or after~~
25 ~~January 1, 2005, an amount equal to twenty percent (20%) of the amount~~
26 ~~added to taxable income in a previous year as accelerated depreciation under~~
27 ~~subdivision (a)(15) of this section.~~
- 28 (21a) ~~An amount equal to twenty percent (20%) of the amount added to federal~~
29 ~~taxable income as accelerated depreciation under subdivision (a)(15a) of this~~
30 ~~section. For a taxpayer who made the addition for accelerated depreciation in~~
31 ~~the 2008 taxable year, the deduction allowed by this subdivision applies to~~
32 ~~the first five taxable years beginning on or after January 1, 2009. For a~~
33 ~~taxpayer who made the addition for accelerated depreciation in the 2009~~
34 ~~taxable year, the deduction allowed by this subdivision applies to the first~~
35 ~~five taxable years beginning on or after January 1, 2010.~~
- 36 (21b) ~~An amount equal to twenty percent (20%) of the amount added to federal~~
37 ~~taxable income as accelerated depreciation under subdivision (a)(15b) of this~~
38 ~~section. For the amount added to taxable income in the 2010 taxable year,~~
39 ~~the deduction allowed by this subdivision applies to the first five taxable~~
40 ~~years beginning on or after January 1, 2011. For the amount added to taxable~~
41 ~~income in the 2011 taxable year, the deduction allowed by this subdivision~~
42 ~~applies to the first five taxable years beginning on or after January 1, 2012.~~
43 ~~For the amount added to taxable income in the 2012 taxable year, the~~
44 ~~deduction allowed by this subdivision applies to the first five taxable years~~
45 ~~beginning on or after January 1, 2013. For the amount added to taxable~~
46 ~~income in the 2013 taxable year, the deduction allowed by this subdivision~~
47 ~~applies to the first five taxable years beginning on or after January 1, 2014.~~
- 48 ...
- 49 (26) ~~An amount equal to twenty percent (20%) of the amount added to federal~~
50 ~~taxable income under subdivision (a)(23) of this section. For the amount~~
51 ~~added to taxable income in the 2010 taxable year, the deduction allowed by~~

~~this subdivision applies to the first five taxable years beginning on or after January 1, 2011. For the amount added to taxable income in the 2011 taxable year, the deduction allowed by this subdivision applies to the first five taxable years beginning on or after January 1, 2012.~~

(26a) ~~An amount equal to twenty percent (20%) of the amount added to federal taxable income under subdivision (a)(23a) of this section. For the amount added to taxable income in the 2012 taxable year, the deduction allowed by this subdivision applies to the first five taxable years beginning on or after January 1, 2013. For the amount added to taxable income in the 2013 taxable year, the deduction allowed by this subdivision applies to the first five taxable years beginning on or after January 1, 2014.~~

(27) The amount allowed as a deduction under G.S. 105-130.5B as a result of an add-back for federal accelerated depreciation and expensing.

...."

SECTION 3.3.(b) Part 1 of Article 4 of Chapter 105 of the General Statutes is amended by adding a new section to read:

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

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

A taxpayer who made the addition 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 below indicates the applicable five-year period.

<u>Taxable Year of 85% Add-Back</u>	<u>Five Taxable Years of 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>

(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 who made the addition 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 subsection, 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 who made the addition 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.

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

3 **SECTION 3.3.(c)** This section is effective when it becomes law.

4 **SECTION 3.4.(a)** The title of Article 3E of Chapter 105 of the General Statutes
5 reads as rewritten:

6 "Article 3E.

7 ~~Low-Income Housing Tax Credits, Work Force Housing Construction Loan Program.~~"

8 **SECTION 3.4.(b)** G.S. 105-129.42(a) reads as rewritten:

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

10 (1) Development tier. – The classification assigned to an area pursuant to
11 G.S. 143B-437.08.

12 ~~(1)(2)~~ Qualified Allocation Plan. – The plan governing the allocation of federal
13 low-income housing tax credits for a particular year, as approved by the
14 Governor after a public hearing and publication in the North Carolina
15 Register.

16 ~~(2)(3)~~ Qualified North Carolina low-income housing development. – A qualified
17 low-income project or building that is allocated a federal tax credit under
18 section 42(h)(1) of the Code and is described in subsection (c) of this
19 section.

20 ~~(3)(4)~~ Qualified residential unit. – A housing unit that meets the requirements of
21 section 42 of the Code."

22 **SECTION 3.4.(c)** G.S. 105-129.42(b) reads as rewritten:

23 "(b) Credit. – A taxpayer who is allocated a federal low-income housing tax credit under
24 section 42 of the Code to construct or substantially rehabilitate a qualified North Carolina
25 low-income housing development that is located in a development tier area one or two is
26 allowed a credit equal to a percentage of the development's qualified basis, as determined
27 pursuant to section 42 of the Code. For the purpose of this section, qualified basis is calculated
28 based on the information contained in the carryover allocation and is not recalculated to reflect
29 subsequent increases or decreases. No credit is allowed for a development that uses tax-exempt
30 bond financing."

31 **SECTION 3.4.(d)** G.S. 105-129.45 is repealed.

32 **SECTION 3.4.(e)** This section is effective for taxable years beginning on or after
33 January 1, 2014.

34 **SECTION 3.5.(a)** G.S. 115C-546.1 reads as rewritten:

35 "**§ 115C-546.1. Creation of Fund; administration.**

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

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

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

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

50 **SECTION 3.5.(b)** G.S. 115C-546.2(a) is repealed.

1 **SECTION 3.5.(c)** This section becomes effective April 1, 2014, and applies to
2 distributions for collections for quarters beginning on or after that date.

3
4 **PART IV. EXPAND SALES TAX BASE TO INCLUDE SERVICES COMMONLY**
5 **TAXED IN OTHER STATES**

6 **SECTION 4.1.(a)** G.S. 105-164.13(13c) and G.S. 105-164.13D are repealed.

7 **SECTION 4.1.(b)** G.S. 105-467(b) reads as rewritten:

8 "(b) Exemptions and Refunds. – The State exemptions and exclusions contained in
9 G.S. 105-164.13, the State sales and use tax ~~holidays~~ holiday contained in G.S. 105-164.13C
10 ~~and G.S. 105-164.13D~~, and the State refund provisions contained in G.S. 105-164.14 through
11 G.S. 105-164.14B apply to the local sales and use tax authorized to be levied and imposed
12 under this Article. Except as provided in this subsection, a taxing county may not allow an
13 exemption, exclusion, or refund that is not allowed under the State sales and use tax. A local
14 school administrative unit and a joint agency created by interlocal agreement among local
15 school administrative units pursuant to G.S. 160A-462 to jointly purchase food service-related
16 materials, supplies, and equipment on their behalf is allowed an annual refund of sales and use
17 taxes paid by it under this Article on direct purchases of tangible personal property and
18 services, other than electricity, telecommunications service, and ancillary service. Sales and use
19 tax liability indirectly incurred by the entity on building materials, supplies, fixtures, and
20 equipment that become a part of or annexed to any building or structure that is owned or leased
21 by the entity and is being erected, altered, or repaired for use by the entity is considered a sales
22 or use tax liability incurred on direct purchases by the entity for the purpose of this subsection.
23 A request for a refund shall be in writing and shall include any information and documentation
24 required by the Secretary. A request for a refund is due within six months after the end of the
25 entity's fiscal year. Refunds applied for more than three years after the due date are barred."

26 **SECTION 4.1.(c)** This section becomes effective July 1, 2013, and applies to sales
27 made on or after that date.

28 **SECTION 4.2.(a)** G.S. 105-37.1, 105-38.1, and 105-40 are repealed.

29 **SECTION 4.2.(b)** G.S. 105-164.4(a) is amended by adding the following new
30 subdivision to read:

31 **"§ 105-164.4. Tax imposed on retailers.**

32 (a) A privilege tax is imposed on a retailer at the following percentage rates of the
33 retailer's net taxable sales or gross receipts, as appropriate. The general rate of tax is four and
34 three-quarters percent (4.75%).

35 ...

36 (9) The general rate of tax applies to admission charges to an entertainment
37 activity listed in this subdivision. Offering any of these listed activities is a
38 service. An admission charge includes a charge for a single ticket, a
39 multi-occasion ticket, a seasonal pass, an annual pass, and a cover charge.

40 An admission charge does not include a charge for amenities. If charges
41 for amenities are not separately stated on the face of an admission ticket,
42 then the charge for admission is considered to be equal to the admission
43 charge for a ticket to the same event that does not include amenities and is
44 for a seat located directly in front of or closest to a seat that includes
45 amenities.

46 When an admission ticket is resold and the price of the admission ticket
47 is printed on the face of the ticket, the tax does not apply to the face price.
48 When an admission ticket is resold and the price of the admission ticket is
49 not printed on the face of the ticket, the tax applies to the difference between
50 the amount the reseller paid for the ticket and the amount the reseller charges
51 for the ticket.

1 Admission charges to the following entertainment activities are subject
2 to tax:
3 a. A live performance or other live event of any kind.
4 b. A movie.
5 c. A museum, a cultural site, a garden, an exhibit, a show, or a similar
6 attraction or a guided tour at any of these attractions."

7 **SECTION 4.2.(c)** G.S. 105-164.13 is amended by adding the following new
8 subdivision to read:

9 "(60) Admission charges to any of the following recreational or entertainment
10 activities:

- 11 a. All exhibitions, performances, and entertainments, except as in this
12 Article expressly mentioned as not exempt, produced by local talent
13 exclusively for the benefit of religious, charitable, benevolent, or
14 educational purposes, as long as no compensation is paid to the local
15 talent.
16 b. The North Carolina Symphony Society, Incorporated, as specified in
17 G.S. 140-10.1.
18 c. All exhibits, shows, attractions, and amusements operated by a
19 society or association organized under the provisions of Chapter 106
20 of the General Statutes where the society or association has obtained
21 a permit from the Secretary to operate without the payment of taxes
22 under this Article.
23 d. All outdoor historical dramas, as specified in Article 19C of Chapter
24 143 of the General Statutes.
25 e. All elementary and secondary school athletic contests, dances, and
26 other amusements.
27 f. Dances and other amusements actually promoted and managed by
28 civic organizations when the entire proceeds of the dances or other
29 amusements are used exclusively for civic and charitable purposes of
30 the organizations and not to defray the expenses of the organization
31 conducting the dance or amusement. The mere sponsorship of a
32 dance or another amusement by a civic or fraternal organization does
33 not exempt the dance or other amusement, because the exemption
34 applies only when the dance or amusement is actually managed and
35 conducted by the civic or fraternal organization.
36 g. A youth athletic contest sponsored by a person exempt from income
37 tax under Article 4 of this Chapter. For the purpose of this
38 subdivision, a youth athletic contest means a contest in which each
39 participating athlete is less than 20 years of age.
40 h. All dances, motion picture shows, and other amusements promoted
41 and managed by a qualifying corporation that operates a center for
42 the performing and visual arts if the dance or other amusement is
43 held at the center. "Qualifying corporation" means a corporation that
44 is exempt from income tax under G.S. 105-130.11(a)(3). "Center for
45 the performing and visual arts" means a facility having a fixed
46 location that provides space for dramatic performances, studios,
47 classrooms, and similar accommodations to organized arts groups
48 and individual artists. This exemption does not apply to athletic
49 events.
50 i. All exhibitions, performances, and entertainments promoted and
51 managed by a "nonprofit arts organization." This exemption does not

1 apply to athletic events. A "nonprofit arts organization" is an
 2 organization that meets both of the following requirements:

- 3 1. It is exempt from income tax under G.S. 105-130.11(a)(3).
- 4 2. Its primary purpose is to create, produce, present, or support
 5 music, dance, theatre, literature, or visual arts.

6 j. A person that is exempt from income tax under Article 4 of this
 7 Chapter and is engaged in the business of operating a teen center. A
 8 "teen center" is a fixed facility whose primary purpose is to provide
 9 recreational activities, dramatic performances, dances, and other
 10 amusements exclusively for teenagers.

11 k. Arts festivals held by a person that is exempt from income tax under
 12 Article 4 of this Chapter and that meets the following conditions:

- 13 1. The person holds no more than two arts festivals during a
 14 calendar year.
- 15 2. Each of the person's arts festivals last no more than seven
 16 consecutive days.
- 17 3. The arts festivals are held outdoors on public property and
 18 involve a variety of exhibitions, entertainments, and
 19 activities.

20 l. Community festivals held by a person who is exempt from income
 21 tax under Article 4 of this Chapter and that meets all of the following
 22 conditions:

- 23 1. The person holds no more than one community festival
 24 during a calendar year.
- 25 2. The community festival lasts no more than seven consecutive
 26 days.
- 27 3. The community festival involves a variety of exhibitions,
 28 entertainments, and activities, the majority of which are held
 29 outdoors and are open to the public.

30 m. All farm-related exhibitions, shows, attractions, or amusements
 31 offered on land used for bona fide farm purposes as defined in
 32 G.S. 153A-340."

33 **SECTION 4.2.(d)** This section becomes effective October 1, 2013, and applies to
 34 admissions purchased on or after that date. For admissions to a live event, the tax applies to the
 35 initial sale or resale of tickets occurring on or after that date; gross receipts received on or after
 36 October 1, 2013, for admission to a live event, for which the initial sale of tickets occurred
 37 before that date, other than gross receipts received by a ticket reseller, are taxable under
 38 G.S. 105-37.1.

39 **SECTION 4.3.(a)** G.S. 105-116, 105-116.1, 105-164.21A, and 159B-27(b), (c),
 40 (d), and (e) are repealed.

41 **SECTION 4.3.(b)** G.S. 105-164.4(a)(1f) and (a)(4a) are repealed.

42 **SECTION 4.3.(c)** G.S. 105-164.13(44) and Article 5E of Chapter 105 of the
 43 General Statutes are repealed.

44 **SECTION 4.3.(d)** G.S. 105-164.4(a) is amended by adding a new subdivision to
 45 read:

46 "(10) The combined general rate applies to the gross receipts derived from sales of
 47 electricity and piped natural gas."

48 **SECTION 4.3.(e)** Pursuant to G.S. 62-31 and G.S. 62-32, the Utilities Commission
 49 must adjust the rate set for the following utilities:

- 50 (1) Electricity to reflect the repeal of G.S. 105-116 and the resulting liability of
 51 electric power companies for the tax imposed under G.S. 105-122 and for

1 the increase in the rate of tax imposed on sales of electricity under
2 G.S. 105-164.4.

- 3 (2) Piped natural gas to reflect the repeal of Article 5E of Chapter 105 of the
4 General Statutes, the repeal of the credit formerly allowed under
5 G.S. 105-122(d1), and the resulting liability of companies for the tax
6 imposed on sales of piped natural gas under G.S. 105-164.4.

7 **SECTION 4.3.(f)** Part 8 of Article 5 of Chapter 105 of the General Statutes is
8 amended by adding a new section to read:

9 **"§ 105-164.44K. Distribution of part of tax on electricity to cities.**

10 (a) Distribution. – The Secretary must distribute to cities forty-four percent (44%) of
11 the net proceeds of the tax collected under G.S. 105-164.4 on electricity. Each city's share of
12 the amount to be distributed is its franchise tax share calculated under subsection (b) of this
13 section plus its ad valorem share calculated under subsection (c) of this section. The Secretary
14 must make the distribution within 75 days after the end of each quarter.

15 (b) Franchise Tax Share. – The franchise tax share of a city is the amount of electricity
16 gross receipts franchise tax distributed to the city under repealed G.S. 105-116.1 for the same
17 quarter that was the last quarter in which taxes were imposed on electric power companies
18 under repealed G.S. 105-116. The Department must recalculate the franchise tax share of a city
19 every five years, beginning with distributions for fiscal years beginning on or after July 1,
20 2020. The recalculated franchise tax share of a city is three and nine hundredths percent
21 (3.09%) of the gross receipts that would have been derived by an electric power company from
22 sales within a city during the preceding fiscal year and taxable under repealed G.S. 105-116,
23 divided by four.

24 The franchise tax share of a city that has dissolved, merged with another city, or divided
25 into two or more cities since it received a distribution under repealed G.S. 105-116.1 is adjusted
26 as follows:

- 27 (1) If a city dissolves and is no longer incorporated, the franchise tax share of
28 the city is added to the amount distributed under subsection (c) of this
29 section.
30 (2) If two or more cities merge or otherwise consolidate, their franchise tax
31 shares are combined.
32 (3) If a city divides into two or more cities, the franchise tax share of the city
33 that divides is allocated among the new cities in proportion to the total
34 amount of ad valorem taxes levied by each on property having a tax situs in
35 the city.

36 (c) Ad Valorem Share. – The ad valorem share of a city is its proportionate share of the
37 amount that remains for distribution after determining each city's franchise tax share under
38 subsection (b) of this section. A city's proportionate share is the amount of ad valorem taxes it
39 levies on property having a tax situs in the city compared to the ad valorem taxes levied by all
40 cities on property having a tax situs in the cities.

41 (d) Methodology. – The ad valorem method set out in G.S. 105-472(b)(2) applies in
42 determining the share of a city under this section based on ad valorem taxes, except that the
43 amount of ad valorem taxes levied by a city does not include ad valorem taxes levied on behalf
44 of a taxing distribution and collected by the city.

45 (e) Determination Final. – The determination made by the Department with respect to a
46 city's franchise tax share is final and is not subject to administrative or judicial review.

47 (f) Nature. – The General Assembly finds that the revenue distributed under this
48 section is local revenue, not a State expenditure, for the purpose of Section 5(3) of Article III of
49 the North Carolina Constitution. Therefore, the Governor may not reduce or withhold the
50 distribution."

1 **SECTION 4.3.(g)** Part 8 of Article 5 of Chapter 105 of the General Statutes is
2 amended by adding a new section to read:

3 **"§ 105-164.44L. Distribution of part of tax on piped natural gas to cities.**

4 (a) Distribution. – The Secretary must distribute to cities twenty percent (20%) of the
5 net proceeds of the tax collected under G.S. 105-164.4 on piped natural gas. Each city's share of
6 the amount to be distributed is its excise tax share calculated under subsection (b) of this
7 section plus its ad valorem share calculated under subsection (c) of this section. The Secretary
8 must make the distribution within 75 days after the end of each quarter.

9 (b) Excise Tax Share. – The excise tax share of a city that is not a gas city is the amount
10 of piped natural gas excise tax distributed to the city under repealed G.S. 105-187.44 for the
11 same quarter that was the last quarter in which taxes were imposed on piped natural gas under
12 repealed Article 5E of this Chapter. The excise tax share of a gas city is the amount the gas city
13 would have received under repealed G.S. 105-187.44 if piped natural gas consumed by the city
14 or delivered by the city to a customer had not been exempt from tax under repealed
15 G.S. 105-187.41(c)(1) and (c)(2). A gas city must report the information required by the
16 Secretary to make the distribution under this section in the form, manner, and time required by
17 the Secretary. For purposes of this subsection, the term "gas city" has the same meaning as
18 defined in repealed G.S. 105-187.40.

19 The excise tax share of a city that has dissolved, merged with another city, or divided into
20 two or more cities since it received a distribution under repealed G.S. 105-187.44 is adjusted as
21 follows:

- 22 (1) If a city dissolves and is no longer incorporated, the excise tax share of the
23 city is added to the amount distributed under subsection (c) of this section.
24 (2) If two or more cities merge or otherwise consolidate, their excise tax shares
25 are combined.
26 (3) If a city divides into two or more cities, the excise tax share of the city that
27 divides is allocated among the new cities in proportion to the total amount of
28 ad valorem taxes levied by each on property having a tax situs in the city.

29 (c) Ad Valorem Share. – The ad valorem share of a city is its proportionate share of the
30 amount that remains for distribution after determining each city's excise tax share under
31 subsection (b) of this section. A city's proportionate share is the amount of ad valorem taxes it
32 levies on property having a tax situs in the city compared to the ad valorem taxes levied by all
33 cities on property having a tax situs in the cities.

34 (d) Methodology. – The ad valorem method set out in G.S. 105-472(b)(2) applies in
35 determining the share of a city under this section based on ad valorem taxes, except that the
36 amount of ad valorem taxes levied by a city does not include ad valorem taxes levied on behalf
37 of a taxing distribution and collected by the city.

38 (e) Determination Final. – The determination made by the Department with respect to a
39 city's excise tax share is final and is not subject to administrative or judicial review.

40 (f) Nature. – The General Assembly finds that the revenue distributed under this
41 section is local revenue, not a State expenditure, for the purpose of Section 5(3) of Article III of
42 the North Carolina Constitution. Therefore, the Governor may not reduce or withhold the
43 distribution."

44 **SECTION 4.3.(h)** G.S. 160A-211 reads as rewritten:

45 "(c) Prohibition. – A city may not impose a license, franchise, or privilege tax on a
46 person engaged in any of the businesses listed in this subsection. These businesses are subject
47 to a State tax-sales tax at the combined general rate for which the city receives a share of the tax
48 revenue.revenue or they are subject to the local sales tax.

- 49 (1) Supplying piped natural gas taxed under Article 5E of Chapter 105 of the
50 General Statutes.gas.
51 (2) Providing telecommunications service taxed under G.S. 105-164.4(a)(4c).

- 1 (3) Providing video programming taxed under G.S. 105-164.4(a)(6).
2 (4) Providing electricity. A city may continue to impose and collect the license,
3 franchise, or privilege taxes on an electric power company that it imposed
4 and collected on or before January 1, 1947, but it may not impose or collect
5 any greater franchise, privilege, or license taxes, in the aggregate, on an
6 electric power company that was imposed and collected on or before January
7 1, 1947."

8 **SECTION 4.3.(i)** Subsections (a) and (h) of this section become effective July 1,
9 2014. Subsections (b) through (d) of this section become effective July 1, 2014, and apply to
10 bills issued on or after that date. Subsections (f) and (g) of this section are effective for quarters
11 beginning on or after July 1, 2014. The remainder of this section is effective when it becomes
12 law.

13 **SECTION 4.4.(a)** G.S. 105-164.3 is amended by adding a new subdivision to read:
14 "**§ 105-164.3. Definitions.**

15 The following definitions apply in this Article:

- 16 ...
17 (1c) Alteration, repair, maintenance, cleaning, and installation services. – The
18 term includes all of the following:
19 a. Altering tangible personal property by tailoring, monogramming,
20 engraving, or making similar changes to the property.
21 b. Repairing tangible personal property to restore it to proper working
22 order. This sub-subdivision applies regardless of whether the
23 property is able to be restored to proper working order.
24 c. Maintaining tangible personal property to keep the property in
25 working order, to avoid breakdown, or to prevent unnecessary
26 repairs.
27 d. Cleaning tangible personal property.
28 e. Installing tangible personal property or a fixture that becomes part of
29 real property.

- 30 ...
31 (38b) Service contract. – A warranty agreement, a maintenance agreement, a repair
32 contract, or a similar agreement or contract by which the provider agrees to
33 maintain or repair tangible personal property.

34"

35 **SECTION 4.4.(b)** G.S. 105-164.4(a) is amended by adding a new subdivision to
36 read:

- 37 "(11) The general rate of tax applies to the following services on tangible personal
38 property:
39 a. A service contract.
40 b. Alteration, repair, maintenance, cleaning, and installation services."

41 **SECTION 4.4.(c)** G.S. 105-164.13(49) is repealed.

42 **SECTION 4.4.(d)** G.S. 105-164.13 is amended by adding a two new subdivisions
43 to read:

- 44 "(61) An item or service to maintain or repair tangible personal property pursuant
45 to a service contract, a manufacturer's warranty, or a dealer's warranty if the
46 purchaser of the contract is not charged for the item or service.
47 (62) A service on tangible personal property described in G.S. 105-164.4(a)(11)
48 that is provided for any of the following:
49 a. An item exempt from tax under this Article, other than an item
50 exempt from tax under G.S. 105-164.13(32).
51 b. A newly constructed building or structure.

1 c. A transmission, distribution, or other network asset contained on
2 utility-owned land, right-of-way, or easement."

3 **SECTION 4.4.(e)** This section becomes effective July 1, 2014, and applies to sales
4 made on or after that date.

5
6 **PART V. EFFECTIVE DATE**

7 **SECTION 5.(a)** This act does not affect the rights or liabilities of the State, a
8 taxpayer, or another person arising under a statute amended or repealed by this act before the
9 effective date of its amendment or repeal; nor does it affect the right to any refund or credit of a
10 tax that accrued under the amended or repealed statute before the effective date of its
11 amendment or repeal.

12 **SECTION 5.(b)** G.S. 105-237.1(a) reads as rewritten:

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

16 ...
17 (6) The taxpayer is a retailer or a person under Article 5 of this Chapter, the
18 assessment is for sales or use tax the retailer failed to collect or the person
19 failed to pay on an item taxable under G.S. 105-164.4(a)(9) or (a)(11), and
20 the retailer or person made a good-faith effort to comply with the sales and
21 use tax laws. This subdivision expires for assessments issued after July 1,
22 2020."

23 **SECTION 5.(c)** Except as otherwise provided, this act is effective when it
24 becomes law.