



# 2013 TAX LAW CHANGES

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Revenue Laws  
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# Tax History from 1990 - 2012

- Series of *ad hoc* tax changes
  - 3 economic downturns
  - 2 economic upturns
- History of erratic revenue collections
  - 20% of GF revenues from two volatile sources
  - Increased 25.8% in the late 1990s, fell 30.1% in early 2000s, rose 31.9% in mid-2000s, and fell 27% in late 2000s
- No less than 8 study committees
  - Generally accepted “truths”
  - Broaden tax bases, lower tax rates
  - Antiquated tax code

# Goals of State Tax Reform

- **Tax Simplification** – Is the tax code understood by the taxpayers and easily administered by the State?
- **Tax Fairness** – Does the tax system adhere to the principles of taxation?
- **Tax Rate Reduction** – Are rates low enough to reduce distortions in economic decision making and are they competitive with other states?
- **Economic Competitiveness** – Does the tax system provide a pathway for job creation and business development?
- **Revenue Sufficiency** – Does the tax system produce revenue sufficient to meet the demand for government goods and services?



# **TAX SIMPLIFICATION AND REDUCTION**

House Bill 998, S.L. 2013-316

House Bill 112, S.L. 2013-363

House Bill 14, S.L. 2013-414

	<b>HB 985 Blust</b>	<b>HB 998 Lewis</b>	<b>SB 394 Clodfelter Hartsell</b>	<i>Sen. Rucho's ideas discussions</i>	<i>SCS H998, 6<sup>th</sup> Edition</i>
PIT	Eliminate top bracket	Flat rate of 5.9%, broaden base some	Flat rate of 5.95%, broaden base some	Phased elimination, very broad base	Flat rate of 5.4% to 5.2%, very broad base
CIT	Phase down to 5.9%	Phase down to 5.4%	5.9%, eliminate many credits	Lower rate, eliminate most credits	Lower rate to 2% very broad base
FR	Lower rates, include LLCs	Lower rates	Lower rates, include LLCs	Lower rate, include LLCs	New flat rate business privilege tax
P	No change	No change	Eliminate	Eliminate	Eliminate
S	Amusemts Electricity Service Ks Installation	Amusemts Electricity Service Ks Installation	Broaden base	Very broad base; eliminate preferential treatment	Cap refunds, farm Y Amusemts, Electricity,

# Basic Components of Tax Act

PIT  
CIT

Sales

Estate Tax

Electricity  
Piped Gas

Motor Fuel  
Tax Cap



# **PERSONAL AND CORPORATE INCOME**

Changes effective for the 2014 taxable year – April 15, 2015  
returns

# Items Eliminated

No less than 40 tax exemptions, deductions, credits, or refunds eliminated or allowed to sunset

- ✓ Broadens the tax base
- ✓ Simplifies the tax code
- ✓ Eases compliance and administration





### Items that will Expire

- Credit for premiums paid on long-term care insurance
- Earned income tax credit
- Credit for adoption related expenses

### Items that were Repealed

- Personal exemptions
- Credits
  - Child care expenses
  - Disabled
  - Property taxes paid on farm machinery
  - Education expenses
  - Non-itemizer charitable contributions
- Deductions
  - Retirement income
  - Severance wages
  - \$50,000 business deduction
  - Many itemized deductions
  - Parental savings trust fund
  - Firefighter & rescue squad
  - Payment for erroneous conviction

# Personal Income Tax

### Tax Credits that will Expire

- Ports charges
- Recycling oyster shells
- Renewable fuels
- Work opportunity
- Interactive digital media
- Article 3J
- Qualified business venture
- Film (2015)
- Renewable energy (2016)
- Historic & mill rehab (2015)
- Low income housing (2015)
- Railroad intermodal (2038)

### Tax Credits that were Repealed

- Construction of dwelling units for handicapped
- Real property donations
- Conservation tillage equipment
- Gleaned crops
- Construction of poultry composting facility

# Personal & Corporate Income Tax

### Items that will Expire

- Credit for manufacturing cigarettes for exportation (2018)

### Items that were Repealed

- Deduction for certain telephone subscriber fees
- Deduction for savings & loan supervisory fees

# Corporate Income Tax

# Tax Preferences Retained

- Personal Income Tax
  - Deduction for all social security income
  - Deduction for “Bailey” retirement income
  - Child credit
  - Standard deduction
- Corporate Income Tax
  - Credit for research and development (2016)
  - Credit for investing in a major recycling facility (no change from current law)

# Personal Income Tax

- Flat rate v. current rate brackets
  - 2013 = 6%, 7%, and 7.75%
  - 2014 = 5.8%
  - 2015 and thereafter = 5.75%
- Child credit
  - \$125 per child if AGI < \$40,000
  - \$100 per child if AGI < \$100,000
- Eliminate personal exemptions
  - One per taxpayer and dependents
  - \$2,000
  - \$2,500 if AGI < \$100,000
- Increase Standard Deduction to \$15,000 (MFJ)
  - \$6,000 (MJF)

# Personal Income Tax Changes – Itemized Deductions

- Currently, all federal itemized deductions allowed
- ✓ Home mortgage + property taxes paid on real estate
  - Capped at \$20,000
- ✓ Charitable contributions allowed on federal return
- ✗ Federal deductions eliminated
  - Medical expense deduction
  - Unreimbursed employee expenses
  - Miscellaneous deductions
  - Personal property taxes

# Other Corporate Income Tax Changes

- Reduce flat rate of 6.9%
  - 2014 = 6%
  - 2015 = 5%
- Trigger for possible rate reduction
  - 2016 = 5% or 4%
  - 2017 = 5% or 4% or 3%
- Triggers
  - FY14-15 GF revenues  $\geq$  \$20.2 billion
  - FY15-16 GF revenues  $\geq$  \$20.975 billion



# **SALES TAX**

Rate changes

Additions to the sales tax base

Elimination of exemptions

Sales tax refunds



# Rates

- No change in the State tax rate of 4.75%
- No change in the local tax rates of 2% to 2.25% (*Mecklenburg rate of 2.5%*)
- Manufactured homes
  - Currently 2% with \$300 cap
  - State rate of 4.75%, effective January 1, 2014
  - No local tax
- Modular homes
  - Currently 2.5%
  - State rate of 4.75%, effective January 1, 2014
  - No local tax

# Sales Tax Base Expansion

- **Amusements**

- January 1, 2014
- Live events
- Movies
- Attractions for which admission charged

- **Exemptions**

- School events
- Nonprofit events (2)
- Agricultural fairs
- Youth sporting events
- State attractions

- **Service contracts**

- January 1, 2014
- Agreement by which seller agrees to maintain or repair TPP
- Not labor

- **Exemptions**

- TPP exempt from sales tax, except motor vehicles
- Items used to fulfill service contract
- Asset on utility owned property
- TPP sold to motorsports for which a sales tax refund is allowed (S.L. 2013-414)

### Repeal January 1, 2014

- Nutritional supplements sold by chiropractors
- Meals sold in higher educational facilities
- Newspapers

### Repeal July 1, 2014

- Bakery thrift store
- Sales tax holiday for school
- Sales tax holiday for certain energy star products

# **Eliminate Sales Tax Exemptions**

# Other Sales Tax Changes

- Exemptions for farmers
  - Annual gross income requirement from farming activity of \$10,000
  - Effective July 1, 2014
- Tax refunds for nonprofits
  - Cap at \$45 million State and local  
(~ \$666 million of purchases)
  - Effective July 1, 2014
- No change to tax refunds for local governments
- Extend sunsets for passenger air carriers & motorsports for two years, January 1, 2016



# **ELECTRICITY & PIPED NATURAL GAS**

## Current Law

- 3.22% franchise tax
  - Embedded in electricity rates
  - Subject to local distribution
- Sales tax
  - 3% residential
  - 2.83% for dry cleaners
  - 0% for manufacturers & farmers & datacenters

## Effective July 1, 2014

- Eliminate franchise tax
  - Rates to be changed accordingly
  - Formula for local distribution
- Increase sales tax rate
  - State rate only
  - “Combined general rate” of 7%
  - Local distribution
  - Retain current exemptions

# Electricity

## Current law

- Exempt from sales tax
  - Subject to local distribution
- Excise tax on a per therm basis
- Exemptions for manufacturers, farmers, and datacenters

## Effective July 1, 2014

- Eliminate excise tax
  - Formula for local distribution
- Subject to sales tax
  - State rate only
  - “Combined general rate “of 7%
  - Local distribution
  - Retain current exemptions

# Piped Natural Gas



# ESTATE TAX

House Bill 101

Effective for decedents dying on or after January 1, 2013

Reduces General Fund revenues by ~ \$52 million





# MOTOR FUEL TAX

Caps tax rate at 37.5 cents per gallon  
Effective October 1, 2013, through June 30, 2015  
House Bill 966; SCS for House Bill 998

# Revenue Laws Study Committee

- Sales tax expansion to amusements
  - What is a State attraction?
- Additional sales tax base expansion
- Formula for local distributions from electricity and piped natural gas
- Business taxation
  - Franchise tax
  - 1%, \$80 excise tax
  - Local privilege taxes
  - CIT rate trigger
  - NOL v. NEL
  - Tax credits: low-income housing; film; R&D; others



# **DID THE GENERAL ASSEMBLY ENACT ANY OTHER TAX CHANGES THIS SESSION?**

A few ...

# Revenue Laws Technical Changes

- S.L. 2013-414 (H14)
- IRC Update
  - S.L. 2013-10 (H82)
  - Decoupled from bonus depreciation & enhanced section 179 expense deduction
  - Transfer of assets
    - What to do with remaining deductions?
    - Add amount to basis of transferred asset
- Responsible officer of a business entity only liable for principal amount of taxes owed
- “Tax and Tag”
  - July 1, 2013 (1/1/09)
  - DMV collecting agent
- Nonprofit sales tax refund allowed for reimbursed purchases made by employee

# Property Tax Changes

- SB 490, S.L. 2013-259
  - Narrows definition of computer software subject to tax
  - DOR ruling was that modifications to taxable software were taxable
- HB 439, S.L. 2013-130
  - Creates property tax deferral program for economic development job sites
  - Deferral amount = (Value of existing horizontal improvement) + (true value of property – PUV of property as agricultural land)

# Severance Tax

- Severance taxes enacted in 1945; last modified in 1973
- SB 76, S.L. 2013-365
  - Requires joint study to determine appropriate rate of tax to impose on oil & gas exploration and development activities
    - Mining and Energy Commission
    - Departments of Environment, Revenue, and Commerce
- Session History
  - Senate passed legislation that would have created a floating tax rate for gas
  - Severance tax changes included in conference report for SB 127; conference report not adopted

# Children with Disabilities

- S.L. 2011-395
  - Income tax credit for tuition and special education and related services expenses for dependent child with a disability enrolled in a private school
- S.L. 2013-364
  - Repeals tax credit, effective January 1, 2014
  - Provides a “scholarship grant” for essentially the same group of people
  - Grant may not exceed \$3,000 per semester