

GENERAL ASSEMBLY OF NORTH CAROLINA
SESSION 2005

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2

HOUSE BILL 2170
Committee Substitute Favorable 6/20/06

Short Title: Bill Lee Changes.

(Public)

Sponsors:

Referred to:

May 18, 2006

1 A BILL TO BE ENTITLED
2 AN ACT TO REPLACE THE TAX CREDITS GENERALLY AVAILABLE UNDER
3 THE WILLIAM S. LEE QUALITY JOBS AND BUSINESS EXPANSION ACT
4 WITH MORE NARROWLY FOCUSED CREDITS FOR JOB CREATION AND
5 BUSINESS INVESTMENT.

6 The General Assembly of North Carolina enacts:

7
8 **PART I. REPLACEMENT OF BILL LEE ACT**

9 **SECTION 1.1.** Chapter 105 of the General Statutes is amended by adding a
10 new Article to read:

11 "Article 3H.

12 "Tax Credits for Growing Businesses.

13 **§ 105-129.70. Legislative findings.**

14 The General Assembly finds that:

15 (1) It is the policy of the State of North Carolina to stimulate economic
16 activity and to create new jobs for the citizens of the State by
17 encouraging and promoting the expansion of existing business and
18 industry within the State and by recruiting and attracting new business
19 and industry to the State.

20 (2) Both short-term and long-term economic trends at the State, national,
21 and international levels have made the successful implementation of
22 the State's economic development policy and programs both more
23 critical and more challenging; and the decline in the State's traditional
24 industries, and the resulting adverse impact upon the State and its
25 citizens, have been exacerbated in recent years by adverse national and
26 State economic trends that contribute to the reduction in the State's
27 industrial base and that inhibit the State's ability to sustain or attract
28 new and expanding businesses.

- 1 (3) The economic condition of the State is not static, and recent changes in
2 the State's economic condition have created economic distress that
3 requires a reevaluation of certain existing State programs and the
4 enactment of a new program as provided in this Article that is
5 designed to stimulate new economic activity and to create new jobs
6 within the State.
- 7 (4) The enactment of this Article is necessary to stimulate the economy
8 and create new jobs in North Carolina; and this Article will promote
9 the general welfare and confer, as its primary purpose and effect,
10 benefits on citizens throughout the State through the creation of new
11 jobs, an enlargement of the overall tax base, an expansion and
12 diversification of the State's industrial base, and an increase in revenue
13 to the State and its political subdivisions.
- 14 (5) The purpose of this Article is to stimulate economic activity and to
15 create new jobs within the State.
- 16 (6) The State is in need of a focused tax credit program that encourages
17 and facilitates economic growth and development within the State.
- 18 (7) The resources of the State are not evenly distributed throughout the
19 State and different communities have different abilities and needs in
20 attracting and maintaining new and expanding business and industry.

21 **§ 105-129.71. Definitions.**

22 The following definitions apply in this Article:

- 23 (1) Aircraft maintenance and repair. – The provision of specialized
24 maintenance or repair services for commercial aircraft or the
25 rebuilding of commercial aircraft.
- 26 (2) Air courier services. – The furnishing of air delivery of individually
27 addressed letters and packages for compensation, in interstate
28 commerce, except by the United States Postal Service.
- 29 (3) Business property. – Tangible personal property that is used in a
30 business and capitalized under the Code.
- 31 (4) Company headquarters. – A corporate, subsidiary, or regional
32 managing office, as defined by NAICS in United States industry
33 551114, that is responsible for strategic or organizational planning and
34 decision making for the business on an international, national, or
35 multistate regional basis.
- 36 (5) Cost. – In the case of property owned by the taxpayer, cost is
37 determined pursuant to regulations adopted under section 1012 of the
38 Code. In the case of property the taxpayer leases from another, cost is
39 value as determined pursuant to G.S. 105-130.4(j)(2).
- 40 (6) Customer service call center. – The provision of support service by a
41 business to its customers by telephone or other electronic means to
42 support products or services of the business. For the purposes of this
43 definition, an establishment is primarily engaged in providing support
44 services by telephone or other electronic means only if at least sixty

- 1 percent (60%) of its calls are incoming or at least sixty percent (60%)
2 of its other electronic communications are initiated by its customers.
- 3 (7) Development tier. – The classification assigned to an area pursuant to
4 G.S. 143B-437.08.
- 5 (8) Electronic shopping and mail order houses. – An industry in electronic
6 shopping and mail order houses industry group 4541 as defined by
7 NAICS.
- 8 (9) Establishment. – Defined in 29 C.F.R. § 1904.46, as it existed on
9 January 1, 2002.
- 10 (10) Full-time job. – A position that requires at least 1,600 hours of work
11 per year and is intended to be held by one employee during the entire
12 year. A full-time employee is an employee who holds a full-time job.
- 13 (11) Hub. – Defined in G.S. 105-164.3.
- 14 (12) Information technology and services. – An industry in one of the
15 following:
- 16 a. Internet service providers, Web search portals, and data
17 processing subsector 518 as defined by NAICS.
- 18 b. Software publishers industry group 5112 as defined by NAICS.
- 19 c. Computer systems design and related services industry group
20 5415 as defined by NAICS.
- 21 (13) Long-term unemployed worker. – An individual that has been totally
22 unemployed for at least the preceding 26 consecutive weeks as
23 evidenced by records maintained by the Employment Security
24 Commission.
- 25 (14) Manufacturing. – An industry in manufacturing sectors 31 through 33,
26 as defined by NAICS, but not including quick printing or retail
27 bakeries.
- 28 (15) Motorsports facility. – A motorsports racetrack classified in the United
29 States racetrack national industry 711212, as defined by NAICS.
- 30 (16) Motorsports racing team. – A professional racing team primarily
31 engaged in the research and development, design, manufacture, repair,
32 maintenance, and operation of motor vehicles used in live motorsports
33 racing events before a paying audience.
- 34 (17) NAICS. – The North American Industry Classification System adopted
35 by the United States Office of Management and Budget as of
36 December 31, 2002.
- 37 (18) New job. – A full-time job that represents a net increase in the number
38 of the taxpayer's employees statewide. A new employee is an
39 employee who holds a new job. The term does not include a job
40 currently located in this State that is transferred to the business from a
41 related member of the business.
- 42 (19) Overdue tax debt. – Defined in G.S. 105-243.1.
- 43 (20) Purchase. – Defined in section 179 of the Code.
- 44 (21) Related member. – Defined in G.S. 105-130.7A.

1 (22) Research and development. – An industry in scientific research and
2 development services industry group 5417 as defined by NAICS.

3 (23) Urban progress zone. – The classification assigned to an area pursuant
4 to G.S. 143B-437.09.

5 (24) Warehousing. – An industry in warehousing and storage subsector 493
6 as defined by NAICS.

7 (25) Wholesale trade. – An industry in wholesale trade sector 42 as defined
8 by NAICS.

9 **"§ 105-129.72. Sunset; studies.**

10 (a) Sunset. – This Article is repealed effective for business activities that occur
11 on or after January 1, 2011.

12 (b) Equity Study. – The Department of Commerce shall study the effect of the
13 tax incentives provided in this Article on tax equity. This study shall include the
14 following:

15 (1) Reexamining the formula in G.S. 143B-437.08 used to define
16 development tiers, to include consideration of alternative measures for
17 more equitable treatment of counties in similar economic
18 circumstances.

19 (2) Considering whether the assignment of tiers and the applicable
20 thresholds are equitable for smaller counties.

21 (3) Compiling any available data on whether expanding North Carolina
22 businesses receive fewer benefits than out-of-State businesses that
23 locate to North Carolina.

24 (c) Impact Study. – The Department of Commerce shall study the effectiveness
25 of the tax incentives provided in this Article. This study shall include:

26 (1) Studying the distribution of tax incentives across new and expanding
27 businesses and industries.

28 (2) Examining data on economic recruitment for the period from 2005
29 through the most recent year for which data are available by county, by
30 industry type, by size of investment, and by number of jobs, and other
31 relevant information to determine the pattern of business locations and
32 expansions before and after the enactment of this Article.

33 (3) Measuring the direct costs and benefits of the tax incentives.

34 (4) Compiling available information on the current use of incentives by
35 other states and whether that use is increasing or declining.

36 (d) Report. – The Department of Commerce shall report the results of these
37 studies and its recommendations to the General Assembly biennially with the first report
38 due by June 1, 2009.

39 **"§ 105-129.73. Eligibility; forfeiture.**

40 (a) Eligible Business. – A taxpayer is eligible for a credit under this Article only
41 with respect to activities occurring at an establishment whose primary activity is listed
42 in this subsection. The primary activity of an establishment is determined based on the
43 establishment's principal product or group of products produced or distributed, or
44 services rendered.

- 1 (1) Aircraft maintenance and repair.
- 2 (2) Air courier services hub.
- 3 (3) Company headquarters, but only if the additional eligibility
4 requirements of subsection (b) of this section are satisfied.
- 5 (4) Customer service call centers.
- 6 (5) Electronic shopping and mail order houses.
- 7 (6) Information technology and services.
- 8 (7) Manufacturing.
- 9 (8) Motorsports facility.
- 10 (9) Motorsports racing team.
- 11 (10) Research and development.
- 12 (11) Warehousing.
- 13 (12) Wholesale trade.

14 (b) Company Headquarters Eligibility. – A taxpayer is eligible for a credit under
15 this Article with respect to a company headquarters only if the taxpayer creates at least
16 75 new jobs at the company headquarters within a 24-month period. A taxpayer that
17 meets this job creation requirement is eligible for credits under this Article with respect
18 to the company headquarters for three taxable years beginning with the year in which
19 the job creation requirement is satisfied. A taxpayer that creates an additional 75 new
20 jobs at the company headquarters in a 24-month period during a three-year eligibility
21 period does not qualify for any extended eligibility period. However, a taxpayer that
22 creates an additional 75 new jobs at the company headquarters in a 24-month period
23 after the completion of a three-year eligibility period is eligible for credits with respect
24 to the company headquarters for an additional three taxable years beginning in the year
25 in which the additional job creation requirement is satisfied.

26 (c) Wage Standard. – A taxpayer is eligible for a credit under this Article in a
27 development tier two or three area only if the taxpayer satisfies a wage standard. The
28 taxpayer is not required to satisfy a wage standard if the activity occurs in a
29 development tier one area. Jobs that are located within an urban progress zone satisfy
30 the wage standard if they pay an average weekly wage that is at least equal to ninety
31 percent (90%) of the lesser of the average wage for all insured private employers in the
32 State and the average wage for all insured private employers in the county. All other
33 jobs satisfy the wage standard if they pay an average weekly wage that is at least equal
34 to the lesser of one hundred ten percent (110%) of the average wage for all insured
35 private employers in the State and ninety percent (90%) of the average wage for all
36 insured private employers in the county. The Department of Commerce shall annually
37 publish the wage standard for each county.

38 In making the wage calculation, the taxpayer shall include any jobs that were filled
39 for at least 1,600 hours during the calendar year the taxpayer engages in the activity that
40 qualifies for the credit even if those jobs are not filled at the time the taxpayer claims
41 the credit. For a taxpayer with a taxable year other than a calendar year, the taxpayer
42 shall use the wage standard for the calendar year in which the taxable year begins. Only
43 full-time jobs are included when making the wage calculation.

1 (d) Health Insurance. – A taxpayer is eligible for a credit under this Article only
2 if the taxpayer provides health insurance for all of the full-time jobs at the establishment
3 with respect to which the credit is claimed when the taxpayer engages in the activity
4 that qualifies for the credit. For the purposes of this subsection, a taxpayer provides
5 health insurance if it pays at least fifty percent (50%) of the premiums for health care
6 coverage that equals or exceeds the minimum provisions of the basic health care plan of
7 coverage recommended by the Small Employer Carrier Committee pursuant to
8 G.S. 58-50-125.

9 Each year that a taxpayer claims a credit or carryforward of a credit allowed under
10 this Article, the taxpayer shall provide with the tax return the taxpayer's certification
11 that the taxpayer continues to provide health insurance for all the jobs at the
12 establishment with respect to which the credit was claimed. If the taxpayer ceases to
13 provide health insurance for the jobs during a taxable year, the credit expires and the
14 taxpayer may not take any remaining installment or carryforward of the credit.

15 (e) Environmental Impact. – A taxpayer is eligible for a credit allowed under this
16 Article only if the taxpayer certifies that, at the time the taxpayer claims the credit, at
17 the establishment with respect to which the credit is claimed, the taxpayer has no
18 pending administrative, civil, or criminal enforcement action based on alleged
19 significant violations of any program implemented by an agency of the Department of
20 Environment and Natural Resources and has had no final determination of responsibility
21 for any significant administrative, civil, or criminal violation of any program
22 implemented by an agency of the Department of Environment and Natural Resources
23 within the last five years. A significant violation is a violation or alleged violation that
24 does not satisfy any of the conditions of G.S. 143-215.6B(d). The Secretary of
25 Environment and Natural Resources shall notify the Department of Revenue annually of
26 every person that currently has any of these pending actions and every person that has
27 had any of these final determinations within the last five years.

28 (f) Safety and Health Programs. – A taxpayer is eligible for a credit allowed
29 under this Article only if the taxpayer certifies that, as of the time the taxpayer claims
30 the credit, at the establishment with respect to which the credit is claimed, the taxpayer
31 has no citations under the Occupational Safety and Health Act that have become a final
32 order within the past three years for willful serious violations or for failing to abate
33 serious violations. For the purposes of this subsection, 'serious violation' has the same
34 meaning as in G.S. 95-127. The Commissioner of Labor shall notify the Department of
35 Revenue annually of all employers who have had these citations become final orders
36 within the past three years.

37 (g) Overdue Tax Debts. – A taxpayer is not eligible for a credit allowed under
38 this Article if, at the time the taxpayer claims the credit or an installment or
39 carryforward of the credit, the taxpayer has received a notice of an overdue tax debt and
40 that overdue tax debt has not been satisfied or otherwise resolved.

41 (h) Expiration. – If, during the period that installments of a credit under this
42 Article accrue, the taxpayer is no longer engaged in one of the types of business
43 described in subsection (a) of this section at the establishment for which the credit was
44 claimed, the credit expires. If, during the period that installments of a credit under this

1 Article accrue, the number of jobs of an eligible company headquarters falls below the
2 minimum number required under subsection (b) of this section, any credit associated
3 with that company headquarters expires. When a credit expires, the taxpayer may not
4 take any remaining installments of the credit. The taxpayer may, however, take the
5 portion of an installment that accrued in a previous year and was carried forward to the
6 extent permitted under G.S. 105-129.74. A change in the development tier designation
7 of the location of an establishment does not result in expiration of a credit under this
8 Article.

9 (i) Forfeiture. – A taxpayer forfeits a credit allowed under this Article if the
10 taxpayer was not eligible for the credit for the calendar year in which the taxpayer
11 engaged in the activity for which the credit was claimed. In addition, a taxpayer forfeits
12 a credit for investment in real property under G.S. 105-129.79 if the taxpayer fails to
13 timely create the number of required new jobs or to timely make the required level of
14 investment under G.S. 105-129.79(b). A taxpayer that forfeits a credit under this Article
15 is liable for all past taxes avoided as a result of the credit plus interest at the rate
16 established under G.S. 105-241.1(i), computed from the date the taxes would have been
17 due if the credit had not been allowed. The past taxes and interest are due 30 days after
18 the date the credit is forfeited; a taxpayer that fails to pay the past taxes and interest by
19 the due date is subject to the penalties provided in G.S. 105-236.

20 (j) Change in Ownership of Business. – As used in this subsection, the term
21 'business' means a taxpayer or an establishment. The sale, merger, consolidation,
22 conversion, acquisition, or bankruptcy of a business, or any transaction by which an
23 existing business reformulates itself as another business, does not create new eligibility
24 in a succeeding business with respect to credits for which the predecessor was not
25 eligible under this Article. A successor business may, however, take any credit or
26 carried-over portion of a credit that its predecessor could have taken if it had a tax
27 liability. The acquisition of a business is a new investment that creates new eligibility in
28 the acquiring taxpayer under this Article if either of the following conditions is met:

29 (1) The business closed before it was acquired.

30 (2) The business was required to file a notice of plant closing or mass
31 layoff under the federal Worker Adjustment and Retraining
32 Notification Act, 29 U.S.C. § 2101, before it was acquired.

33 (3) The business was acquired by its employees directly or indirectly
34 through an acquisition company under an employee stock option
35 transaction or another similar mechanism. For the purpose of this
36 subdivision, 'acquired' means that as part of the initial purchase of a
37 business by the employees, the purchase included an agreement for the
38 employees through the employee stock option transaction or another
39 similar mechanism to obtain one of the following:

40 a. Ownership of more than fifty percent (50%) of the business.

41 b. Ownership of not less than forty percent (40%) of the business
42 within seven years if the business has tangible assets with a net
43 book value in excess of one hundred million dollars

1 (\$100,000,000) and has the majority of its operations located in
2 a development tier one area.

3 (k) Advisory Ruling. – A taxpayer may request in writing from the Secretary of
4 Revenue specific advice regarding eligibility for a credit under this Article.
5 G.S. 105-264 governs the effect of this advice. A taxpayer may not legally rely upon
6 advice offered by any other State or local government official or employee acting in an
7 official capacity regarding eligibility for a credit under this Article.

8 (l) Planned Expansion. – A taxpayer that signs a letter of commitment with the
9 Department of Commerce, after the Department has calculated the development tier
10 designations for the next year but before the beginning of that year, to undertake
11 specific activities at a specific site within the next two years may calculate the credit for
12 which it qualifies based on the establishment's development tier designation and urban
13 progress zone designation in the year in which the letter of commitment was signed by
14 the taxpayer. If the taxpayer does not engage in the activities within the two-year period,
15 the taxpayer does not qualify for the credit; however, if the taxpayer later engages in the
16 activities, the taxpayer qualifies for the credit based on the development tier and urban
17 progress zone designations in effect at that time.

18 **"§ 105-129.74. Tax election; cap; carryforwards; limitations.**

19 (a) Tax Election. – The credits provided in this Article are allowed against the
20 franchise tax levied in Article 3 of this Chapter, the income taxes levied in Article 4 of
21 this Chapter, and the gross premiums tax levied in Article 8B of this Chapter. The
22 taxpayer may divide a credit between the taxes against which it is allowed.
23 Carryforwards of a credit may be divided between the taxes against which it is allowed
24 without regard to the original election regarding the division of the credit.

25 (b) Cap. – The credits allowed under this Article may not exceed fifty percent
26 (50%) of the cumulative amount of taxes against which they may be claimed for the
27 taxable year, reduced by the sum of all other credits allowed against those taxes, except
28 tax payments made by or on behalf of the taxpayer. This limitation applies to the
29 cumulative amount of credit, including carryforwards, claimed by the taxpayer under
30 this Article for the taxable year.

31 (c) Carryforward. – Unless a longer carryforward period applies, any unused
32 portion of a credit allowed under G.S. 105-129.77 or G.S. 105-129.78 may be carried
33 forward for the succeeding five years, and any unused portion of a credit allowed under
34 G.S. 105-129.79 may be carried forward for the succeeding 15 years. If the Secretary of
35 Commerce makes a written determination that the taxpayer is expected to purchase or
36 lease, and place in service in connection with an eligible business within a two-year
37 period, at least one hundred fifty million dollars (\$150,000,000) worth of business and
38 real property, any unused portion of a credit under this Article with respect to the
39 establishment that satisfies that condition may be carried forward for the succeeding 20
40 years. If the taxpayer does not make the required level of investment, the taxpayer shall
41 apply the five-year carryforward period rather than the 20-year carryforward period.

42 (d) Statute of Limitations. – Notwithstanding Article 9 of this Chapter, a taxpayer
43 shall claim a credit under this Article within six months after the date set by statute for
44 the filing of the return, including any extensions of that date.

1 **"§ 105-129.75. Fees and reports.**

2 (a) Fee. – When filing a return for a taxable year in which the taxpayer engaged
3 in activity for which the taxpayer is eligible for a credit under this Article, the taxpayer
4 shall pay the Department of Revenue a fee of five hundred dollars (\$500.00) for each
5 type of credit the taxpayer claims or intends to claim with respect to an establishment.
6 The fee is due at the time the return is due for the taxable year in which the taxpayer
7 engaged in the activity for which the taxpayer is eligible for a credit. No credit is
8 allowed under this Article for a taxable year until all outstanding fees have been paid.
9 Fees collected under this section shall be credited to the General Fund.

10 (b) Reports. – The Department of Revenue shall publish by May 1 of each year
11 the following information itemized by credit and by taxpayer for the 12-month period
12 ending the preceding December 31:

- 13 (1) The number and amount of credits generated and taken for each credit
14 allowed in this Article.
15 (2) The number and development tier area of new jobs with respect to
16 which credits were generated and to which credits were taken.
17 (3) The cost and development tier area of business property with respect to
18 which credits were generated and to which credits were taken.
19 (4) The cost and development tier area of real property investment with
20 respect to which credits were generated and to which credits were
21 taken.

22 **"§ 105-129.76. Substantiation.**

23 (a) Records. – To claim a credit allowed by this Article, the taxpayer shall
24 provide any information required by the Secretary of Revenue. Every taxpayer claiming
25 a credit under this Article shall maintain and make available for inspection by the
26 Secretary of Revenue any records the Secretary considers necessary to determine and
27 verify the amount of the credit to which the taxpayer is entitled. The burden of proving
28 eligibility for the credit and the amount of the credit shall rest upon the taxpayer, and no
29 credit shall be allowed to a taxpayer that fails to maintain adequate records or to make
30 them available for inspection.

31 (b) Documentation. – Each taxpayer shall provide with the tax return qualifying
32 information for each credit claimed under this Article. The qualifying information shall
33 be in the form prescribed by the Secretary and shall be signed and affirmed by the
34 individual who signs the taxpayer's tax return. The information required by this
35 subsection is information demonstrating that the taxpayer has met the conditions for
36 qualifying for a credit and any carryforwards and includes the following:

- 37 (1) The physical location of the jobs and investment with respect to which
38 the credit is claimed, including the street address and the development
39 tier designation of the establishment.
40 (2) The type of business with respect to which the credit is claimed and
41 the average weekly wage at the establishment with respect to which
42 the credit is claimed.
43 (3) Any other qualifying information related to a specific credit allowed
44 under this Article.

"§ 105-129.77. Credit for creating jobs.

(a) Credit. – A taxpayer that meets the eligibility requirements set out in G.S. 105-129.73 and satisfies the threshold requirement for new job creation in this State under subsection (b) of this section during the taxable year is allowed a credit for creating jobs. The amount of the credit for each new job created is set out in the table below and is based on the development tier designation of the county in which the job is located. If the job is located in an urban progress zone, the amount of the credit is increased by one thousand dollars (\$1,000) per job. In addition, if a job located in an urban progress zone is filled by a resident of that zone or by a long-term unemployed worker, the amount of the credit is increased by an additional two thousand dollars (\$2,000) per job.

<u>Area Development Tier</u>	<u>Amount of Credit</u>
<u>Tier One</u>	<u>\$12,500</u>
<u>Tier Two</u>	<u>5,000</u>
<u>Tier Three</u>	<u>750</u>

(b) Threshold. – The applicable threshold is the appropriate amount set out in the following table based on the development tier designation of the county where the new jobs are created during the taxable year. If the taxpayer creates new jobs at more than one eligible establishment in a county during the taxable year, the threshold applies to the aggregate number of new jobs created at all eligible establishments within the county during that year. If the taxpayer creates new jobs at eligible establishments in different counties during the taxable year, the threshold applies separately to the aggregate number of new jobs created at eligible establishments in each county. If the taxpayer creates new jobs in an urban progress zone, the applicable threshold is the one for a development tier one area.

<u>Area Development Tier</u>	<u>Threshold</u>
<u>Tier One</u>	<u>5</u>
<u>Tier Two</u>	<u>10</u>
<u>Tier Three</u>	<u>15</u>

(c) Calculation. – A job is located in a county or urban progress zone if more than fifty percent (50%) of the employee's duties are performed in the county or the zone. The number of new jobs a taxpayer creates during the taxable year is determined by subtracting the average number of full-time employees the taxpayer had in this State during the 12-month period preceding the beginning of the taxable year from the average number of full-time employees the taxpayer has in this State during the taxable year.

(d) Installments. – The credit may not be taken in the taxable year in which the new jobs are created. Instead, the credit shall be taken in equal installments over the four years following the taxable year in which the new jobs were created and is conditional upon the continued maintenance of those jobs by the taxpayer. If, in one of the four years in which the installment of a credit accrues, a job is no longer filled, the credit with respect to that job expires, and the taxpayer may not take any remaining installment of the credit with respect to that job. If, in one of the years in which the installment of a credit accrues, the number of the taxpayer's full-time employees falls

below the sum of the applicable threshold and the number of full-time employees the taxpayer had in the year before the year in which the taxpayer qualified for the credit, the credits with respect to all of the new jobs expire, and the taxpayer may not take any remaining installments of the credits. When a credit expires under this subsection, the taxpayer may, however, take the portion of an installment that accrued in a previous year and was carried forward to the extent permitted under G.S. 105-129.74.

(e) Transferred Jobs. – Jobs transferred from one area in the State to another area in the State are not considered new jobs for purposes of this section. Jobs that were located in this State and that are transferred to the taxpayer from a related member of the taxpayer are not considered new jobs for purposes of this section. If, in one of the four years in which the installment of a credit accrues, the job with respect to which the credit was claimed is moved to an area in a higher-numbered development tier or out of an urban progress zone, the remaining installments of the credit are allowed only to the extent they would have been allowed if the job was initially created in the area to which it was moved. If, in one of the years in which the installment of a credit accrues, the job with respect to which the credit was claimed is moved to an area in a lower-numbered development tier or an urban progress zone, the remaining installments of the credit shall be calculated as if the job had been created initially in the area to which it was moved.

(f) Wage Standard. – For the purposes of this section, a taxpayer satisfies the wage standard requirement of G.S. 105-129.73 only if the taxpayer satisfies the requirement with respect to both the new jobs, considered collectively, for which a credit is claimed and all of the jobs at the establishment, considered collectively, with respect to which a credit is claimed.

(g) No Double Credit. – A taxpayer may not claim a credit under this section with respect to jobs for which a taxpayer claims a credit under G.S. 105-129.8.

"§ 105-129.78. Credit for investing in business property.

(a) General Credit. – A taxpayer that meets the eligibility requirements set out in G.S. 105-129.73 and that has purchased or leased business property and placed it in service in this State during the taxable year and that has satisfied the threshold requirements of subsection (c) of this section is allowed a credit equal to the applicable percentage of the excess of the eligible investment amount over the applicable threshold. If the taxpayer places business property in service in an urban progress zone, the applicable percentage is the one for a development tier one area. Business property is eligible if it is not leased to another party. The credit may not be taken for the taxable year in which the business property is placed in service but shall be taken in equal installments over the four years following the taxable year in which it is placed in service. The applicable percentage is as follows:

<u>Area Development Tier</u>	<u>Applicable Percentage</u>
Tier One	7%
Tier Two	5%
Tier Three	3.5%

(b) Eligible Investment Amount. – The eligible investment amount is the lesser of (i) the cost of the eligible business property and (ii) the amount by which the cost of

1 all of the taxpayer's eligible business property that is in service in this State on the last
 2 day of the taxable year exceeds the cost of all of the taxpayer's eligible business
 3 property that was in service in this State on the last day of the base year. The base year
 4 is that year, of the three immediately preceding taxable years, in which the taxpayer had
 5 the most eligible business property in service in this State.

6 (c) Threshold. – The applicable threshold is the appropriate amount set out in the
 7 following table based on the development tier where the eligible business property is
 8 placed in service during the taxable year. If the taxpayer places business property in
 9 service in an urban progress zone, the applicable threshold is the one for a development
 10 tier one area. If the taxpayer places eligible business property in service at more than
 11 one establishment in a county during the taxable year, the threshold applies to the
 12 aggregate amount of eligible business property placed in service during the taxable year
 13 at all establishments in the county. If the taxpayer places eligible business property in
 14 service at establishments in different counties, the threshold applies separately to the
 15 aggregate amount of eligible business property placed in service in each county. If the
 16 taxpayer places eligible machinery and equipment in service at an establishment over
 17 the course of a two-year period, the applicable threshold for the second taxable year is
 18 reduced by the eligible investment amount for the previous taxable year.

<u>Area Development Tier</u>	<u>Threshold</u>
Tier One	\$ -0-
Tier Two	1,000,000
Tier Three	2,000,000

19 (d) Expiration. – As used in this subsection, the term 'disposed of' means
 20 disposed of, taken out of service, or moved out of State. If, in one of the four years in
 21 which the installment of a credit accrues, the business property with respect to which
 22 the credit was claimed is disposed of, the credit expires, and the taxpayer may not take
 23 any remaining installment of the credit for that business property unless the cost of that
 24 business property is offset in the same taxable year by the taxpayer's new investment in
 25 eligible business property placed in service in the same county, as provided in this
 26 subsection. If, during the taxable year, the taxpayer disposed of the business property
 27 for which installments remain, there has been a net reduction in the cost of all the
 28 taxpayer's eligible business property that are in service in the same county as the
 29 business property that was disposed of, and the amount of this reduction is greater than
 30 twenty percent (20%) of the cost of the business property that was disposed of, then the
 31 credit for the business property that was disposed of expires. If the amount of the net
 32 reduction is equal to twenty percent (20%) or less of the cost of the business property
 33 that was disposed of, or if there is no net reduction, then the credit does not expire. In
 34 determining the amount of any net reduction during the taxable year, the cost of
 35 business property the taxpayer placed in service during the taxable year and for which
 36 the taxpayer claims a credit under Article 3A or Article 3B of this Chapter may not be
 37 included in the cost of all the taxpayer's eligible business property that is in service. If in
 38 a single taxable year business property with respect to two or more credits in the same
 39 county are disposed of, the net reduction in the cost of all the taxpayer's eligible
 40 business property that is in service in the same county is compared to the total cost of all
 41
 42
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1 the business property for which credits expired in order to determine whether the
2 remaining installments of the credits are forfeited.

3 The expiration of a credit does not prevent the taxpayer from taking the portion of an
4 installment that accrued in a previous year and was carried forward to the extent
5 permitted under G.S. 105-129.74.

6 (e) Transferred Property. – If, in one of the four years in which the installment of
7 a credit accrues, the business property with respect to which the credit was claimed is
8 moved to a county in a higher-numbered development tier or to an urban progress zone,
9 the remaining installments of the credit are allowed only to the extent they would have
10 been allowed if the business property had been placed in service initially in the area to
11 which it was moved. If, in one of the four years in which the installment of a credit
12 accrues, the business property with respect to which a credit was claimed is moved to a
13 county in a lower-numbered development tier or an urban progress zone, the remaining
14 installments of the credit shall be calculated as if the business property had been placed
15 in service initially in the area to which it was moved.

16 (f) Wage Standard. – For the purposes of this section, a taxpayer satisfies the
17 wage standard requirement of G.S. 105-129.73 only if the taxpayer satisfies the
18 requirement with respect to all of the jobs at the establishment, considered collectively,
19 with respect to which a credit is claimed.

20 (g) No Double Credit. – A taxpayer may not claim a credit under this section
21 with respect to business property for which the taxpayer claims a credit under
22 G.S. 105-129.9 or G.S. 105-129.9A.

23 **§ 105-129.79. Credit for investment in real property.**

24 (a) Credit. – If a taxpayer that has purchased or leased real property in a
25 development tier one area begins to use the property in an eligible business during the
26 taxable year, the taxpayer is allowed a credit equal to thirty percent (30%) of the eligible
27 investment amount if all of the eligibility requirements of G.S. 105-129.73 and of
28 subsection (b) of this section are met. For the purposes of this section, property is
29 located in a development tier one area if the area the property is located in was a
30 development tier one area at the time the taxpayer made a written application for the
31 determination required under subsection (b) of this section. The eligible investment
32 amount is the lesser of (i) the cost of the property and (ii) the amount by which the cost
33 of all of the real property the taxpayer is using in this State in an eligible business on the
34 last day of the taxable year exceeds the cost of all of the real property the taxpayer was
35 using in this State in an eligible business on the last day of the base year. The base year
36 is that year, of the three immediately preceding taxable years, in which the taxpayer was
37 using the most real property in this State in an eligible business. In the case of property
38 that is leased, the cost of the property is not determined as provided in G.S. 105-129.71
39 but is considered to be the taxpayer's lease payments over a seven-year period, plus any
40 expenditures made by the taxpayer to improve the property before it is used by the
41 taxpayer if the expenditures are not reimbursed or credited by the lessor. The entire
42 credit may not be taken for the taxable year in which the property is first used in an
43 eligible business but shall be taken in equal installments over the seven years following
44 the taxable year in which the property is first used in an eligible business. When part of

1 the property is first used in an eligible business in one year and part is first used in an
2 eligible business in a later year, separate credits may be claimed for the amount of
3 property first used in an eligible business in each year. The basis in any real property for
4 which a credit is allowed under this section shall be reduced by the amount of credit
5 allowable.

6 (b) Determination by the Secretary of Commerce. – A taxpayer is eligible for the
7 credit allowed under this section with respect to an establishment only if the Secretary
8 of Commerce makes a written determination that the taxpayer is expected to purchase or
9 lease and use in an eligible business at that establishment within a three-year period at
10 least ten million dollars (\$10,000,000) of real property and that the establishment that is
11 the subject of the credit will create at least 200 new jobs within two years of the time
12 that the property is first used in an eligible business. If the taxpayer fails to timely make
13 the required level of investment or fails to timely create the required number of new
14 jobs, the taxpayer forfeits the credit as provided in G.S. 105-129.73.

15 (c) Mixed Use Property. – If the taxpayer uses only part of the property in an
16 eligible business, the amount of the credit allowed under this section is reduced by
17 multiplying it by a fraction, the numerator of which is the square footage of the property
18 used in an eligible business and the denominator of which is the total square footage of
19 the property.

20 (d) Expiration. – If, in one of the seven years in which the installment of a credit
21 accrues, the property with respect to which the credit was claimed is no longer used in
22 an eligible business, the credit expires, and the taxpayer may not take any remaining
23 installment of the credit. If, in one of the seven years in which the installment of a credit
24 accrues, part of the property with respect to which the credit was claimed is no longer
25 used in an eligible business, the remaining installments of the credit shall be reduced by
26 multiplying it by the fraction described in subsection (c) of this section. If, in one of the
27 years in which the installment of a credit accrues and by which the taxpayer is required
28 to have created 200 new jobs at the property, the total number of employees the
29 taxpayer employs at the property with respect to which the credit is claimed is less than
30 200, the credit expires, and the taxpayer may not take any remaining installment of the
31 credit.

32 In each of these cases, the taxpayer may nonetheless take the portion of an
33 installment that accrued in a previous year and was carried forward to the extent
34 permitted under G.S. 105-129.74.

35 (e) No Double Credit. – A taxpayer may not claim a credit under this section
36 with respect to real property for which a credit is claimed under G.S. 105-129.12 or
37 G.S. 105-129.12A."

38 **SECTION 1.2.** Part 2 of Article 10 of Chapter 143B is amended by adding
39 two new sections to read:

40 "**§ 143B-437.08. Development tier designation.**

41 (a) Tiers Defined. – A development tier one area is a county whose annual
42 ranking is one of the 40 highest in the State. A development tier two area is a county
43 whose annual ranking is one of the next 40 highest in the State. A development tier
44 three area is a county that is not in a lower-numbered development tier.

1 (b) Development Factor. – Each year, on or before November 30, the Secretary
2 of Commerce shall assign to each county in the State a development factor that is the
3 sum of the following:

4 (1) The county's rank in a ranking of counties by average rate of
5 unemployment from lowest to highest, for the most recent 12 months
6 for which data are available.

7 (2) The county's rank in a ranking of counties by median household
8 income from highest to lowest, for the most recent 12 months for
9 which data are available.

10 (3) The county's rank in a ranking of counties by percentage growth in
11 population from highest to lowest, for the most recent 36 months for
12 which data are available.

13 (4) The county's rank in a ranking of counties by adjusted assessed
14 property value per capita as published by the Department of Public
15 Instruction, from highest to lowest, for the most recent taxable year.

16 (c) Annual Ranking. – After computing the development factor as provided in
17 this section and making the adjustments required in this section, the Secretary of
18 Commerce shall rank all the counties within the State according to their development
19 factor from highest to lowest. The Secretary shall then identify all the areas of the State
20 by development tier and publish this information. A development tier designation is
21 effective only for the calendar year following the designation.

22 (d) Data. – In measuring rates of unemployment and median household income,
23 the Secretary shall use the latest available data published by a State or federal agency
24 generally recognized as having expertise concerning the data. In measuring assessed
25 property value, the Secretary shall use the tax records prepared in each county. In
26 measuring population and population growth, the Secretary shall use the most recent
27 estimates of population certified by the State Budget Officer. For the purposes of this
28 section, population statistics do not include people incarcerated in federal or State
29 prisons.

30 (e) Adjustment for Certain Small Counties. – Regardless of the actual
31 development factor, any county that has a population of less than 12,000 shall
32 automatically be ranked one of the 40 highest counties, and any county that has a
33 population of less than 50,000 shall automatically be ranked one of the 80 highest
34 counties.

35 (f) Adjustment for Development Tier One Areas. – Regardless of the actual
36 development factor, a county designated as a development tier one area shall
37 automatically be ranked one of the 40 highest counties until it has been a development
38 tier one area for at least two consecutive years.

39 (g) Exception for Two-County Industrial Park. – An eligible two-county
40 industrial park has the lower development tier designation of the designations of the two
41 counties in which it is located if it meets all of the following conditions:

42 (1) It is located in two contiguous counties, one of which has a lower
43 development tier designation than the other.

- 1 (2) At least one-third of the park is located in the county with the lower
2 tier designation.
- 3 (3) It is owned by the two counties or a joint agency of the counties.
- 4 (4) The county with the lower tier designation contributed at least the
5 lesser of one-half of the cost of developing the park or a proportion of
6 the cost of developing the park equal to the proportion of land in the
7 park located in the county with the lower tier designation.
- 8 (h) Exception for Certain Multijurisdictional Industrial Parks. – An eligible
9 industrial park created by interlocal agreement under G.S. 158-7.4 has the lowest
10 development tier designation of the designations of the counties in which it is located if
11 all of the following conditions are satisfied:
- 12 (1) The industrial park is located, at one or more sites, in three or more
13 contiguous counties.
- 14 (2) At least one of the counties in which the industrial park is located is a
15 development tier one area.
- 16 (3) The industrial park is owned by three or more units of local
17 government or a nonprofit corporation owned or controlled by three or
18 more units of local government.
- 19 (4) In each county in which the industrial park is located, the park has at
20 least 250 developable acres. For the purposes of this subdivision,
21 'developable acres' includes acreage that is owned directly by the
22 industrial park or its owners or that is the subject of a development
23 agreement between the industrial park or its owners and a third-party
24 owner.
- 25 (5) The total population of all of the counties in which the industrial park
26 is located is less than 200,000.
- 27 (6) In each county in which the industrial park is located, at least sixteen
28 and eight-tenths percent (16.8%) of the population was Medicaid
29 eligible for the 2003-2004 fiscal year based on 2003 population
30 estimates.

31 **"§ 143B-437.09. Urban progress zone designation.**

- 32 (a) Urban Progress Zone Defined. – An urban progress zone is an area comprised
33 of either an economic development and training district as defined by G.S. 153A-317.12
34 or one or more contiguous census tracts, census block groups, or both, or parts thereof,
35 in the most recent federal decennial census that meets all conditions in this subsection.
- 36 (1) All land within the zone is located in whole within the primary
37 corporate limits of a municipality with a population of more than
38 10,000 according to the most recent annual population estimates
39 certified by the State Budget Officer.
- 40 (2) Every census tract and census block group that composes part of the
41 zone meets at least one of the following conditions:
- 42 a. More than twenty percent (20%) of its population is below the
43 poverty level according to the most recent federal decennial
44 census.

1 b. At least fifty percent (50%) of its area is zoned as nonresidential
2 and it is adjacent to a census tract or block group of which at
3 least twenty percent (20%) of the population is below the
4 poverty level.

5 (3) The area of the zone zoned as nonresidential does not exceed
6 thirty-five percent (35%) of the total area of the zone.

7 (b) Limitations. – No census tract or block group may be located in more than
8 one urban progress zone. The total area of all zones within a municipality may not
9 exceed fifteen percent (15%) of the total area of the municipality unless the smallest
10 possible area in the municipality satisfying all of the conditions of subsection (a) of this
11 section exceeds fifteen percent (15%) of the total area of the municipality. In the case of
12 a municipality where the smallest possible area in the municipality satisfying all of the
13 conditions of subsection (a) of this section exceeds fifteen percent (15%) of the total
14 area of the municipality, the smallest possible area in the municipality satisfying all of
15 the conditions of subsection (a) of this section may be designated as an urban poverty
16 zone.

17 (c) Designation. – Upon application of a local government, the Secretary of
18 Commerce shall make a written determination whether an area is an urban progress
19 zone that satisfies the conditions and limitations of subsections (a) and (b) of this
20 section. The application shall include all of the information listed in this subsection. A
21 determination under this section is effective until December 31 of the year following the
22 year in which the determination is made. The Department of Commerce shall publish
23 annually a list of all urban progress zones with a description of their boundaries.

24 (1) A map showing the census tracts and block groups that would
25 comprise the zone.

26 (2) A detailed description of the boundaries of the area that would
27 comprise the zone.

28 (3) A zoning map for the municipality with the proposed zone clearly
29 delineated upon it.

30 (4) A certification regarding the size of the proposed zone and the areas
31 within the proposed zone zoned as nonresidential.

32 (5) Detailed census information on the municipality and the proposed
33 zone.

34 (6) A resolution of the governing body of the municipality requesting the
35 designation of the area as an urban progress zone.

36 (7) Any other material required by the Secretary of Commerce.

37 (d) Parcel of Property Partially in Urban Progress Zone. – For the purposes of
38 this section, a parcel of property that is located partially within an urban progress zone
39 is considered entirely within the zone if all of the following conditions are satisfied:

40 (1) At least fifty percent (50%) of the parcel is located within the zone.

41 (2) The parcel was in existence and under common ownership prior to the
42 most recent federal decennial census.

- 1 (3) The parcel is a portion of land made up of one or more tracts or tax
2 parcels of land that is surrounded by a continuous perimeter
3 boundary."

4 **SECTION 1.3.** G.S. 105-129.2A reads as rewritten:

5 **"§ 105-129.2A. Sunset; studies.**

6 (a) Sunset. – This Article is repealed effective for business activities that occur
7 on or after January 1, ~~2008~~2007.

8 (a1) Sunset for Interstate Air Couriers. – Notwithstanding subsection (a) of this
9 section, in the case of an interstate air courier that enters into a real estate lease on or
10 before January 1, 2006, with an airport authority that provides for the lease of at least
11 100 acres of real property with a lease term in excess of 15 years, this Article is repealed
12 effective for business activities that occur on or after January 1, 2010.

13 (a2) Sunset for Eligible Major Industries. – Notwithstanding subsection (a) of this
14 section, in the case of a taxpayer that qualifies as an eligible major industry on or before
15 January 1, 2006, this Article is repealed effective for business activities that occur on or
16 after January 1, 2010.

17 (a3) Sunset for Certain Taxpayers Located in Development Zones. –
18 Notwithstanding subsection (a) of this section, in the case of a taxpayer that satisfies all
19 of the conditions of this subsection, this Article is repealed effective for business
20 activities that occur on or after January 1, 2010.

- 21 (1) Before January 1, 2006, the taxpayer signs a letter of commitment with
22 the Department of Commerce describing a proposed new or expanding
23 project and specifying the amount to be invested in real property and
24 machinery and equipment, the number of new jobs to be created, and a
25 proposed timetable for making the investment and creating the jobs.

- 26 (2) Before January 1, 2006, the Secretary of Commerce makes a written
27 determination that the taxpayer is expected to purchase, lease, or
28 construct and place in service in an eligible business at a location
29 within a development zone within a three-year period at least ten
30 million dollars (\$10,000,000) of real property and machinery and
31 equipment and that the taxpayer will create at least 300 new jobs at the
32 location within a three-year period beginning when the property is first
33 placed in service in an eligible business.

- 34 (3) Before January 1, 2006, the taxpayer places at least four million
35 dollars (\$4,000,000) of real property and machinery and equipment in
36 service at the location and creates at least 20 new jobs at the location.

37 (a4) Sunset for Taxpayers That Sign a Letter of Commitment. – Notwithstanding
38 subsection (a) of this section, in the case of a taxpayer that signs a letter of commitment
39 with the Department of Commerce on or before December 31, 2006, stating the
40 taxpayer's intent to create new jobs or make new investments with respect to machinery
41 and equipment, central office or aircraft facility property, or substantial investments in
42 other real property at a specific site in this State, this Article is repealed effective for
43 business activities that occur on or after January 1, 2008.

1 (b) Equity Study. – The Department of Commerce shall study the effect of the
2 tax incentives provided in this Article on tax equity. This study shall include the
3 following:

- 4 (1) Reexamining the formula in G.S. 105-129.3(b) used to define
5 enterprise tiers, to include consideration of alternative measures for
6 more equitable treatment of counties in similar economic
7 circumstances.
- 8 (2) Considering whether the assignment of tiers and the applicable
9 thresholds are equitable for smaller counties, for example those under
10 50,000 in population.
- 11 (3) Compiling any available data on whether expanding North Carolina
12 businesses receive fewer benefits than out-of-State businesses that
13 locate to North Carolina.

14 (c) Impact Study. – The Department of Commerce shall study the effectiveness
15 of the tax incentives provided in this Article. This study shall include:

- 16 (1) Study of the distribution of tax incentives across new and expanding
17 industries.
- 18 (2) Examination of data on economic recruitment for the period from 1994
19 through the most recent year for which data are available by county, by
20 industry type, by size of investment, and by number of jobs, and other
21 relevant information to determine the pattern of business locations and
22 expansions before and after the enactment of the William S. Lee Act
23 incentives.
- 24 (3) Measuring the direct costs and benefits of the tax incentives.
- 25 (4) Compiling available information on the current use of incentives by
26 other states and whether that use is increasing or declining.

27 (d) Report. – The Department of Commerce shall report the results of these
28 studies and its recommendations to the General Assembly biennially with the first report
29 due by April 1, 2001."

30 **SECTION 1.4.** G.S. 105-129.3A(a) reads as rewritten:

31 "(a) Development Zone Defined. – A development zone is an area comprised of
32 either an economic development and training district as defined by G.S. 153A-317.12 or
33 one or more contiguous census tracts, census block groups, or both in the most recent
34 federal decennial census that meets all of the following conditions:

- 35 (1) Every census tract and census block group in the zone is located in
36 whole or in part within the primary corporate limits of a city with a
37 population of more than 5,000 according to the most recent annual
38 population estimates certified by the State Budget Officer.
- 39 (2) It has a population of 1,000 or more according to the most recent
40 annual population estimates certified by the State Budget Officer.
- 41 (3) More than twenty percent (20%) of its population is below the poverty
42 level according to the most recent federal decennial census.
- 43 (4) Every census tract and census block group in the zone meets at least
44 one of the following conditions:

- 1 a. More than ten percent (10%) of its population is below the
- 2 poverty level according to the most recent federal decennial
- 3 census.
- 4 b. It is immediately adjacent to another census tract or census
- 5 block group that is in the same zone and has more than twenty
- 6 percent (20%) of its population below the poverty level
- 7 according to the most recent federal decennial census.
- 8 (5) None of the census tracts or census block groups in the zone is located
- 9 in another development zone designated by the Secretary of
- 10 Commerce."

11 **SECTION 1.5.** There is appropriated from the General Fund to the
 12 Department of Revenue the sum of one hundred twenty thousand dollars (\$120,000) for
 13 the 2006-2007 fiscal year to perform functions related to the administration of Article
 14 3H of Chapter 105 of the General Statutes. There is appropriated from the General
 15 Fund to the Department of Commerce the sum of forty thousand dollars (\$40,000) for
 16 the 2006-2007 fiscal year to perform functions related to the administration of Article
 17 3H of Chapter 105 of the General Statutes.

18 **SECTION 1.6.** Section 1.1 of this part is effective for taxable years
 19 beginning on or after January 1, 2007. Section 1.4 of this part is effective for taxable
 20 years beginning on or after January 1, 2004. The remainder of this part is effective
 21 when it becomes law.

22
 23 **PART II. CONFORMING CHANGES**

24 **SECTION 2.1.** G.S. 105-129.55(a) reads as rewritten:

25 "(a) **Qualified North Carolina Research Expenses.** – A taxpayer that has qualified
 26 North Carolina research expenses for the taxable year is allowed a credit equal to a
 27 percentage of the expenses, determined as provided in this subsection. Only one credit
 28 is allowed under this subsection with respect to the same expenses. If more than one
 29 subdivision of this subsection applies to the same expenses, then the credit is equal to
 30 the higher percentage, not both percentages combined. If part of the taxpayer's qualified
 31 North Carolina research expenses qualifies under subdivision (2) of this subsection and
 32 the remainder qualifies under subdivision (3) of this subsection, the applicable
 33 percentages apply separately to each part of the expenses.

- 34 (1) **Small business.** – If the taxpayer was a small business as of the last
- 35 day of the taxable year, the applicable percentage is three percent
- 36 (3%).
- 37 (2) **Low-tier research.** – For expenses with respect to research performed
- 38 ~~in an enterprise tier one, two, or three~~ in a development tier one area, the
- 39 applicable percentage is three percent (3%).
- 40 (3) **Other research.** – For expenses not covered under subdivision (1) or
- 41 (2) of this subsection, the percentages provided in the table below
- 42 apply to the taxpayer's qualified North Carolina research expenses
- 43 during the taxable year at the following levels:

Expenses Over	Up To	Rate
---------------	-------	------

1	-0-	\$50 million	1%
2	\$50 million	\$200 million	2%
3	\$200 million	–	3% "

4 **SECTION 2.2.** G.S. 105-164.14(h) reads as rewritten:

5 "(h) Low Enterprise or Development Tier Machinery. – Eligible taxpayers are
6 allowed an annual refund of sales and use taxes paid under this Article as provided in
7 this subsection.

8 (1) Refunds. – An eligible person is allowed an annual refund of sales and
9 use taxes paid by it under this Article at the general rate of tax on
10 eligible machinery and equipment it purchases for use in an enterprise
11 tier one area or an enterprise tier two area, as defined in
12 G.S. ~~405-129.3~~.105-129.3 or a development tier one area, as defined in
13 G.S. 143B-437.08. Liability incurred indirectly by the taxpayer for
14 sales and use taxes on these items is considered tax paid by the
15 taxpayer. A request for a refund must be in writing and must include
16 any information and documentation required by the Secretary. A
17 request for a refund is due within six months after the end of the State's
18 fiscal year. Refunds applied for after the due date are barred.

19 (2) Eligibility. – A person is eligible for the refund provided in this
20 subsection if it is engaged primarily in one of the businesses listed in
21 G.S. 105-129.4(a) in an enterprise tier one area or an enterprise tier
22 two area, as defined in G.S. ~~405-129.3~~.105-129.3 or if it is engaged
23 primarily in one of the businesses listed in G.S. 105-129.73(a) in a
24 development tier one area, as defined in G.S. 143B-437.08.

25 (3) Machinery and equipment. – For the purpose of this subsection, the
26 term 'machinery and equipment' means engines, machinery,
27 equipment, tools, and implements used or designed to be used in one
28 of the businesses listed in G.S. ~~405-129.4(a)~~.105-129.4(a) or
29 105-129.73(a). Machinery and equipment are eligible for the refund
30 provided in this subsection if the taxpayer places them in service in an
31 enterprise tier one area or an enterprise tier two area, as defined in
32 G.S. ~~405-129.3~~.105-129.3, or a development tier one area, as defined
33 in G.S. 143B-437.08, capitalizes them for tax purposes under the
34 Code, and does not lease them to another party."

35 **SECTION 2.3.** G.S. 105-164.14(j)(2) reads as rewritten:

36 "(j) Certain Industrial Facilities. – The owner of an eligible facility is allowed an
37 annual refund of sales and use taxes as provided in this subsection.

38 ...
39 (2) Eligibility. – A facility is eligible under this subsection if it meets both
40 of the following conditions:
41 a. It is primarily engaged in one of the industries listed in this
42 subsection.
43 b. The Secretary of Commerce has certified that the owner of the
44 facility will invest at least the required amount of private funds

1 to construct the facility in this State. For the purpose of this
2 subsection, costs of construction may include costs of acquiring
3 and improving land for the facility and costs of equipment for
4 the facility. If the facility is located in ~~an enterprise tier one,~~
5 ~~two, or three~~ a development tier one area as defined in
6 ~~G.S. 105-129.3,~~ G.S. 143B-437.08 the required amount is fifty
7 million dollars (\$50,000,000). For all other facilities, the
8 required amount is one hundred million dollars (\$100,000,000).
9 In the case of a computer manufacturing facility, the owner may
10 invest these funds either directly or indirectly through a related
11 entity or strategic partner as those terms are defined in
12 G.S. 105-129.61. In the case of a computer manufacturing
13 facility, the term 'facility' has the same meaning as under
14 G.S. 105-129.61."

15 **SECTION 2.4.** G.S. 143B-437.01 reads as rewritten:

16 **"§ 143B-437.01. Industrial Development Fund.**

17 (a) Creation and Purpose of Fund. – There is created in the Department of
18 Commerce the Industrial Development Fund to provide funds to assist the local
19 government units of the most economically distressed counties in the State in creating
20 jobs in certain industries. The Department of Commerce shall adopt rules providing for
21 the administration of the program. Those rules shall include the following provisions,
22 which shall apply to each grant from the fund:

23 (1) The funds shall be used for (i) installation of or purchases of
24 equipment for eligible industries, (ii) structural repairs, improvements,
25 or renovations of existing buildings to be used for expansion of
26 eligible industries, or (iii) construction of or improvements to new or
27 existing water, sewer, gas, telecommunications, high-speed broadband,
28 electrical utility distribution lines or equipment, or transportation
29 infrastructure for existing or new or proposed industrial buildings to be
30 used for eligible industries. To be eligible for funding, the water,
31 sewer, gas, telecommunications, high-speed broadband, electrical
32 utility lines or facilities, or transportation infrastructure shall be
33 located on the site of the building or, if not located on the site, shall be
34 directly related to the operation of the specific eligible industrial
35 activity.

36 (1a) The funds shall be used for projects located in economically distressed
37 counties except that the Secretary of Commerce may use up to one
38 hundred thousand dollars (\$100,000) to provide emergency economic
39 development assistance in any county that is documented to be
40 experiencing a major economic dislocation.

41 (2) The funds shall be used by the city and county governments for
42 projects that will directly result in the creation of new jobs. The funds
43 shall be expended at a maximum rate of five thousand dollars (\$5,000)

- 1 per new job created up to a maximum of five hundred thousand dollars
2 (\$500,000) per project.
- 3 (3) There shall be no local match requirement if the project is located in an
4 ~~enterprise tier one area as defined in G.S. 105-129.3~~ a county that has
5 one of the 25 highest rankings under G.S. 143B-437.08 after the
6 adjustments of that section are applied.
- 7 (4) The Department may authorize a local government that receives funds
8 under this section to use up to two percent (2%) of the funds, if
9 necessary, to verify that the funds are used only in accordance with
10 law and to otherwise administer the grant or loan.
- 11 (5) No project subject to the Environmental Policy Act, Article 1 of
12 Chapter 113A of the General Statutes, shall be funded unless the
13 Secretary of Commerce finds that the proposed project will not have a
14 significant adverse effect on the environment. The Secretary of
15 Commerce shall not make this finding unless the Secretary has first
16 received a certification from the Department of Environment and
17 Natural Resources that concludes, after consideration of avoidance and
18 mitigation measures, that the proposed project will not have a
19 significant adverse effect on the environment.
- 20 (6) The funds shall not be used for any nonmanufacturing project that does
21 not meet the wage standard set out in G.S. 105-129.4(b).
- 22 (a1) Definitions. – The following definitions apply in this section:
- 23 (1) ~~Air courier services. – A person is engaged in the air courier services~~
24 ~~business if the person's primary business is furnishing air delivery of~~
25 ~~individually addressed letters and packages, except by the United~~
26 ~~States Postal Service. Defined in G.S. 105-129.71.~~
- 27 (2) ~~Central administrative office. – Defined in the North American~~
28 ~~Industry Classification System adopted by the United States Office of~~
29 ~~Management and Budget.~~
- 30 (2a) Company headquarters. – Defined in G.S. 105-129.71.
- 31 (3) ~~Data processing. – Defined in the North American Industry~~
32 ~~Classification System adopted by the United States Office of~~
33 ~~Management and Budget.~~
- 34 (4) Economically distressed county. – A county that has one of the 65
35 highest rankings under G.S. 143B-437.08 after the adjustments of that
36 section are applied. ~~designated as an enterprise tier one, two, or three~~
37 ~~area pursuant to G.S. 105-129.3.~~
- 38 (5) Eligible industry. – A ~~central administrative office~~ company
39 headquarters or a person engaged in the business of air courier
40 services, ~~data processing,~~ information technology and services,
41 manufacturing, or warehousing and wholesale trade.
- 42 (6) Information technology and services. – Defined in G.S. 105-129.71.
- 43 (7) Major economic dislocation. – The actual or imminent loss of 500 or
44 more manufacturing jobs in the county or of a number of

1 manufacturing jobs equal to at least ten percent (10%) of the existing
2 manufacturing workforce in the county.

3 (8) ~~Manufacturing. – Defined in the North American Industry~~
4 ~~Classification System adopted by the United States Office of Budget~~
5 ~~and Management. G.S. 105-129.71.~~

6 (9) Reserved.

7 (10) ~~Warehousing and wholesale trade. – Defined in the North American~~
8 ~~Industry Classification System adopted by the United States Office of~~
9 ~~Management and Budget. Warehousing. – Defined in G.S. 105-129.71.~~

10 (11) Wholesale trade. – Defined in G.S. 105-129.71.

11 (b) Repealed by Session Laws 1996, Second Extra Session, c. 13, s. 3.5.

12 (b1) Utility Account. – There is created within the Industrial Development Fund a
13 special account to be known as the Utility Account to provide funds to assist the local
14 government units of ~~enterprise tier one, two, and three areas, as defined in~~
15 ~~G.S. 105-129.3,~~ the counties that have one of the 65 highest rankings under
16 G.S. 143B-437.08 after the adjustments of that section are applied in creating jobs in
17 eligible industries. The Department of Commerce shall adopt rules providing for the
18 administration of the program. Except as otherwise provided in this subsection, those
19 rules shall be consistent with the rules adopted with respect to the Industrial
20 Development Fund. The rules shall provide that the funds in the Utility Account may be
21 used only for construction of or improvements to new or existing water, sewer, gas,
22 telecommunications, high-speed broadband, electrical utility distribution lines or
23 equipment, or transportation infrastructure for existing or new or proposed industrial
24 buildings to be used for eligible industrial operations. To be eligible for funding, the
25 water, sewer, gas, telecommunications, high-speed broadband, electrical utility lines or
26 facilities, or transportation infrastructure shall be located on the site of the building or, if
27 not located on the site, shall be directly related to the operation of the specific industrial
28 activity. There shall be no maximum funding amount per new job to be created or per
29 project.

30 (c) Reports. – The Department of Commerce shall report annually to the General
31 Assembly concerning the applications made to the fund and the payments made from
32 the fund and the impact of the payments on job creation in the State. The Department of
33 Commerce shall also report quarterly to the Joint Legislative Commission on
34 Governmental Operations and the Fiscal Research Division on the use of the moneys in
35 the fund, including information regarding to whom payments were made, in what
36 amounts, and for what purposes.

37 (c1) In addition to the reporting requirements of subsection (c) of this section, the
38 Department of Commerce shall report annually to the General Assembly concerning the
39 payments made from the Utility Account and the impact of the payments on job creation
40 in the State. The Department of Commerce shall also report quarterly to the Joint
41 Legislative Commission on Governmental Operations and the Fiscal Research Division
42 on the use of the moneys in the Utility Account including information regarding to
43 whom payments were made, in what amounts, and for what purposes.

44 (d) Repealed by Session Laws 1996, Second Extra Session, c. 13, s. 3.5."

1 **SECTION 2.5.** G.S. 143B-437.04 reads as rewritten:

2 "**§ 143B-437.04. Community development block grants.**

3 (a) The Department of Commerce shall adopt guidelines for the awarding of
4 Community Development Block Grants to ensure that:

5 (1) No local match is required for grants awarded for projects located in
6 ~~enterprise tier one areas as defined in G.S. 105-129.3~~ counties that
7 have one of the 25 highest rankings under G.S. 143B-437.08 after the
8 adjustments of that section are applied.

9 (2) To the extent practicable, priority consideration for grants is given to
10 projects located in ~~enterprise tier one areas as defined in~~
11 ~~G.S. 105-129.3~~ counties that have one of the 25 highest rankings under
12 G.S. 143B-437.08 after the adjustments of that section are applied or
13 in ~~development urban progress zones~~ that have met the conditions of
14 subsection (b) of this section.

15 (b) In order to qualify for the benefits of this section, after an area is designated a
16 ~~developmentan urban progress~~ zone under ~~G.S. 105-129.3A, 143B-437.09,~~ the
17 governing body of the city in which the zone is located must adopt a strategy to improve
18 the zone and establish a ~~developmentan urban progress~~ zone committee to oversee the
19 strategy. The strategy and the committee must conform with requirements established
20 by the Secretary of Commerce."

21 **SECTION 2.6.** G.S. 143B-437.51(5a) is recodified as G.S. 143B-437.51(4a)
22 and reads as rewritten:

23 "(4a) ~~Enterprise-Development~~ tier. – The classification assigned to an area
24 pursuant to ~~G.S. 105-129.3, 143B-437.08.~~"

25 **SECTION 2.7.** G.S. 143B-437.53(a) reads as rewritten:

26 "(a) Minimum Number of Eligible Positions. – A business may apply to the
27 Committee for a grant for any project that creates the minimum number of eligible
28 positions as set out in the table below. If the project will be located in more than one
29 ~~enterprise-development~~ tier area, the location with the highest ~~enterprise-development~~
30 tier area designation determines the minimum number of eligible positions that must be
31 created.

<u>Enterprise-Development</u> Tier Area	Number of Eligible Positions
Tier One	10
Tier Two	10 <u>20</u>
Tier Three	10 <u>20</u>
Tier Four	20
Tier Five	20 "

38 **SECTION 2.8.** G.S. 143B-437.55(c)(3) reads as rewritten:

39 "(c) Annual Reports. – The Committee shall publish a report on the Job
40 Development Investment Grant Program on or before April 30 of each year. The report
41 shall include the following:

42 ...

43 (3) The number and ~~enterprise-development~~ tier area of eligible positions
44 created by projects with respect to which grants were awarded."

1 **SECTION 2.9.** G.S. 143B-437.56(d) reads as rewritten:

2 "(d) The percentage established in the agreement shall be reduced by
3 ~~one-fourth~~fifteen percent (15%) for any eligible position that is located in a
4 development tier two area and twenty-five percent (25%) for any eligible position that is
5 located in an enterprise-a development tier four-or-fivethree area."

6 **SECTION 2.10.** G.S. 158-7.3(a) reads as rewritten:

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

8 (1) Development project. – A capital project that includes capital
9 expenditures by both private persons and one or more units of local
10 government and that increases net employment opportunities for
11 residents of the development district or within a two-mile radius of the
12 project, whichever is larger, and increases the local government tax
13 base.

14 If the district in which such a project will occur is outside a city's
15 central business district (as that district is defined by resolution of the
16 city council, which definition is binding and conclusive), then, of the
17 private development forecast for a development project by the
18 development financing plan for the district in which the project will
19 occur, a maximum of twenty percent (20%) of the plan's estimated
20 square footage of floor space may be proposed for use in retail sales,
21 hotels, banking, and financial services offered directly to consumers,
22 and other commercial uses other than office space. The twenty percent
23 (20%) limitation in the preceding sentence does not apply to
24 development financing districts located in ~~an enterprise-a development~~
25 tier one area, as defined in G.S. ~~105-129.3, 143B-437.08~~ and created
26 primarily for tourism-related economic development, such as
27 developments featuring facilities for exhibitions, athletic and cultural
28 events, show and public gatherings, racing facilities, parks and
29 recreation facilities, art galleries, museums, and art centers.

30 (2) Publish. – Insertion in a newspaper qualified under G.S. 1-597 to
31 publish legal advertisements in the county or counties in which the unit
32 is located.

33 (3) Unit or unit of local government. – A county, city, town, or
34 incorporated village."

35 **SECTION 2.11.** G.S. 19A-64(c) reads as rewritten:

36 "(c) Distribution. – The Department shall make payments from the Spay/Neuter
37 Account to eligible counties and cities who have made timely application for
38 reimbursement within 30 days of the closing date for receipt of applications for that
39 quarter. In the event that total requests for reimbursement exceed the amounts available
40 in the Spay/Neuter Account for distribution, the monies available will be distributed as
41 follows:

42 (1) Fifty percent (50%) of the monies available in the Spay/Neuter
43 Account shall be reserved for reimbursement for eligible applicants
44 within ~~enterprise tier one, two, and three~~development tier one areas as

1 defined in G.S. ~~105-129.3~~.143B-437.08. The remaining fifty percent
2 (50%) of the funds shall be used to fund reimbursement requests from
3 eligible applicants in ~~enterprise tier four and five~~development tier two
4 ~~and three~~ areas as defined in G.S. ~~105-129.3~~.143B-437.08.

5 (2) Among the eligible counties and cities in ~~enterprise tier one, two, and~~
6 ~~three~~development tier one areas, reimbursement shall be made to each
7 eligible county or city in proportion to the number of dogs and cats
8 that have received rabies vaccinations during the preceding fiscal year
9 in that county or city as compared to the number of dogs and cats that
10 have received rabies vaccinations during the preceding fiscal year by
11 all of the eligible applicants in ~~enterprise tier one, two, or~~
12 ~~three~~development tier one areas.

13 (3) Among the eligible counties and cities in ~~enterprise tier four and~~
14 ~~five~~development tier two and three areas, reimbursement shall be
15 made to each eligible county or city in proportion to the number of
16 dogs and cats that have received rabies vaccinations during the
17 preceding fiscal year in that county or city as compared to the number
18 of dogs and cats that have received rabies vaccinations during the
19 preceding fiscal year by all of the eligible applicants in ~~enterprise tier~~
20 ~~four and five~~development tier two and three areas.

21 (4) Should funds remain available from the fifty percent (50%) of the
22 Spay/Neuter Account designated for ~~enterprise tier one, two, or~~
23 ~~three~~development tier one areas after reimbursement of all claims by
24 eligible applicants in those areas, the remaining funds shall be made
25 available to reimburse eligible applicants in ~~enterprise tier four and~~
26 ~~five~~development tier two and three areas."

27 **SECTION 2.12.** G.S. 106-744(c2) reads as rewritten:

28 "(c2) A county that is an ~~enterprise tier four county or an enterprise tier five~~
29 ~~development tier two or three~~ county, as these tiers are defined in
30 ~~G.S. 105-129.3(a)~~,G.S. 143B-437.08, and that has prepared a countywide farmland
31 protection plan shall match fifteen percent (15%) of the Trust Fund monies it receives
32 with county funds. A county that has not prepared a countywide farmland protection
33 plan shall match thirty percent (30%) of the Trust Fund monies it receives with county
34 funds. A county that is an ~~enterprise tier one county, an enterprise tier two county, or an~~
35 ~~enterprise tier three county, as these counties area~~ development tier one county, as
36 defined in ~~G.S. 105-129.3(a)~~,G.S. 143B-437.08, and that has prepared a countywide
37 farmland protection plan shall not be required to match any of the Trust Fund monies it
38 receives with county funds."

39 **SECTION 2.13.** G.S. 113A-252 reads as rewritten:

40 "§ 113A-252. Definitions.

41 The following definitions apply in this Article:

42 (1) Council. – The advisory council for the Clean Water Management
43 Trust Fund.

- 1 (2) Economically distressed local government unit. – An economically
2 distressed county, as defined in ~~G.S. 105-129.3~~, G.S. 143B-437.01, or a
3 local government unit located in that county.
- 4 (3) Fund. – The Clean Water Management Trust Fund created pursuant to
5 this Article.
- 6 (4) Land. – Real property and any interest in, easement in, or restriction on
7 real property.
- 8 (4a) Local government unit. – Defined in G.S. 159G-20.
- 9 (4b) Stormwater quality project. – Defined in G.S. 159G-20.
- 10 (5) Trustees. – The trustees of the Clean Water Management Trust Fund.
- 11 (6) Wastewater collection system. – Defined in G.S. 159G-20.
- 12 (7) Wastewater treatment works. – Defined in G.S. 159G-20."

13 **SECTION 2.14.** G.S. 146-22.3(d) reads as rewritten:

14 "(d) Application. – This section applies only to land acquired in counties
15 designated as ~~an enterprise tier one or enterprise tier two~~ a development tier one area
16 under G.S. ~~105-129.3.143B-437.08.~~"

17 **SECTION 2.15.** G.S. 146-22.4(c) reads as rewritten:

18 "(c) Application. – This section applies only to land acquired in counties
19 designated as ~~an enterprise tier one or enterprise tier two~~ a development tier one area
20 under G.S. ~~105-129.3.143B-437.08.~~"

21 **SECTION 2.16.** G.S. 146-22.5(b) reads as rewritten:

22 "(b) Application. – This section applies only to land acquired in counties
23 designated as ~~an enterprise tier one or enterprise tier two~~ a development tier one area
24 under G.S. ~~105-129.3.143B-437.08.~~"

25 **SECTION 2.17.** G.S. 153A-15.1(e) reads as rewritten:

26 "(e) Application. – This section applies only to land acquired in counties
27 designated as ~~an enterprise tier one or enterprise tier two~~ a development tier one area
28 under G.S. ~~105-129.3.143B-437.08.~~"

29 **SECTION 2.18.** G.S. 160A-425.1(c) reads as rewritten:

30 "(c) If an inspector declares a residential building or nonresidential building or
31 structure to be unsafe under subsection (b) of this section, the inspector must affix a
32 notice of the unsafe character of the structure to a conspicuous place on the exterior wall
33 of the building. For the purposes of this section, the term "community development
34 target area" means an area that has characteristics of ~~a development zone under~~
35 ~~G.S. 105-129.3A~~, an urban progress zone under G.S. 143B-437.09, a 'nonresidential
36 redevelopment area' under G.S. 160A-503(10), or an area with similar characteristics
37 designated by the city council as being in special need of revitalization for the benefit
38 and welfare of its citizens."

39 **SECTION 2.19.** G.S. 160A-426(c) reads as rewritten:

40 "(c) If an inspector declares a nonresidential building or structure to be unsafe
41 under subsection (b) of this section, the inspector must affix a notice of the unsafe
42 character of the structure to a conspicuous place on the exterior wall of the building. For
43 the purposes of this section, the term "community development target area" means an
44 area that has characteristics of ~~a development zone under G.S. 105-129.3A~~, an urban

1 progress zone under G.S. 143B-437.09, a 'nonresidential redevelopment area' under
2 G.S. 160A-503(10), or an area with similar characteristics designated by the city council
3 as being in special need of revitalization for the benefit and welfare of its citizens."

4 **SECTION 2.20.** G.S. 105-129.51(a) reads as rewritten:

5 "(a) A taxpayer is eligible for the credit allowed in this Article if it satisfies the
6 requirements of G.S. ~~105-129.4(b), (b2), (b3), and (b4)~~105-129.73(c), (d), (e), and (f)
7 relating to wage standard, health insurance, environmental impact, and safety and health
8 programs, respectively."

9 **SECTION 2.21.** G.S. 105-259(b) reads as rewritten:

10 "(b) Disclosure Prohibited. – An officer, an employee, or an agent of the State
11 who has access to tax information in the course of service to or employment by the State
12 may not disclose the information to any other person unless the disclosure is made for
13 one of the following purposes:

14 ...

15 (24) To furnish the Department of Commerce and the Employment Security
16 Commission a copy of the qualifying information required in
17 G.S. ~~105-129.7(b)~~105-129.7(b) or G.S. 105-129.76(b).

18 ...

19 (27) To publish the information required under G.S. 105-129.6,
20 105-129.19, 105-129.26, 105-129.38, 105-129.44, 105-129.65A,
21 105-129.75, 105-130.41, 105-130.45, 105-151.22, and 105-164.14.

22 ...

23 (36) To furnish the Department of Commerce with the information needed
24 to complete the studies required under G.S. 105-129.2A and
25 G.S. 105-129.72."

26 **SECTION 2.22.** This part becomes effective January 1, 2007.

27
28 **PART III. EFFECTIVE DATES.**

29 **SECTION 3.** Except as otherwise provided, this act is effective when it
30 becomes law.