NC Tax Law Changes
Revenue Laws Study Committee

Cindy Avrette, NCGA, Finance Staff
January 12, 2016

2015 Session Wrap-Up

- 2015 Appropriations Act, S.L. 2015-241
  - Corporate income tax and franchise tax changes
  - Personal income tax changes
  - Sales tax changes
  - Local sales tax distribution
- NC Competes Act, S.L. 2015-259
  - Sales tax changes
  - Tax Fraud & Prevention
- Motor Fuel Tax Changes
- Renewable Energy Safe Harbor
- Exempt Builder's Inventory
- Unemployment Insurance Surcharge
- Connect NC Bond Act of 2015
- Various Miscellaneous Other Tax Law Changes

IRC Update: S.L. 2015-2

Conforms to the Code

- Teachers' classroom expense deduction

Decoupled from the Code

- Section 179 expensing
- Distributions from IRAs to charities
- Mortgage insurance premiums as interest
- Discharge of qualified principal residence indebtedness
- Higher education tuition expenses

S.L. 2015-2: IRC Update

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Similar Issues – February Meeting

Motor Fuel Excise Tax Rate

Date	Tax Rate
April 1, 2015	36 cpg
January 1, 2016	35 cpg
July 1, 2016	34 cpg
January 1, 2017	34 cpg * percentage
January 1, 2018	Rate for preceding year * percentage

What is the percentage?

100% +/- the sum of the following:

- Percentage change in population * 75%
- Percentage change in CPI for All Urban Consumers (energy costs) * 25%

S.L. 2015-11: Renewable Energy Safe Harbor

Credit Extension

- Delayed the sunset of the credit for renewable energy projects that are substantially complete by January 1, 2016
- Application for Safe Harbor extension had to be filed by October 1, 2015

Credit Limitations

- Credit = 35% of the cost of the property
- Taken in 5 equal installments
- Credit cannot exceed 50% of the taxpayer's tax liability
- Any unused portion of an allowable credit may be carried forward for 5 years

S.L. 2015-223: Property Tax Exclusion for Builder's Inventory

Summary of Exclusion Provisions

	Residential Property	Commercial Property
Applies to Increase in Value Attributed to …	• Subdivision • Non-structural improvements • New single-family homes or duplexes	• Subdivision • Non-structural improvements
Maximum Duration	Three years from first listing	Five years from first listing
Disqualifications	• Sale • Removal from market • Lease • Commercial use (eg, as a model home)	• Sale • Removal from market • Issuance of building permit

Chris McLaughlin, Property Tax Bulletin, No. 169, September 2015, SOG

House Bill 168, S.L. 2015-223

UI 20% Surcharge Suspended for 2016

Senate Bill 15, S.L. 2015-238

2015 Appropriations Act
Corporate Income & Franchise Tax

House Bill 97

S.L. 2015-241

Sections 32.13, 32.14, 32.14A, and 32.15

How to Incent Businesses?

- Reduce tax rates
- Move to SSF apportionment
- Simplify tax laws
- Use State appropriations rather than tax expenditures
  - More focused
  - More accountability
  - More transparent
  - More deliberative

Business Tax Rate Changes

Corporate

- From 6.9% in 2013 to 4% in 2016
- 3% **whenever** net General Fund tax revenues exceed $20,975,000,000
  - Anticipate that target amount will be met in *FY* 2015-16
  - Rate would be reduced in the subsequent taxable year, 2017

Franchise

- No change to base rate of $1.50 per $1,000
- Minimum tax increased from $35 to $200, effective for returns due in 2017
- Maximum tax on holding companies increased from $75k to $150k, effective for returns due in 2017

Single Sales Factor Apportionment

- Double-Weighted Sales
- SSF for:
  - Public utilities
  - Excluded corporations
  - Qualified capital intensive C
- Phase-in SSF over 3 Years for all Corporations
  - 3X sales factor in 2016
  - 4X sales factor in 2017
  - SSF in 2018
- Study Market-Based Sourcing

Business Tax Base Changes

Corporate

- Qualified interest expense deduction
- Interest expense attribution rules the same for all taxpayers
- Repeal privilege tax on banks

Franchise

- Simplified tax base calculation to be more consistent with net worth under GAAP
- Applied affiliated debt add-back to noncorporate entities

Repealed obsolete & antiquated tax deductions

Historic Rehabilitation Tax Credit

It's Back!

	Credit through 2014	Credit for 2016 and thereafter
Credit rate for income producing property	15%	15% for $0M to $10M 10% for $10M to $20M
Bonus credit	None	5% if tier one or two 5% for targeted site
Maximum credit	None	$4.5M
Credit rate for non-income producing property	30% for most taxpayers 40% if facility served as a State training school for juvenile offenders	15%
Maximum credit	None	$22,500

2015 Appropriations Act Personal Income Tax

House Bill 97

S.L. 2015-241

Section 32.16

Personal Income Tax Changes

- 2015
  - Medical and Dental Expenses allowed, no cap
- 2016
  - 3% increase in standard deduction amounts
    - $15,000 to $15,500 (MFJ)
  - Slight adjustment to withholding tables (rate + 1/10 of 1%)
- 2017
  - Rate reduced from 5.75% to 5.499%

NC D-400

North Carolina Individual Income Tax Return

Name
Spouse
Address

111 SOME STREET
BIND1

Foreign street address
Foreign city
Foreign province / state
Foreign zip code
Foreign country code

SSN
SSN
Amended return
Age No
Foreign country

If highlighted, your name or address has been shortened due to scan printing requirements or name Line 2 is filed in on the Main Information Sheet. Please note that Name Line 2 above is not printed but will be transmitted to North Carolina if filing electronically. Check the box to the left to make changes or press F3 if no changes are necessary.

If your address above is in NC, enter your county code (001 - 101) followed by one space, and the county of residence. See F1 help

2015 Appropriations Act Sales Tax

House Bill 97

S.L. 2015-241

Section 32.18

Installation, Repairs, and Maintenance

- Effective March 1, 2016
- Remove the sales tax exemption for installation charges
- Expand the sales tax base to include gross receipts from installation, repair, and maintenance services of tangible personal property

2015 Appropriations Act LOST Distribution

House Bill 97

S.L. 2015-241

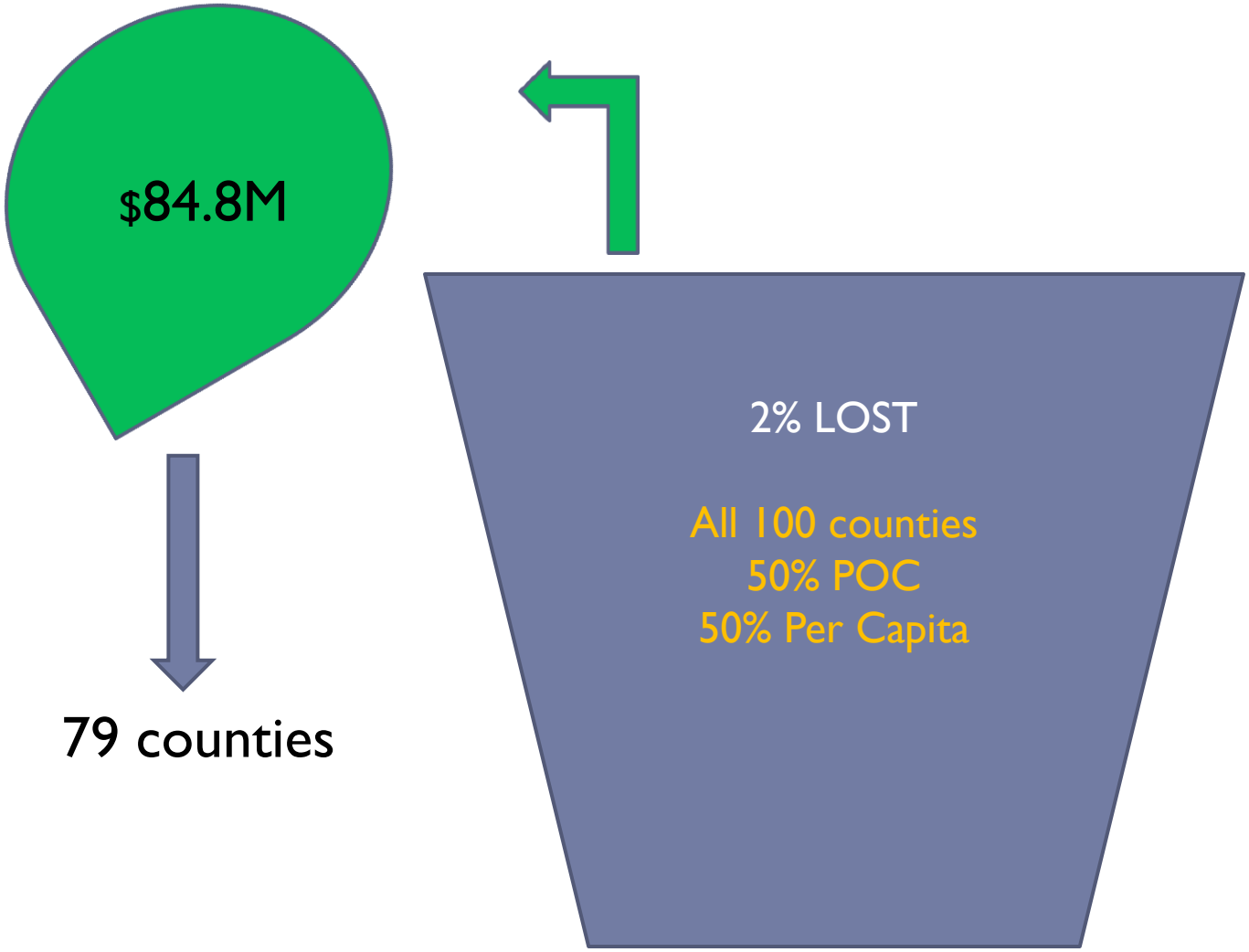
Section 32.19

LOST Historical Perspective

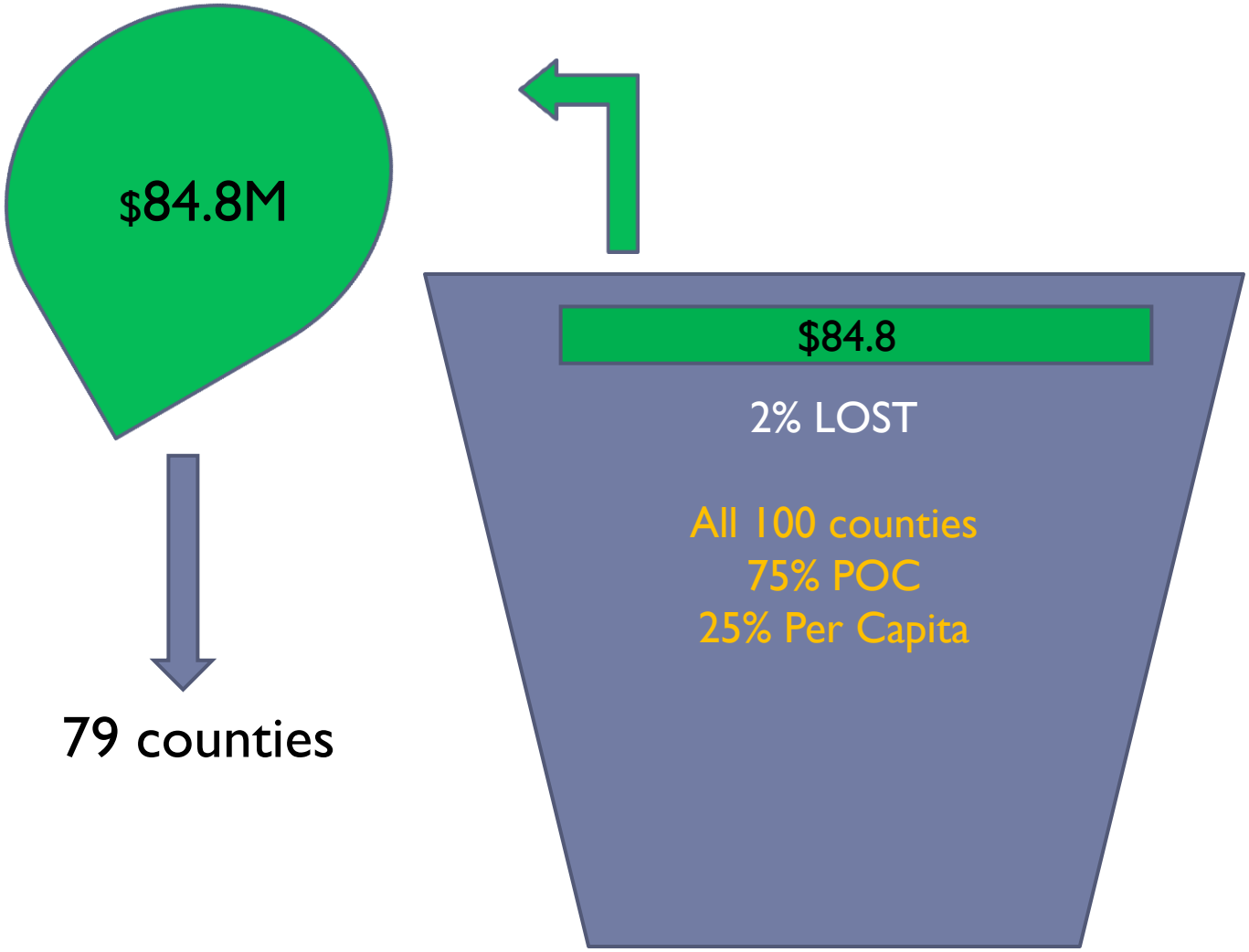
First 1 cent		Any lawful purpose	Point of collection
First ½ cent		Counties - 30% school capital	Per capita
Second ½ cent		Counties - 60% school capital	Per capita Point of collection
Third ½ cent		Any lawful purpose	½ Point of collection ½ Per capita
¼ cent		Any lawful purpose	Point of collection – *distributed to County only*.
½ cent or ¼ cent		Public transportation	Point of collection – *distributed to County only.*

Repealed

LOST Distribution – FY16-17



LOST Distribution – FY16-17



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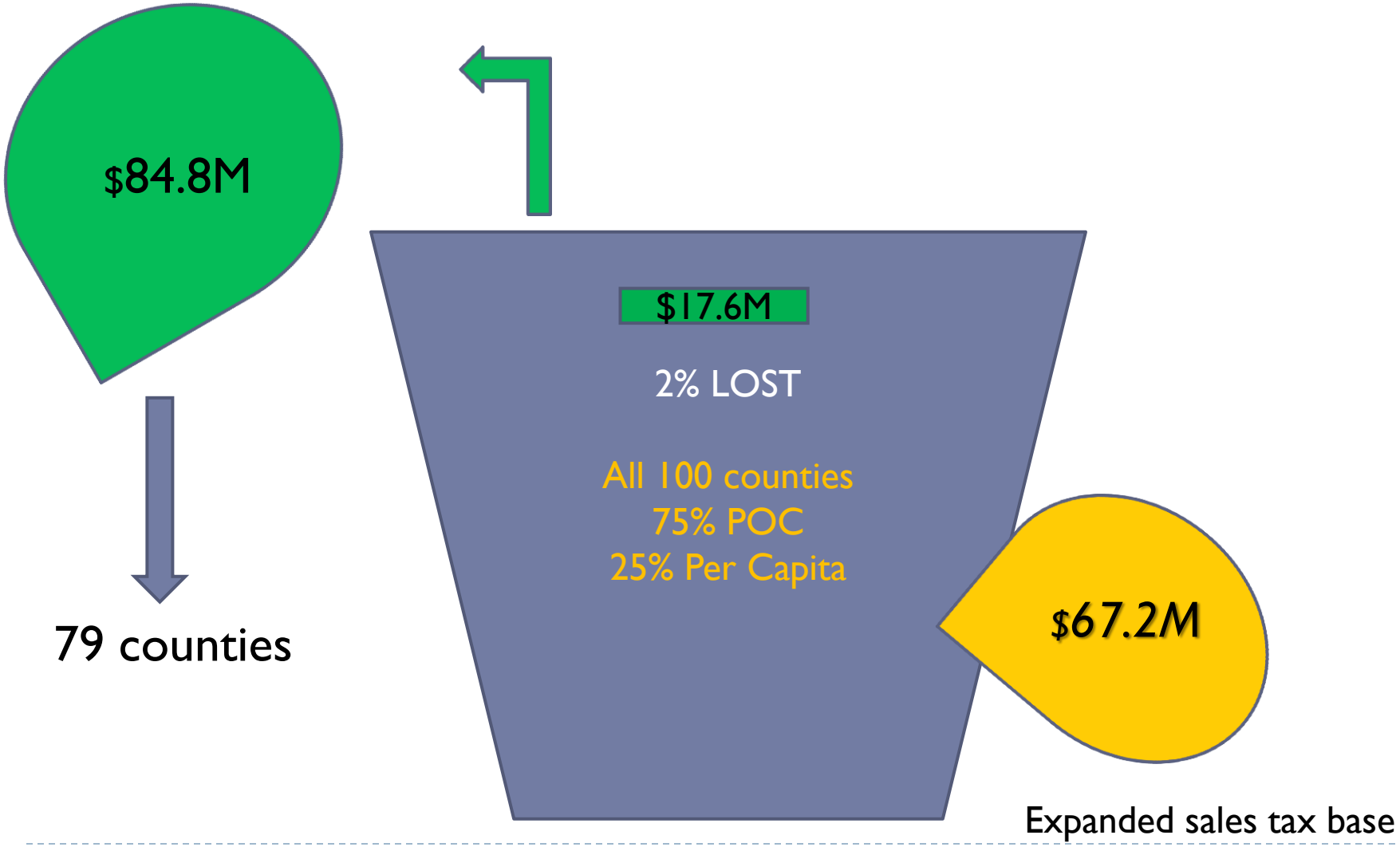

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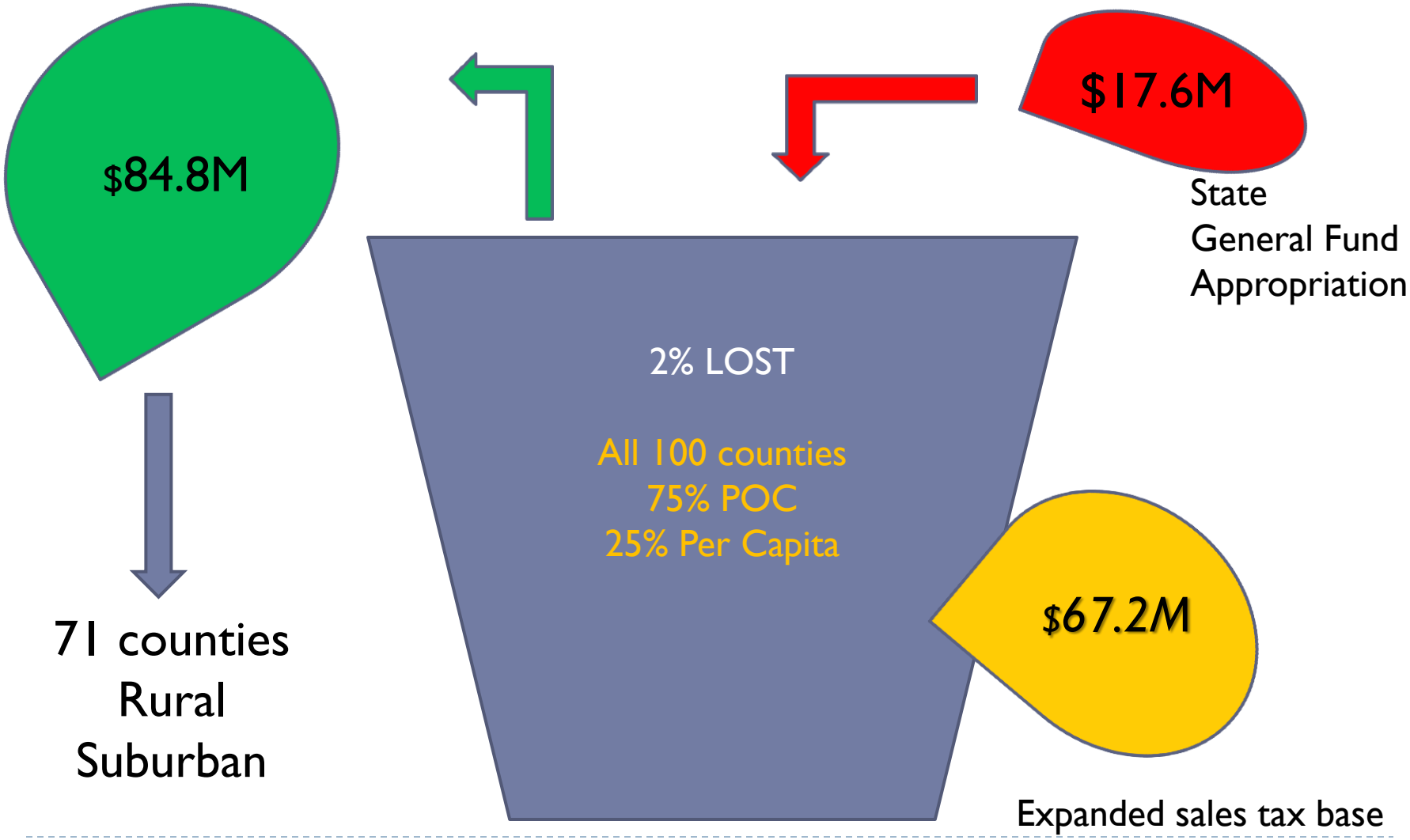
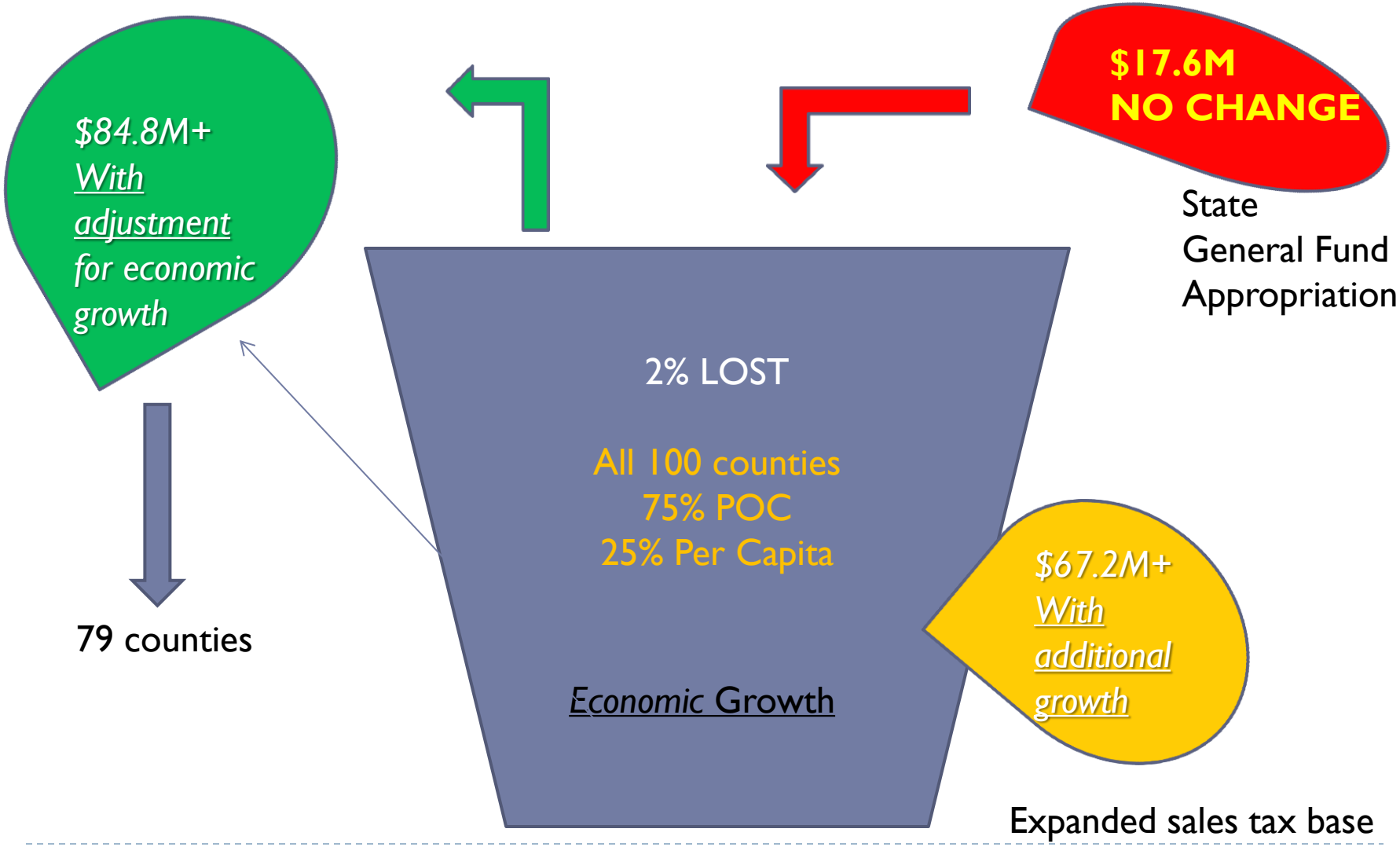


LOST Distribution – FY17-18



Use of Revenue from Distribution

- Revenue must be shared with municipalities
  - Distributed in the same manner as other LOST revenues
- County use of funds limited to the following:
  - Economic Development
  - Community Colleges
  - Public Education

LOCAL ECONOMIC DEVELOPMENT

SuccessNC

NC Competes Act
House Bill 117, S.L. 2015-259

Parts I & II: JDIG and One NC Modifications

Parts III-VI: Sales Tax Changes

Part VII: Tax Compliance and Tax Fraud Prevention

JDIG and One NC

- Jobs Development Investment Grant Program
  - Extended Program through January 1, 2019
  - Increased Commitment Availability from $15M to $20M
  - Created a Component for Recruitment of Megasites or High-Yield Projects
  - Tier designations
    - Award for tier one = 80% PIT withholding (all others 75%)
    - 10% diversion for tier two (was 15%)
    - 50 new jobs for tier three (was 20)
- One NC
  - Tier one is 3:1
  - Tier two is 2:1
  - Tier three is 1:1

Sales Tax Exemption for Datacenters

Current Exemption

- Investment threshold of $250M
- Location requirement of tier 1 or tier 2 county
- No wage and health insurance standard
- Use for software publishing or Internet activity

New Exemption

- Investment threshold of $75M
- No location requirement
- Meet wage and health insurance standard
- No specific use requirement

Other Economic Development Tax Changes

Aviation Fuel

- Sales tax refund expires at end of 2015 (hub)
- FAA requirement
- HondaJet
- Exempt aviation fuel for interstate air business
- Combined general rate for fuel; proceeds for aviation
- General rate/new cap for aircraft
- New sales tax exemption

Motorsports

- Conflict be/ Revenue Ruling and statutory language
- Technical concerns
- Expiring credits
- Sales tax exemption
- Sales tax clarification
- Sales tax refund extension
- Sunset on all provisions

Department of Revenue Initiative

- Reduce and prevent occurrence of refund fraud
  - Require reports re: compensation be submitted by January 31st
    - Employers and payers of independent contractors
    - Pension plan administrators
    - Lottery Commission
- Ensure tax compliance among business professionals and business entities
  - Require reports re: name, license number, tax ID number, business address, etc.
    - State licensing boards
    - Alcohol vendors
- Enable bankrupt taxpayers to more quickly pay tax debts
  - Allow Secretary to reduce or waive penalties and interest

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March Meeting

Connect NC Bond Act of 2015

House Bill 943

S.L. 2015-280

$2B of General Obligation Bonds

- $935M – 14 projects at UNC constituent institutions
- $350M – NCCCS
- $3M – Local units of government for children with disabilities and veterans with disabilities
- $309.5M – Departmental grants and loans for water and sewer improvements
- $70M – Readiness centers for National Guard
- $85M – Plant Sciences Building at NCSU
- $94M – New lab for DACS
- $25M – Africa Pavilion at NC Zoo
- $75M – State Parks
- $8.5M – Samarcand Training Academy for DPS

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Voter Approval Required
2016 Presidential Primary

2015 Session Wrap-Up

- S.L. 2015-6, Revenue Laws Changes
- S.L. 2015-185, Church Tax Exemption
- S.L. 2015-204, Motor Vehicle Tax
- S.L. 2015-224, Equalize Tax on Propane
- S.L. 2015-235, Joint Agency Tax Refund
- S.L. 2015-262, Taxation of Tribal Land and Tobacco Products
- S.L. 2015-263, NC Farm Act of 2015
- S.L. 2015-266, Corrected Reval/Minimal Refunds/Prop Taxes

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