

2015 FINANCE LAW CHANGES

See full summary documents for additional detail

H41 - Revenue Laws Technical Changes (SL 2015-6)

S.L. 2015-6 makes technical, clarifying, and administrative changes to the revenue laws.

This act became effective April 9, 2015. Please see the full summary for more details.

H44 - Local Government Regulatory Reform 2015, Sec. 6: Preaudit Certifications (SL 2015-246)

Obligations incurred by a local government subject to the Local Government Budget and Fiscal Control Act and by a local board of education subject to the School Budget and Fiscal Control Act accounted for in a fund included in the budget ordinance may not be incurred unless the budget ordinance includes an appropriation authorizing the obligation and an unencumbered balance remains sufficient to pay in the current fiscal year for that amount. For written contracts, each must be certified by the finance officer, or a duly appointed deputy finance officer, to that effect, and is often called a "preaudit" certification. Sec. 6 of S.L. 2015-246 updates that statutory requirement to reflect advances in technology that allow for credit cards, gas cards, procurement cards, and other means of remitting payment for obligations.

This section became effective October 1, 2015, and applies to expenditures incurred on or after that date.

H97 - 2015 Appropriations Act, Sec. 28.2: Modify Collection Assistance Fee Rules (SL 2015-241)

Sec. 28.2 of S.L. 2015-241 modifies the use of collection assistance fees imposed on overdue tax debts by augmenting the allowable uses of the fees to include (i) applying the fee to costs of reducing the incidence of overdue tax debts, (ii) paying auditors responsible for identifying overdue tax debts, (iii) increasing the amount of proceeds that may be used for correspondence relating to collecting overdue tax debts from \$500,000 to \$750,000 per year, and (iv) to pay for upgrades to departmental computer systems for electronic filing of returns and issuance of refunds and for other mission-critical information technology tasks approved by the Office of State Budget and Management in consultation with the State Chief Information Officer.

This section became effective July 1, 2015.

H97 - 2015 Appropriations Act, Sec. 29.27B: Adjust Distribution of Revenue from Motor Fuel Excise Tax Rate (SL 2015-241)

Sec. 29.27B of S.L. 2015-241 does the following:

- Amends the statutes that allocate revenue among various funds and accounts to adjust the amounts of motor fuel excise tax revenue allocated to the Highway Fund (from 75% to 71%) and the Highway Trust Fund (from 25% to 29%). This subsection became effective July 1, 2015, and applies to motor fuel excise tax revenue collected on or after that date.
- Effective June 30, 2016, amends the statutes that allocate revenue among various funds and accounts to repeal the amount of motor fuel excise tax revenue allocated to the Noncommercial Leaking Petroleum Underground Storage Tank Cleanup Fund.

H97 - 2015 Appropriations Act, Sec. 2.2(b): General Fund Availability Statement (SL 2015-241)

Subsec. (b) of Sec. 2.2 of S.L. 2015-241 repeals the reimbursement from the Highway Fund to the General Fund of the sales and use tax revenue not realized by the General Fund as a result of the statutory exemption for purchases by the Department of Transportation.

This subsection became effective July 1, 2015.

H97 - 2015 Appropriations Act, Sec. 29.34: Highway Use Tax Clarification (SL 2015-241)

Sec. 29.34 of S.L. 2015-241 clarifies that the maximum tax for out-of-state vehicles only applies if the motor vehicle has been titled in the name of the owner of the motor vehicle in another state for at least 90 days prior to the date of application for a certificate of title in this State.

This section became effective September 18, 2015.

H97 - 2015 Appropriations Act, Sec. 29.34A: Adjust Maximum Highway Use Tax Imposed for Certain Motor Vehicles (SL 2015-241)

Sec. 29.34A of S.L. 2015-241, as amended by Sec. 10.1 of S.L. 2015-268, increases the maximum highway use tax imposed for certain motor vehicles as follows:

- Class A or Class B Commercial Motor Vehicles. From \$1,000 to \$2,000.
- Recreational Vehicle. From \$1,500 to \$2,000.
- Out-of-State Motor Vehicles. From \$150 to \$250.

This section becomes effective January 1, 2016, and applies to sales made on or after that date, or for purposes of alternate tax for those who rent or lease motor vehicles, a lease or rental agreement entered into on or after that date.

H97 - 2015 Appropriations Act, Sec. 32.18: Sales Tax Base Expansion (SL 2015-241)

Sec. 32.18 of S.L. 2015-241, as amended by Sec. 10.1 of S.L. 2015-241, expands the sales tax base to include repair, maintenance, and installation of tangible personal property, effective March 1, 2016, as follows:

- Repeals the sales and use tax exemption applicable to installation charges when those charges are stated separately on the billing document.
- Imposes sales and use tax on the gross receipts derived from repair, maintenance, and installation services.
- Amends the definition of a "service contract" to include a contract where the obligor agrees to maintain or repair tangible personal property, regardless of whether the property is part of or becomes affixed to real property.

H97 - 2015 Appropriations Act, Sec. 32.19: Local Sales Tax Distribution (SL 2015-241)

Sec. 32.19 of S.L. 2015-241, as amended by Sec. 10.1(e1) of S.L. 2015-268, carves out a portion of the local option sales tax revenue and distributes that amount to the counties whose revenue-raising capacity from the local option sales taxes is less than it would be if the distribution of the revenue from the taxes was made on a per capita basis. The carve-out amount to be distributed in fiscal year 2016-2017 is \$84.8 million. This amount is to be adjusted each fiscal year thereafter based upon the annual percentage change in the 2-cent local option sales taxes collected in the previous fiscal year. Seventy-nine counties will receive an allocation from the distribution. A county's allocation percentage is set by statute. The amount allocated to a county must be shared with the municipalities in that county. The General Assembly must periodically review the allocation percentages.

This section becomes effective July 1, 2016, and applies to local option sales and use taxes collected on or after that date and distributed to counties and cities on or after September 1, 2016.

H97 - 2015 Appropriations Act, Secs. 32.13, 32.14, 32.14A, and 32.15: Corporate Income and Franchise Tax Changes (SL 2015-241)

Secs. 32.13, 32.14, 32.14A, and 32.15 of S.L. 2015-241, as amended by Secs. 10.1 and 10.2 of S.L. 2015-268, make the following corporate income tax and franchise tax changes:

- Reduces the corporate income tax rate to 3%, effective for the taxable year that begins January 1 following the fiscal year in which the amount of net General Fund tax collected equals or exceeds \$20,975,000,000.
- Expands the corporate income tax base by eliminating antiquated, obsolete, and special tax deductions, effective for taxable years beginning on and after January 1, 2016.
- Phases-in single sales factor apportionment over three years, starting with taxable years beginning on or after January 1, 2016 and directs the Revenue Laws Study Committee to study market-based sourcing.
- Simplifies the calculation of the franchise tax by conforming more closely to net worth as determined by generally accepted accounting principles, effective for franchise tax returns due in 2017. Increases the minimum franchise tax from \$35 to \$200 and increases the maximum franchise tax on holding companies from \$75,000 to \$150,000; both rate changes are effective for franchise tax returns due in 2017.

- Repeals the State privilege tax on banks, effective June 30, 2016.

H97 - 2015 Appropriations Act, Sec. 15.16B Municipal Service Districts/Contracts with Private Agency/Taxes/Study (SL 2015-241)

With respect to municipal service districts established by cities, Sec. 15.16B of S.L. 2015-241 does all of the following:

For all municipal service districts, the section requires the city to develop long-range plans and goals, set the tax rate in accordance with those plans and goals, and use the moneys collected for the purpose of those plans and goals. This provision becomes effective for tax imposed for taxable years beginning on or after January 1, 2016.

For municipal service districts created for historical districts, downtown revitalization, and urban revitalization, this section sets forth the following requirements on contracts with private agencies:

- Prior to entering into the contract the city must:
 - Solicit input from the residents and property owners as to the needs of the service district.
 - Use a bid process to determine which private agency is best suited to achieve the needs of the service district. If the city determines that a multiyear contract with a private agency is in the best interest of the city and the service district, the city may enter into a multiyear contract not to exceed five years in length.
 - Hold a public hearing.
- The city must require the private agency to report annually to the city, by presentation in a city council meeting and in written report, regarding the needs of the service district, completed projects, and pending projects.
- The contract is to specify the scope of services to be provided by the private agency. Any changes to the scope of services must be approved by the city council.

This provision became effective October 1, 2015, and applies to contracts entered into on or after that date.

Effective September 18, 2015, authorizes the Legislative Research Commission to study the feasibility of allowing property owners within a municipal service district to petition for removal from that municipal service district, and submit a report to the 2016 Regular Session of the 2015 General Assembly.

H97 - 2015 Appropriations Act, Sec. 32.16: Individual Income Tax Changes (SL 2015-241)

Section 32.16 of S.L. 2015-241 makes the following individual income tax changes:

- Reduces the tax rate to 5.499% in 2017 from the current rate of 5.75%.
- Increases standard deduction from \$15,000 to \$15,500 (for married filing jointly), effective for taxable years beginning on or after January 1, 2016.
- Allows unlimited medical deductions on Schedule A retroactive to January 1, 2015, to the extent a taxpayer can take the deduction at the federal level.

H97 - 2015 Appropriations Act, Sec. 29.27A: Adjust Municipal Vehicle Tax (SL 2015-241)

Sec. 29.27A of S.L. 2015-241 authorizes an annual municipal vehicle tax of \$30 per vehicle resident in the city or town and places any local authorizations under the \$30 cap. This section authorizes the tax for the following purposes:

- General purpose. Maximum \$5 for any lawful purpose.
- Public transportation. Maximum \$5 for financing, constructing, operating, and maintaining local public transportation systems if the municipality operates a public transportation system as defined in G.S. 105-550.
- Public streets. Any of the \$30 authorization remaining for maintaining, repairing, constructing, reconstructing, widening, or improving public streets that are not a State highway.

This section becomes effective July 1, 2016.

H97 - 2015 Appropriations Act, Sec. 32.3: Historic Preservation Tax Credit (SL 2015-241)

Sec. 32.3 of S.L. 2015-241, as amended by Sec. 54.5 of S.L. 2015-264 and Sec. 10.1(b) of S.L. 2015-268, establishes a temporary tax credit for historic rehabilitation as described below. The tax credit becomes effective January 1, 2016, and applies to qualified rehabilitation expenditures incurred on or after that date. The credit will expire for expenses incurred on or after January 1, 2020.

- Income-Producing Property. - A taxpayer is allowed a tax credit, capped at \$4.5 million, that is equal to 15% of the first \$10 million in qualified rehabilitation expenditures for an income-producing historic structure, plus 10% of the next \$10 million, plus 5% for the first \$20 million if the structure is located in a Tier 1 or 2 area, plus 5% for the first \$20 million if the structure is located on an eligible targeted investment site.
- Non-Income Producing Property. - A taxpayer is allowed a tax credit, capped at \$22,500, that is equal to 15% of expenses to rehabilitate a building listed in the National Register of Historic Places or certified by the State Historic Preservation Officer as contributing to the historic significance of a National Register Historic District or a locally designated historic district certified by the United States Department of the Interior. The taxpayer must have at least \$10,000 in expenses to qualify for the credit.

The credit also applies for certain 2014 and 2015 expenditures. Section 54.5 of S.L. 2015-264 (General Statutes Commission Technical Corrections Act of 2015) allows a taxpayer to claim the credit for expenses incurred in 2014 and 2015 if: (i) the historic structure is located in a Tier 1 or Tier 2 county; (ii) the structure is owned by a city; (iii) the rehabilitation activity commenced in 2014; and (iv) a certificate of occupancy is issued on or before December 31, 2015.

Finally, this section also modifies the expiration of the Mill Rehabilitation Tax Credit, which expired on January 1, 2015. Under prior law, as long as a taxpayer obtained an eligibility certification prior to the expiration date, the taxpayer could claim the credit whenever the project was ultimately placed in service. This section provides that eligibility certifications will expire on January 1, 2023, so the availability of the credit is not as open-ended.

H117 - North Carolina Competes Act, Parts I and II: Job Development Investment Grant Program (JDIG) and One North Carolina Modifications (SL 2015-259)

Parts I and II of S.L. 2015-259 do the following:

- JDIG Modifications. - Section 1 of the act, as amended by Section 91 of S.L. 2015-264, extends the program, increases the amount that may be committed as grants under the program, provides additional commitment authority for high-yield projects, and makes other changes to the program. Except for a change in reporting requirements and the increase in the amount that may be committed, both of which became effective September 30, 2015, the remainder of this Part became effective October 1, 2015.
- One NC. - Section 2 of the act modifies the local match requirements to a tiered requirement: 3 State dollars for 1 local dollar for tier 1; 2 State dollars for 1 local dollar for tier 2; and an even local match for tier 3. This change became effective September 30, 2015.

H117 - North Carolina Competes Act, Parts III-VI: Sales Tax Changes (SL 2015-259)

Parts III through VI of S.L. 2015-259 make the following sales tax changes:

- Datacenter Infrastructure Act. - Part III creates a sales tax exemption for datacenters investing at least \$75M within a 5-year period for sales of datacenter equipment and electricity located and used at the datacenter. The exemption becomes effective January 1, 2016, and applies to sales made on or after that date.
- Sales Tax Relative to Aviation. - Part IV (i) extends for 4 years the sales tax refund available to interstate passenger air carriers for sales tax paid on fuel in excess of \$2.5M; (ii) exempts from sales tax fuel sold to an interstate air business for use in a commercial aircraft, effective January 1, 2016, taxes remaining sales of aviation gasoline and jet fuel at 7%, and earmarks the revenue from the tax to the Division of Aviation, Department of Transportation; (iii) increases the sales tax rate on aircraft and tax qualified jet engines at 4.75% with a maximum tax of \$2,500, effective October 1, 2015; and (iv) exempts service contracts and repairs, maintenance, and installation services on qualified aircraft and qualified jet engines from sales tax, effective October 1, 2016.
- Exempt Motor Vehicle Service Contracts from Sales Tax. - Part V exempts service contracts on motor vehicles from sales tax. As part of the budget bill, S.L. 2015-241 (H97), sales tax is imposed on repair, maintenance, and installation services. The taxation of this service mitigates the need to impose the tax on service contracts and eases the administrative issues associated with the sales tax on service contracts for motor vehicles. This Part becomes effective March 1, 2016.
- Extend Sales Tax Preference for Motorsports Parts and Fuel. - Part VI, as amended by S.L. 2015-261, extends the current sales tax preferences for motorsports from January 1, 2016, to January 1, 2020, and clarifies the current sales tax on race engines and service contracts on items used by a professional motorsports racing team.

H117 - North Carolina Competes Act, Part VII: Tax Compliance and Tax Fraud Prevention (SL 2015-259)

Part VII of S.L. 2015-259 contains changes requested by the Department of Revenue that will give it the tools it needs to reduce the occurrence of stolen identities and refund fraud and to better ensure tax compliance.

This Part has multiple effective dates; please see the full summary for more detail.

H163 - Captive Insurance Amendments (SL 2015-99)

S.L. 2015-99 makes enhancements and various technical and substantive statutory changes to the laws governing captive insurance companies in the State, as recommended by the Department of Insurance.

This act became effective June 19, 2015.

H168 - Exempt Builders' Inventory (SL 2015-223)

S.L. 2015-223 exempts the increase in value of certain improvements to real property held for sale by a builder:

- For residential real property, a builder may exclude for 3 years the increase in value due to subdivision, improvements, and buildings that are either a new single-family residence or a duplex.
- For commercial property, a builder may exclude for 5 years the increase in value due to subdivision and improvements - excluding buildings.

To qualify as a builder, the property owner must be in the business of buying real property, making improvements to it, and then reselling it. The owner is not required to be licensed as a general contractor.

S.L. 2015-223 will become effective for taxes imposed for taxable years beginning on July 1, 2016, and apply to subdivision of or other improvements made on or after July 1, 2015.

H229 - Church Tax Exemption/Driving Privileges (SL 2015-185)

S.L. 2015-185 exempts religious buildings that are under construction from local property tax, effective for taxes imposed for taxable years beginning on or after July 1, 2015.

The act also authorizes a judge to allow a person with a revoked driver's license to drive to attend religious worship under a limited driving privilege, effective October 1, 2015, and applies to limited driving privileges issued on or after October 1, 2015.

H912 - Taxation of Tribal Land and Tobacco Products (SL 2015-262)

S.L. 2015-262 does the following three things:

- It exempts from property tax real and personal property located on lands held in trust by the United States for the Eastern Band of Cherokee Indians, regardless of ownership, effective for taxes imposed for taxable years beginning on or after July 1, 2016.
- It allows the Department of Revenue to enter into an agreement with the Eastern Band of Cherokee Indians regarding the excise tax on tobacco products.

- It clarifies the legislative intent of Section 4 of S.L. 2015-98 (ABC Omnibus Legislation) to provide that distillers who sell bottles of liquor at the distillery are not required to remit portions of the cost of the bottle to the State warehouse or the local ABC board. [For a more detailed explanation of this provision, please see the summary for S.L. 2015-98 (HB 909) in the ALCOHOLIC BEVERAGE CONTROL subject area].

Except as otherwise provided, this act became effective September 30, 2015.

S20 - Internal Revenue Code Update/Motor Fuel Tax Changes (SL 2015-2)

S.L. 2015-2 consists of two Parts. The first Part, which was a recommendation of the Revenue Laws Study Committee, updates from December 31, 2013, to January 1, 2015, the reference to the Internal Revenue Code used in determining certain State tax provisions. The act decouples from the extensions listed below under the federal Tax Increase Prevention Act of 2014 for the 2014 tax year, but it conforms to the \$250 teacher expense deduction. Enhanced Section 179 expensing

- Exclusion from income for forgiveness of debt on principal residence.
- Deduction for mortgage insurance premiums.
- Deduction for higher education tuition expenses.
- Tax-free distribution from IRAs to public charities.

This Part became effective March 31, 2015.

The second Part of the act makes the following changes to the motor fuels tax:

- Reduces the motor fuels tax rate from 37.5 cents to 36 cents beginning April 1, 2015, through December 31, 2015. It sets the rate at 35 cents per gallon (cpg) from January 1, 2016, through June 30, 2016, and at 34 cpg from July 1, 2016, through December 31, 2016.
- Changes the variable component of the formula for determining the rate. Beginning January 1, 2017, the rate will be 34 cpg multiplied by a percentage reflecting population change and the annual change in the Energy component of the Consumer Price Index for all Urban Consumers as produced by the U.S. Bureau of Labor Statistics.
- Replaces the two 6-month base periods used in determining the gas tax rate with a single 12-month base period.
- Makes \$3.35 million and \$10.1 million reductions in the Highway Trust Fund and Highway Fund budgets for the 2014-2015 fiscal year.

The motor fuels tax rate changes are effective as described above. The remainder of this Part became effective March 31, 2015.

S159 - Corrected Revaluations/Minimal Refunds/Property Taxes (SL 2015-266)

S.L. 2015-266 clarifies the process by which undervalued property is to be taxed under reappraisals conducted under S.L. 2013-362 (Require Certain General Reappraisals), and authorizes local governments to not mail minimal property tax refunds.

This act became effective October 1, 2015.

S273 - Motor Vehicle Tax: Waive Penalties/Interest (SL 2015-204)

S.L. 2015-204 authorizes counties to reduce or waive interest or penalties on delinquent motor vehicle taxes for tax years prior to July 1, 2013.

This act became effective August 11, 2015.

S372 - Renewable Energy Safe Harbor (SL 2015-11)

S.L. 2015-11, as amended by Sec. 54.3 of S.L. 2015-264, provides a delayed sunset for the credit for investing in renewable energy credit for the following taxpayers:

- Taxpayers that have incurred at least 80% of the costs, and partially constructed at least 80% of a project with less than 65 megawatts of capacity by January 1, 2016.
- Taxpayers that have incurred at least 50% of the costs, and partially constructed at least 50% of a project with 65 megawatts of capacity or more by January 1, 2016.

This act became effective April 30, 2015.

S399 - Joint Agency Tax Refund (SL 2015-235)

S.L. 2015-235 allows a joint agency created by interlocal agreement for the purposes of fire protection, police protection, and emergency services to receive a refund of sales and use taxes paid by it. This provision became effective July 1, 2015, and applies to purchases made on or after that date.

The act also directs the Revenue Laws Study Committee to study how the exemption from the motor fuels tax is applied to entities that are comprised of multiple local government units.

Except as otherwise provided, this act became effective September 1, 2015.

S448 - Equalize Tax on Propane Used as a Motor Fuel (SL 2015-224)

S.L. 2015-224 amends the motor fuels tax applicable to liquefied propane gas used as a motor fuel by specifying that the per gallon motor fuel tax rate is applied to the gas gallon equivalent of liquefied propane gas. The gas gallon equivalent is 5.75 pounds of liquefied propane gas.

This act becomes effective January 1, 2016.

S513 - North Carolina Farm Act of 2015, Sec. 2: Conform Compensation Paid to an H-2A Agricultural Worker to Federal Wage Withholding Standards (SL 2015-263)

Sec. 2 of S.L. 2015-263 provides that an employer does not have to withhold State income tax on compensation paid to an H-2A agricultural worker if the employer is not required to withhold federal income tax on that compensation. Since calendar year 2011, an employer must report compensation of \$600 or more paid to an H-2A agricultural worker on Form W-2, but the employer

is not required to withhold federal taxes on the compensation unless the worker fails to provide the employer with either a Social Security Number (SSN) or an Individual Taxpayer Identification Number (ITIN). In the case of an H-2A agricultural worker who fails to provide a SSN or ITIN, the employer must withhold and remit 28% of the compensation and continue withholding this amount until the worker furnishes the employer the SSN or ITIN.

This section is effective for taxable years beginning on or after January 1, 2015.

S513 - North Carolina Farm Act of 2015, Sec. 12: Present-Use Value Modifications (SL 2015-263)

Sec. 12 of S.L. 2015-263 makes three changes to present-use value taxation:

- Provides that, for purposes of present-use value, the commercial production or growing of animals includes the rearing, feeding, training, caring, and managing of horses.
- Provides that when a tax assessor is determining whether a business entity applicant for present-use value has farming as its principal business, there is a rebuttable presumption that farming is the business entity's primary business if the applicant has been approved for present value taxation for a qualifying property in another county. Any determination about the applicant's eligibility does not affect the determination of whether the individual parcel of land meets the classifications for agricultural, horticultural, or forest land pursuant to G.S. 105-277.3. Further, if the assessor is able to rebut the presumption, this does not invalidate a determination that the applicant's principal business is farming agricultural land, horticultural land, or forestland in the other county.
- Effective September 30, 2015, directs the Department of Revenue to annually publish a present-use value program guide and make the guide available on its Web site. Tax assessors must adhere to the Department's guide when making decisions regarding the qualifications or appraisal of property for the present-use value taxation program.

Except as otherwise provided, this section became effective July 1, 2015, and applies to taxes imposed for taxable years beginning on or after that date.

S621 - Registration Renewal Notice/E-Mail (SL 2015-108)

S.L. 2015-108 authorizes the Division of Motor Vehicles to send the required combined vehicle property tax and State registration notice by e-mail, subject to the written consent of the owner of a vehicle.

This act becomes effective January 1, 2016.

S682 - Modify Sunset Regarding Contingent Audits (SL 2015-109)

S.L. 2015-109 makes permanent the prohibition, established in 2012, on local governments from using third-party contractors paid on a contingent fee basis for audit and assessment purposes.

This act became effective June 24, 2015.