

MAJOR TAX PROVISIONS IN THE AMERICAN RECOVERY AND REINVESTMENT ACT OF 2009

(in Millions)

Section	Provision/Program	Brief Summary	NC Impact/Provision	FY09-10	FY10-11	FY11-12	FY12-13	FY13-14
Tax Relief for Individuals and Families								
1001	"Making Work Pay" Tax Credit ¹	Provides a refundable tax credit for 2009 and 2010 of \$400 for individuals and \$800 for families. The credit is calculated at a rate of 6.2% of earned income, and phases out at \$75,000 or \$150,000 for MFJ. Taxpayers have the option of receiving this benefit through a reduction in the amount of income tax that is withheld from their paychecks or through claiming the credit on tax returns.	No					
1001	Economic Recovery Payment to Recipients of Social Security, SSI, Railroad Retirement, and Veterans Disability Compensation Benefits	Provides a one-time payment of \$250 to retirees, disabled individuals, and SSI recipients receiving benefits from the SSA, Railroad Retirement beneficiaries, and disabled veterans receiving benefits from the US Dept. of Veterans Affairs. The one-time payment is a reduction to any allowable Making Work Pay credit.	No					
1001	Refundable Credit for Certain Federal and State Pensioners	Provides a one-time refundable tax credit of \$250 in 2009 to certain government retirees who are not eligible for Social Security benefits. This one-time credit is a reduction to any allowable Making Work Pay credit.	No					
1002	Increase in Earned Income Tax Credit	Temporarily increases the EITC for working families with three or more children. It increases the earned income tax credit from 40% to 45% of a family's first \$12,570 of earned income for families with three or more children and increases the beginning point of the phase-out range for married couples filing a joint return by \$1,880.	Yes. A taxpayer who claims the federal EITC is allowed a refundable credit against NC taxable income equal to 5% of the amount of credit the individual qualified for at the federal level. [G.S. 105-151.31]	(3.2)	(5.2)	--	--	--
1003	Increase Eligibility for Refundable Portion of Child Credit	Increases the eligibility for the refundable child tax credit in 2009 and 2010. For 2008, the child tax credit is refundable to the extent of 15% of the taxpayer's earned income in excess of \$8,500. This floor is reduced to \$3,000 for 2009 and 2010.	No					
1004	"American Opportunity" Education Tax Credit	Provides taxpayers with a new tax credit of up to \$2,500 of the cost of tuition and related expenses paid during taxable years 2009 and 2010. Taxpayers will receive a tax credit of 100% of the first \$2,000 of tuition and expenses and 25% of the next \$2,000. 40% of the credit is refundable. The credit phases out for taxpayers with AGI over \$80,000 (\$160,000 MFJ).	No					
1005	Computers as Qualified Expenses in 529 Plans	Provides that computers and computer technology qualify as qualified education expenses under 529 Plans in addition to items currently covered (tuition, room & board, mandatory fees and books)	No					

¹ The provisions shaded in gray will have no direct impact on North Carolina taxable income, but have been included for comprehensiveness because they are in the ARRA.

Section	Provision/Program	Brief Summary	NC Impact/Provision	FY09-10	FY10-11	FY11-12	FY12-13	FY13-14
1006	Refundable First-Time Home Buyer Credit	Increases the maximum value of the tax credit for first-time home buyers to \$8,000 (up from \$7,500), removes the prohibition on financing by mortgage revenue bonds, extends the availability until December 1, 2009, and eliminates the repayment obligation for taxpayers that purchase homes after January 1, 2009. The credit phases out for taxpayers with AGI over \$75,000 (\$150,000 MFJ). The credit is recaptured if the house is sold within 3 years of purchase.	No					
1007	Temporary Suspension of Taxation of Unemployment Benefits	Temporarily suspends, for taxable year 2009, federal income tax on the first \$2,400 of unemployment benefits per recipient. Any unemployment benefits over \$2,400 will be subject to federal income tax.	Yes	(47.8)	--	--	--	--
1008	Sales Tax Deduction for New Vehicle Purchases	Provides all taxpayers with a deduction for State and local sales and excise taxes paid on the purchase (up to \$49,500) of new cars, light truck, recreational vehicles, and motorcycles through 2009. This deduction is subject to a phase-out for taxpayers with AGI in excess of \$125,000 (\$250,000 for MFJ returns).	Yes	(22.0)	--	--	--	--
1011 & 1012	Extension of AMT Relief for 2009	Extends AMT relief for nonrefundable personal credits and increases the AMT exemption amount to \$46,700 for individuals and \$70,950 for joint filers.	No					
1151	Transit Benefits Parity	Increases the current exclusion amount from employee income for transit passes and van pooling from \$120 per month to \$230 per month for 2009 and continues through 2010 with an inflation adjustment. This new provision equalizes the \$230/month amount now permitted for parking with similar inflation adjustments for 2010.	Yes	(0.3)	(0.2)	--	--	--
Tax Incentives for Businesses								
1201	Extension of Bonus Depreciation	Temporarily extends the benefit Congress passed last year by allowing businesses to recover the costs of capital expenditures incurred in 2009 faster than the ordinary depreciation schedule allows by permitting a deduction of 50% in the first year. The 50% bonus depreciation is taken on top of the regular depreciation reported for the year property is placed in service.	Yes NC decoupled from the 50% bonus depreciation provision under the ESA of 2008 for property placed in service during 2008. Taxpayers are required to add back 85% of the accelerated depreciation amt. in the year the accelerated depreciation is claimed for federal purposes.	(118.4)	(12.9)	46.2	38.6	23.5
1201	Election to Accelerate Recognition of Historic AMT/R&D Credits	Temporarily extends through 2009 the benefit passed by Congress last year that allows businesses to accelerate the recognition of a portion of their historic AMT or R&D credits in lieu of bonus depreciation. The amount that taxpayers may accelerate is calculated based on the amount that each taxpayer invests in property that would otherwise qualify for bonus depreciation. This amount is capped at the lesser of 6% of historic AMT and R&D credits or \$30 million.	No					

Section	Provision/Program	Brief Summary	NC Impact/Provision	FY09-10	FY10-11	FY11-12	FY12-13	FY13-14
1202	Extension of Enhanced Small Business Expensing	Extends the temporary increases made by Congress last year to the small business expensing limits. Under Section 179 of the Code, businesses may elect to treat the cost of certain property as an expense and deduct it in the year the property is placed in service instead of depreciating it over several years. To be eligible, the property must be tangible personal property which is actively used in the taxpayer's business for which a depreciation deduction would be allowed. For capital expenditures incurred in 2009, a business may deduct up to \$250,000 with a phase-out beginning at \$800,000 with a complete phase-out once qualifying purchases exceed \$1.05 million.	Yes NC conformed to the 2008 increased expensing limits	(3.3)	0.0	1.8	1.2	--
1211	5-Year Carryback of NOL for Small Businesses	Extends the maximum net operating loss carryback period from two to five years for small businesses with gross receipts of \$15 million or less. The provision is effective for NOL generated in either a taxable year beginning or ending in 2008. Current law also allows NOL to be carried forward to each of the succeeding 20 taxable years after the year that the loss arises.	Yes	4.7	5.0	4.3	3.2	2.1
1212	Temporary Small Business Estimated Tax Relief	Decreases the required estimated tax payments for individuals whose incomes primarily come from a small business in 2009. Rather than being required to make quarterly estimated tax payments based on 100% of their 2008 returns, this provision allows computation based on 90%. The individual's AGI must be less than \$500,000 and the taxpayer must certify that more than 50% of the gross income shown on the return for the prior tax year was income from a small business.	No					
1221	Expansion of Work Opportunity Tax Credit	Provides two new targeted groups of prospective employees for which businesses are allowed to claim the Work Opportunity Tax Credit, unemployed veterans and disconnected youth. An "unemployed veteran" is one that was discharged or released from active duty from the Armed Forces during the 5-year period prior to hiring and received unemployment compensation for more than 4 weeks during the years before being hired. A "disconnected youth" is one between the ages of 16 and 25 and has not been regularly employed or attended school in the past 6 months. Under current law, businesses may claim the credit in an amount equal to 40% of the first \$6,000 of wages paid to employees in one of the targeted groups.	Yes. A taxpayer who is allowed the federal credit may take a State credit in an amount equal to 6% of the amount of credit allowed under the Code for wages paid during the taxable year for positions located in this State. A position is located in this State if more than fifty percent (50%) of the employee's duties are performed in the State. [G.S. 105-129.16G]	(0.2)	(0.2)	(0.1)	--	--

Section	Provision/Program	Brief Summary	NC Impact/Provision	FY09-10	FY10-11	FY11-12	FY12-13	FY13-14
1231	<ul style="list-style-type: none"> • Delayed Recognition of Certain Cancellation of Debt Income • Deferral of Original Issue Discount Deduction (OID) in Debt-for-Debt Exchanges 	<ul style="list-style-type: none"> • Allows certain businesses to recognize cancellation of debt income (CODI) over 10 years (defer tax on CODI for the first 4 or 5 years and recognize this income ratably over the following 5 taxable years) for specified types of business debt repurchased by the business after December 31, 2009, and before January 1, 2011. • In a debt-for-debt exchange for which the taxpayer elects to defer cancellation of debt (COD) income (above), if the new debt instrument has original issue discount deduction, then any otherwise allowable OID deduction for the new debt instrument not in excess of the related, deferred COD income is deferred and allowed as a deduction ratably over the same 5-year tax period in which the COD income is includible. This rule also generally applies where the taxpayer issues for cash a new debt instrument having OID to the extent the taxpayer uses the proceeds of the new debt instrument to reacquire its old debt. 	Yes	(166.8)	(79.1)	(14.1)	(2.3)	--
1232	Suspension of AHYDO Rules for Certain High-Yield Obligations	Temporarily suspends the Applicable High-Yield Discount Obligation (AHYDO) rules, which disallow OID deductions on certain high-yield debt obligations, to certain debt obligations issued from September 1, 2008, through December 31, 2009, if the debt is issued in exchange for non-AHYDO debt (including an exchange resulting from a significant modification of a debt instrument).	Yes	--Impact is included in estimate for Sec. 1231--				
1241	Small Business Capital Relief	Temporarily increases from 50% to 75% the exclusion amount for individuals on the gain from the sale of certain small business stock held for more than 5 years. This change is only for stock issued after February 17, 2009 and before January 1, 2011 and does not apply to investments of a corporation. [IRC § 1202]	Yes	0	0	--	--	--
1251	Temporary Reduction of S Corporation Built-in Gains Holding Period	Temporarily reduces from 10 to 7 years the holding period for assets subject to the built-in gains tax imposed after a C corp elects to become an S corp. This provision applies to S corps that recognize built-in gains in tax years beginning in 2009 and 2010. The built-in gains tax prevents C corps from avoiding corporate level tax on the disposition of appreciated assets it acquired while a C corp by first converting to S status. However, these rules also discourage S conversions in situations in which the business may not survive under C corp rules. This provision is designed to give shareholders more flexibility during the current economic crisis.	No impact in next 7 years					
1261	NOL Limitations on Banks Reinstated	Repeals Notice 2008-83, effective for ownership changes after January 16, 2009, with respect to which there was no written agreement before that date. In Notice 2008-83, the IRS provided relief from the NOL limitations for corporations acquiring a financially-strapped bank. Consequently, the losses were not limited by the normal Code § 382 loss limitations.	Yes	14.2	6.5	2.6	1.8	--

Section	Provision/Program	Brief Summary	NC Impact/Provision	FY09-10	FY10-11	FY11-12	FY12-13	FY13-14
1262	Modification of § 382 Rules for Businesses Receiving TARP Funds	Clarifies application of § 382 Rules to businesses receiving funds under the Troubled Asset Relief Program (TARP). Although the act repeals Notice 2008-83, it concurrently creates an exception to the § 382 limitations for companies receiving TARP funds to aid in their restructuring. Specifically, for changes in control occurring after February 17, 2009, the § 382 Rules do not apply if the change in control occurs pursuant to a restructuring plan required under a loan agreement or a commitment for a line of credit entered into with the federal government under the Emergency Economic Stabilization Act of 2008.	Yes	--	(0.1)	(0.1)	(0.5)	--
1403	Increase in New Markets Tax Credit	Increases this credit by authorizing maximum allocations of \$5 billion for 2008 and 2009. The credit is available for qualified equity investments made to acquire stock in a corporation, or a capital interest in a partnership, that is a qualified community development entity (CDE). The credit is determined by applying the applicable percentage (5% or 6%) to the amount paid to the CDE for the investment at its original issue, and is available for a taxable year to the taxpayer who holds the qualified equity investment on the date of the initial investment or on the respective anniversary date that occurs during the taxable year.	No					
Energy Tax Provisions								
<p>The ARRA provides a number of Energy Tax Incentives, including the expansion or extension of several credits as well as the authorization of additional bonds and subsidized financing for renewable energy projects. These incentives will not have a direct impact on North Carolina taxable income. With regard to the credits, North Carolina does not have any credits tied by reference to these federal credits, and the credits are applied "below-the-line." Given the lack of fiscal impact, this chart lists the federal credits impacted by the legislation but does not include a detailed summary of each energy incentive credit or program. The federal credits included in the ARRA legislation are as follows:</p> <ul style="list-style-type: none"> • Residential Energy Property Credit • Residential Energy Efficient Property Credit • Alternative Fuel Pump Tax Credit • Renewable Electricity Production Credit • Energy Investment Credit • Investment Credit Election <p>Plug-in Electric Vehicles Credit</p>								
Total				(343.1)	(86.1)	40.7	42.5	25.6