A BILL TO BE ENTITLED
AN ACT TO REDUCE PERSONAL INCOME TAXES; TO MODERNIZE, SIMPLIFY, AND
REDUCE BUSINESS TAXES; AND TO ENCOURAGE ECONOMIC DEVELOPMENT
THROUGH PHASING IN A SINGLE SALES TAX FACTOR APPORTIONMENT
FORMULA AND TARGETING THE DISCRETIONARY INCENTIVE PROGRAMS TO
RURAL COUNTIES AND TRANSFORMATIVE INDUSTRIES.

The General Assembly of North Carolina enacts:

PART I. INDIVIDUAL INCOME TAX RATE REDUCTIONS

SECTION 1.1.(a) G.S. 105-153.5(a) reads as rewritten:
"(a) Itemized Deduction Amount. – In calculating North Carolina taxable income, a
taxpayer may deduct from adjusted gross income either the standard deduction amount
provided in subdivision (1) of this subsection or the itemized deduction amount provided in
subdivision (2) of this subsection that the taxpayer claimed under the Code. The deduction
amounts are as follows:

The itemized deduction amount is equal to the sum of the items listed in
this subsection. The amounts allowed under this subsection are not subject to the overall
limitation on itemized deductions under section 68 of the Code:

(1) Standard deduction amount. – Charitable contributions. – The amount allowed
as a deduction for charitable contributions under section 170 of the Code for
that taxable year. The standard deduction amount is zero for a person who is
not eligible for a standard deduction under section 63 of the Code. For all
other taxpayers, the standard deduction amount is equal to the amount listed
in the table below based on the taxpayer’s filing status:

<table>
<thead>
<tr>
<th>Filing Status</th>
<th>Standard Deduction</th>
</tr>
</thead>
<tbody>
<tr>
<td>Married, filing jointly</td>
<td>$15,000</td>
</tr>
<tr>
<td>Head of Household</td>
<td>$12,000</td>
</tr>
<tr>
<td>Single</td>
<td>$7,500</td>
</tr>
<tr>
<td>Married, filing separately</td>
<td>-7,500</td>
</tr>
</tbody>
</table>

(2) Itemized deduction amount. – An amount equal to the sum of the items listed
in this subdivision. The amounts allowed under this subdivision are not
subject to the overall limitation on itemized deductions under section 68 of
the Code. Home mortgage and real property taxes. – The

a. The amount allowed as a deduction for charitable contributions under
section 170 of the Code for that taxable year.
The amount allowed as a deduction for interest paid or accrued during the taxable year under section 163(h) of the Code with respect to any qualified residence plus the amount claimed by the taxpayer as a deduction for property taxes paid or accrued on real estate under section 164 of the Code for that taxable year. The amount allowed under this subdivision may not exceed twenty thousand dollars ($20,000). For spouses filing as married filing separately or married filing jointly, the total mortgage interest and real estate taxes claimed by both spouses combined may not exceed twenty thousand dollars ($20,000). For spouses filing as married filing separately with a joint obligation for mortgage interest and real estate taxes, the deduction for these items is allowable to the spouse who actually paid them. If the amount of the mortgage interest and real estate taxes paid by both spouses exceeds twenty thousand dollars ($20,000), these deductions must be prorated based on the percentage paid by each spouse. For joint obligations paid from joint accounts, the proration is based on the income reported by each spouse for that taxable year."

SECTION 1.1.(b) G.S. 105-153.7(a) reads as rewritten:

"§ 105-153.7. Individual income tax imposed.

(a) Tax. – A tax is imposed for each taxable year on the North Carolina taxable income of every individual. The tax shall be levied, collected, and paid annually. The tax is five and seventy-five hundredths percent (5.75%) of the taxpayer's North Carolina taxable income. For a taxpayer who deducts the itemized deduction amount under G.S. 105-153.5(a), the rate of tax is five and six hundred twenty-five hundredths percent (5.625%). For all other taxpayers, the rate of tax is computed at the following percentages of the taxpayer's North Carolina taxable income:

(1) For married individuals who file a joint return under G.S. 105-153.8 and for a surviving spouse, as defined in section 2(a) of the Code:

<table>
<thead>
<tr>
<th>Over</th>
<th>Up To</th>
<th>Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>-0-</td>
<td>$17,500</td>
<td>0%</td>
</tr>
<tr>
<td>$17,501</td>
<td>NA</td>
<td>5.625%</td>
</tr>
</tbody>
</table>

(2) For a head of household, as defined in section 2(b) of the Code:

<table>
<thead>
<tr>
<th>Over</th>
<th>Up To</th>
<th>Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>-0-</td>
<td>$14,000</td>
<td>0%</td>
</tr>
<tr>
<td>$14,001</td>
<td>NA</td>
<td>5.625%</td>
</tr>
</tbody>
</table>

(3) For an unmarried individual other than a surviving spouse or a head of household:

<table>
<thead>
<tr>
<th>Over</th>
<th>Up To</th>
<th>Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>-0-</td>
<td>$8,750</td>
<td>0%</td>
</tr>
<tr>
<td>$8,751</td>
<td>NA</td>
<td>5.625%</td>
</tr>
</tbody>
</table>

(4) For married individuals who do not file a joint return under G.S. 105-153.8:

<table>
<thead>
<tr>
<th>Over</th>
<th>Up To</th>
<th>Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>-0-</td>
<td>$8,750</td>
<td>0%</td>
</tr>
<tr>
<td>$8,751</td>
<td>NA</td>
<td>5.625%</td>
</tr>
</tbody>
</table>

SECTION 1.1.(c) This section becomes effective for taxable years beginning on or after January 1, 2016.

SECTION 1.2.(a) G.S. 105-153.7(a), as amended by Section 1.1 of this act, reads as rewritten:

"§ 105-153.7. Individual income tax imposed."
General Assembly of North Carolina  
Session 2015

(a) Tax. – A tax is imposed for each taxable year on the North Carolina taxable income of every individual. The tax shall be levied, collected, and paid annually. For a taxpayer who deducts the itemized deduction amount under G.S. 105-153.5(a), the rate of tax is five and six hundred twenty-five hundredths percent (5.625%). Five and one-half percent (5.5%). For all other taxpayers, the rate of tax is computed at the following percentages of the taxpayer’s North Carolina taxable income:

1. For married individuals who file a joint return under G.S. 105-153.8 and for a surviving spouse, as defined in section 2(a) of the Code:

<table>
<thead>
<tr>
<th>Over</th>
<th>Up To</th>
<th>Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>$17,501-$20,001</td>
<td>NA</td>
<td>5.625%</td>
</tr>
</tbody>
</table>

2. For a head of household, as defined in section 2(b) of the Code:

<table>
<thead>
<tr>
<th>Over</th>
<th>Up To</th>
<th>Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>$14,001-$16,001</td>
<td>NA</td>
<td>5.625%</td>
</tr>
</tbody>
</table>

3. For an unmarried individual other than a surviving spouse or a head of household:

<table>
<thead>
<tr>
<th>Over</th>
<th>Up To</th>
<th>Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>$8,751-$10,001</td>
<td>NA</td>
<td>5.625%</td>
</tr>
</tbody>
</table>

4. For married individuals who do not file a joint return under G.S. 105-153.8:

<table>
<thead>
<tr>
<th>Over</th>
<th>Up To</th>
<th>Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>$8,751-$10,001</td>
<td>NA</td>
<td>5.625%</td>
</tr>
</tbody>
</table>

SECTION 1.2.(a) This section becomes effective for taxable years beginning on or after January 1, 2017.

PART II. FRANCHISE TAX CHANGES

SECTION 2.(a) G.S. 105-120.2(b) reads as rewritten:

"(b) Tax Rate. – Every corporation taxed under this section shall annually pay to the Secretary of Revenue, at the time the return is due, the greater of the following:

1. A franchise or privilege tax at the rate of one dollar and fifty cents ($1.50) one dollar and thirty-five cents ($1.35) per one thousand dollars ($1,000) of the amount determined under subsection (a) of this section, but in no case shall the tax be more than seventy-five thousand dollars ($75,000) nor less than thirty-five dollars ($35.00) or one hundred fifty thousand dollars ($150,000) nor less than two hundred dollars ($200.00).

2. Notwithstanding the provisions of subdivision (1) of this subsection, if the tax produced pursuant to application of calculated under this paragraph (2) subdivision exceeds the tax produced pursuant to application of calculated under subdivision (1) of this subsection, then the tax is levied at the rate of one dollar and fifty cents ($1.50) one dollar thirty-five cents ($1.35) per one thousand dollars ($1,000) on the greater of the following:

a. Fifty-five percent (55%) of the appraised value as determined for ad valorem taxation of all the real and tangible personal property in this State of each such corporation plus the total appraised value of intangible property returned for taxation of intangible personal property as computed under G.S. 105-122(d).

b. The total actual investment in tangible property in this State of such corporation as computed under G.S. 105-122(d)."

SECTION 2.(b) G.S. 105-122 reads as rewritten:
§ 105-122. Franchise or privilege tax on domestic and foreign corporations.

... 

(b) Determination of Capital Base. Net Worth. – A corporation taxed under this section shall determine the total amount of its issued and outstanding capital stock, surplus, and undivided profits. No reservation or allocation from surplus or undivided profits is allowed except as provided below. Net worth. The net worth of a corporation is its total assets less its total liabilities, computed in accordance with generally accepted accounting principles as of the end of the corporation's taxable year. If the corporation does not maintain its books and records in accordance with generally accepted accounting principles, then its net worth is computed in accordance with the accounting method used by the entity for federal tax purposes so long as the method fairly reflects the corporation's net worth for purposes of the tax levied by this section. A corporation's net worth is subject to the following adjustments:

(1) Definite and accrued legal liabilities. A deduction for accumulated depreciation and amortization is determined in accordance with the method used for federal tax purposes.

(1a) Billings in excess of costs that are considered a deferred liability under the percentage of completion method of revenue recognition.

(2) Taxes accrued, dividends declared, and reserves for depreciation of tangible assets and for amortization of intangible assets as permitted for income tax purposes. An addition for indebtedness the corporation owes to a parent, a subsidiary, or an affiliate. The amount added back to the corporation's net worth may be further adjusted as follows:

a. If part of the capital of the creditor corporation is capital borrowed from a source other than a parent, a subsidiary, or an affiliate, the debtor corporation may deduct a proportionate part of the indebtedness based on the ratio of the borrowed capital of the creditor corporation to the total assets of the creditor corporation.

b. If part of the capital of the creditor corporation consists of indebtedness owed to a parent, a subsidiary, or an affiliate that is directly traceable to capital borrowed from a source other than a parent, a subsidiary, or an affiliate, the debtor corporation may deduct a proportionate part of the indebtedness based on the ratio of the borrowed capital of the creditor corporation to the total assets of the creditor corporation.

c. If the creditor corporation is taxable under this Article, the creditor corporation may deduct the indebtedness from its net worth to the extent the debtor corporation was not allowed to deduct the indebtedness.

(3) When including deferred tax liabilities, a corporation may reduce the amount included in its base by netting against that amount deferred tax assets. The reduction may not decrease deferred tax liabilities below zero (0). A corporation may deduct the cost of treasury stock.

(4) Reserves for the cost of any air cleaning device or sewage or waste treatment plant, including waste lagoons, and pollution abatement equipment purchased or constructed and installed which reduces the amount of air or water pollution resulting from the emission of air contaminants or the discharge of sewage and industrial wastes or other polluting materials or substances into the outdoor atmosphere or streams, lakes, or rivers, upon condition that the corporation claiming such deductible liability shall furnish to the Secretary a certificate from the Department of Environment and Natural Resources or from a local air pollution control program for...
air-cleaning devices located in an area where the Environmental Management Commission has certified a local air pollution control program pursuant to G.S. 143-215.112 certifying that the Environmental Management Commission or local air pollution control program has found as a fact that the air-cleaning device, waste treatment plant or pollution abatement equipment purchased or constructed and installed as above described has actually been constructed and installed and that such plant or equipment complies with the requirements of the Environmental Management Commission or local air pollution control program with respect to such devices, plants or equipment, that such device, plant or equipment is being effectively operated in accordance with the terms and conditions set forth in the permit, certificate of approval, or other document of approval issued by the Environmental Management Commission or local air pollution control program and that the primary purpose thereof is to reduce air or water pollution resulting from the emission of air contaminants or the discharge of sewage and waste and not merely incidental to other purposes and functions.

(5) Reserves for the cost of purchasing and installing equipment or constructing facilities for the purpose of recycling or resource recovering of or from solid waste or for the purpose of reducing the volume of hazardous waste generated shall be treated as deductible for the purposes of this section upon condition that the corporation claiming such deductible liability shall furnish to the Secretary a certificate from the Department of Environment and Natural Resources certifying that the Department of Environment and Natural Resources has found as a fact that the equipment or facility has actually been purchased, installed or constructed, that it is in conformance with all rules and regulations of the Department of Environment and Natural Resources, and the recycling or resource recovering is the primary purpose of the facility or equipment.

(6) Reserves for the cost of constructing facilities of any private or public utility built for the purpose of providing sewer service to residential and outlying areas shall be treated as deductible for the purposes of this section; the deductible liability allowed by this section shall apply only with respect to such pollution abatement plants or equipment constructed or installed on or after January 1, 1955.

(7) The cost of treasury stock.

(8) In the case of an international banking facility, the capital base shall be reduced by the excess of the amount as of the end of the taxable year of all assets of an international banking facility which are employed outside the United States over liabilities of the international banking facility owed to foreign persons. For purposes of such reduction, foreign persons shall have the same meaning as defined in G.S. 105-130.5(b)(13)d.

Every corporation doing business in this State which is a parent, subsidiary, or affiliate of another corporation shall add to its capital stock, surplus, and undivided profits all indebtedness owed to a parent, subsidiary, or affiliated corporation as a part of its capital used in its business and as a part of the base for franchise tax under this section. If any part of the capital of the creditor corporation is capital borrowed from a source other than a parent, subsidiary, or affiliate, the debtor corporation, which is required under this subsection to include in its tax base the amount of debt by reason of being a parent, subsidiary, or affiliate of the creditor corporation, may deduct from the debt included a proportionate part determined on the basis of the ratio of the borrowed capital of the creditor corporation to the total assets of the creditor corporation. If the creditor corporation is also taxable under the provisions of this section, the
creditor corporation is allowed to deduct from the total of its capital, surplus, and undivided profits the amount of any debt owed to it by a parent, subsidiary or affiliated corporation to the extent that the debt has been included in the tax base of the parent, subsidiary, or affiliated debtor corporation reporting for taxation under the provisions of this section.

(b1) Definitions. – The following definitions apply in subsection (b) of this section:
(1) Affiliate. – The same meaning as specified in G.S. 105-130.2.
(2) Indebtedness. – All loans, credits, goods, supplies, or other capital of whatsoever nature furnished by a parent, subsidiary, or affiliated corporation, other than indebtedness endorsed, guaranteed, or otherwise supported by one of these corporations.
(3) Parent. – The same meaning as specified in G.S. 105-130.2.
(4) Subsidiary. – The same meaning as specified in G.S. 105-130.2.

(c1) Apportionment. – A corporation that is doing business in this State and in one or more other states must apportion its capital stock, surplus, and undivided profits net worth to this State. A corporation must use the apportionment method set out in subdivision (1) of this subsection unless the Department has authorized it to use a different method under subdivision (2) of this subsection. The portion of a corporation’s capital stock, surplus, and undivided profits net worth determined by applying the appropriate apportionment method is considered the amount of capital stock, surplus, and undivided profits net worth the corporation uses in its business in this State.

(1) Statutory. – A corporation that is subject to income tax under Article 4 of this Chapter must apportion its capital stock, surplus, and undivided profits net worth by using the fraction it applies in apportioning its income under that Article. A corporation that is not subject to income tax under Article 4 of this Chapter must apportion its capital stock, surplus, and undivided profits net worth by using the fraction it would be required to apply in apportioning its income if it were subject to that Article. The apportionment method set out in this subdivision is considered the statutory method of apportionment and is presumed to be the best method of determining the amount of a corporation’s capital stock, surplus, and undivided profits net worth attributable to the corporation’s business in this State.

(2) Alternative. – A corporation that believes the statutory apportionment method set out in subdivision (1) of this subsection subjects a greater portion of its capital stock, surplus, and undivided profits net worth to tax under this section than is attributable to its business in this State may make a written request to the Secretary for permission to use an alternative method. The request must set out the reasons for the corporation’s belief and propose an alternative method. The corporation has the burden of establishing by clear, cogent, and convincing proof that the statutory apportionment method subjects a greater portion of the corporation’s capital stock, surplus, and undivided profits net worth to tax under this section than is attributable to its business in this State and that the proposed alternative method is a better method of determining the amount of the corporation’s capital stock, surplus, and undivided profits net worth attributable to the corporation’s business in this State.

The Secretary must issue a written decision on a corporation’s request for an alternative apportionment method. If the decision grants the request, it must describe the alternative method the corporation is authorized to use and state the tax years to which the alternative method applies. A decision may apply to no more than three tax years. A corporation may renew a request to use an alternative apportionment method by following the procedure in this
substantially. A decision of the Secretary on a request for an alternative
apportionment method is final and is not subject to administrative or judicial
review. A corporation authorized to use an alternative method may apportion
its capital stock, surplus, and undivided profits net worth in accordance with
the alternative method or the statutory method.

(3) Repealed by Session Laws 2011-330, s. 5, effective June 27, 2011.

(d) Tax Base and Tax Rate.—After determining the proportion of its total capital stock,
surplus and undivided profits net worth as set out in subsection (c) of this section, which
amount shall not be less than fifty-five percent (55%) of the appraised value as determined for
ad valorem taxation of all the real and tangible personal property in this State of each
corporation nor less than its total actual investment in tangible property in this State, every
corporation taxed under this section shall annually pay to the Secretary of Revenue, at the time
the return is due, a franchise or privilege tax at the rate of one dollar and fifty cents ($1.50) per
one dollar and thirty-five cents ($1.35) per one thousand dollars ($1,000) of the total amount of
capital stock, surplus and undivided profits as provided in this section. The tax imposed in this
section shall not be less than thirty-five dollars ($35.00) two hundred dollars ($200.00) and is
for the privilege of carrying on, doing business, and/or the continuance of articles of
incorporation or domestication of each corporation in this State. Appraised value of tangible
property including real estate is the ad valorem valuation for the calendar year next preceding
the due date of the franchise tax return. The term "total actual investment in tangible property"
as used in this section means the total original purchase price or consideration to the reporting
taxpayer of its tangible properties, including real estate, in this State plus additions and
improvements thereto less reserve for depreciation as permitted for income tax purposes, and
also any indebtedness incurred and existing by virtue of the purchase of any real estate and
any permanent improvements made thereon. In computing "total actual investment in tangible
personal property" a corporation may deduct reserves for the entire cost of any air-cleaning
device or sewage or waste treatment plant, including waste lagoons, and pollution abatement
equipment purchased or constructed and installed which reduces the amount of air or water
pollution resulting from the emission of air contaminants or the discharge of sewage and
industrial wastes or other polluting materials or substances into the outdoor atmosphere or into
streams, lakes, or rivers, upon condition that the corporation claiming this deduction shall
furnish to the Secretary a certificate from the Department of Environment and Natural
Resources or from a local air pollution control program for air-cleaning devices located in an
area where the Environmental Management Commission has certified a local air pollution
control program pursuant to G.S. 143-215.112 certifying that said Department or local air
pollution control program has found as a fact that the air-cleaning device, waste treatment plant
or pollution abatement equipment purchased or constructed and installed as above described
has actually been constructed and installed and that the device, plant or equipment complies
with the requirements of the Environmental Management Commission or local air pollution
control program with respect to the devices, plants or equipment, that the device, plant or
equipment is being effectively operated in accordance with the terms and conditions set forth in
the permit, certificate of approval, or other document of approval issued by the Environmental
Management Commission or local air pollution control program and that the primary purpose is
to reduce air or water pollution resulting from the emission of air contaminants or the discharge
of sewage and waste and not merely incidental to other purposes and functions. The cost of
constructing facilities of any private or public utility built for the purpose of providing sewer
service to residential and outlying areas is treated as deductible for the purposes of this section;
the deductible liability allowed by this section applies only with respect to pollution abatement
plants or equipment constructed or installed on or after January 1, 1955.

(d1) Credits.—A corporation is allowed a credit against the tax imposed by this section
for a taxable year equal to one half of the amount of tax payable during the taxable year under

Article 5E of this Chapter. The credit allowed by this subsection may not exceed the amount of
tax imposed by this section for the taxable year, reduced by the sum of all other credits allowed
against that tax, except tax payments made by or on behalf of the taxpayer.

SECTION 2.(c) This section is effective for taxable years beginning on or after
January 1, 2016, and for which taxes are due on or after that date.

PART III. REDUCE CORPORATE INCOME TAX RATE AND MODERNIZE
CORPORATE INCOME TAX BASE

SECTION 3.1.(a) G.S. 105-130.3 reads as rewritten:

"§ 105-130.3. Corporations.
A tax is imposed on the State net income of every C Corporation doing business in this
State at the rate of five percent (5%)—four and one-half percent (4.5%). An S Corporation is not
subject to the tax levied in this section."

SECTION 3.1.(b) G.S. 105-130.3C is repealed.

SECTION 3.1.(c) Subsection (a) of this section is effective for taxable years
beginning on or after January 1, 2016. The remainder of this section is effective when this act
becomes law.

SECTION 3.2.(a) G.S. 105-130.3, as amended by Section 3.1 of this act, reads as
rewritten:

"§ 105-130.3. Corporations.
A tax is imposed on the State net income of every C Corporation doing business in this
State at the rate of four and one-half percent (4.5%). An S Corporation is not subject to
the tax levied in this section."

SECTION 3.2.(b) This section becomes effective for taxable years beginning on or
after January 1, 2017.

SECTION 3.3.(a) G.S. 105-130.5 reads as rewritten:

"§ 105-130.5. Adjustments to federal taxable income in determining State net income.
(a) The following additions to federal taxable income shall be made in determining
State net income:

…
(14) Royalty payments and interest expense required to be added by
G.S. 105-130.7A, to the extent deducted in calculating federal taxable
income.

…
(b) The following deductions from federal taxable income shall be made in determining
State net income:

…
(6) Amortization in excess of depreciation allowed under the Code on the cost
of any sewage or waste treatment plant, and facilities or equipment used for
purposes of recycling or resource recovery of or from solid waste, or for
purposes of reducing the volume of hazardous waste generated as provided
in G.S. 105-130.10.

(7) Depreciation of emergency facilities acquired prior to January 1, 1955. Any
corporation shall be permitted to depreciate any emergency facility, as such
is defined in section 168 of the Code, over its useful life, provided such
facility was acquired prior to January 1, 1955, and no amortization has been
claimed on such facility for State income tax purposes.

(8) The amount of losses realized on the sale or other disposition of assets not
allowed under section 1211(a) of the Code. All losses recognized on the sale
or other disposition of assets must be included in determining State net income or loss in the year of disposition.

Reasonable expenses, in excess of deductions allowed under the Code, paid for reforestation and cultivation of commercially grown trees; provided, that this deduction shall be allowed only to those corporations in which the real owners of all the shares of such corporation are natural persons actively engaged in the commercial growing of trees, or the spouse, siblings, or parents of such persons. Provided, further, that in no case shall a corporation be allowed a deduction for the same reforestation or cultivation expenditure more than once.

The eligible income of an international banking facility to the extent included in determining federal taxable income, determined as follows:

"International banking facility" shall have the same meaning as is set forth in the laws of the United States or regulations of the board of governors of the federal reserve system.

The eligible income of an international banking facility for the taxable year shall be an amount obtained by multiplying State taxable income as determined under G.S. 105-130.3 (determined without regard to eligible income of an international banking facility and allocation and apportionment, if applicable) for such year by a fraction, the denominator of which shall be the gross receipts for such year derived by the bank from all sources, and the numerator of which shall be the adjusted gross receipts for such year derived by the international banking facility from:

1. Making, arranging for, placing or servicing loans to foreign persons substantially all the proceeds of which are for use outside the United States;
2. Making or placing deposits with foreign persons which are banks or foreign branches of banks (including foreign subsidiaries or foreign branches of the taxpayer) or with other international banking facilities; or
3. Entering into foreign exchange trading or hedging transactions related to any of the transactions described in this paragraph.

The adjusted gross receipts shall be determined by multiplying the gross receipts of the international banking facility by a fraction the numerator of which is the average amount for the taxable year of all assets of the international banking facility which are employed outside the United States and the denominator of which is the average amount for the taxable year of all assets of the international banking facility.

For the purposes of this subsection the term "foreign person" means:

1. An individual who is not a resident of the United States;
2. A foreign corporation, a foreign partnership or a foreign trust, as defined in section 7701 of the Code, other than a domestic branch thereof;
3. A foreign branch of a domestic corporation (including the taxpayer);
4. A foreign government or an international organization or an agency of either, or
5. An international banking facility.

   For purposes of this paragraph, the terms "foreign" and "domestic" shall have the same meaning as set forth in section 7701 of the Code.

... The amount paid during the income year, pursuant to 7 U.S.C. § 1445-2, as marketing assessments on tobacco grown by the corporation in North Carolina.

... Interest, investment earnings, and gains of a trust, the settlors of which are two or more manufacturers that signed a settlement agreement with this State to settle existing and potential claims of the State against the manufacturers for damages attributable to a product of the manufacturers, if the trust meets all of the following conditions:

   a. The purpose of the trust is to address adverse economic consequences resulting from a decline in demand of the manufactured product potentially expected to occur because of market restrictions and other provisions in the settlement agreement.

   b. A court of this State approves and retains jurisdiction over the trust.

   c. Certain portions of the distributions from the trust are made in accordance with certifications that meet the criteria in the agreement creating the trust and are provided by a nonprofit entity, the governing board of which includes State officials.

(19) To the extent included in federal taxable income, the amount paid to the taxpayer during the taxable year from the Hurricane Floyd Reserve Fund in the Office of State Budget and Management for hurricane relief or assistance, but not including payments for goods or services provided by the taxpayer.

(20) Royalty payments and interest expense received from a related member who added the payments to income under G.S. 105-130.7A for the same taxable year.

... To the extent included in federal taxable income, the amount paid to the taxpayer during the taxable year from the Disaster Relief Reserve Fund in the Office of State Budget and Management for hurricane relief or assistance, but not including payments for goods or services provided by the taxpayer.

(c) The following other adjustments to federal taxable income shall be made in determining State net income:

(1) In determining State net income, no deduction shall be allowed for annual amortization of bond premiums applicable to any bond acquired prior to January 1, 1963. The amount of premium paid on any such bond shall be deductible only in the year of sale or other disposition.

(2) Federal taxable income must be increased or decreased to account for any difference in the amount of depreciation, amortization, or gains or losses applicable to property which has been depreciated or amortized by use of a different basis or rate for State income tax purposes than used for federal income tax purposes prior to the effective date of this Part.

(3) No deduction is allowed for any direct or indirect expenses related to income not taxed under this Part; provided, no adjustment shall be made under this
subsection for adjustments addressed in G.S. 105-130.5(a) and (b). G.S. 105-130.6A applies to the adjustment for expenses related to dividends received that are not taxed under this Part.

(4) The taxpayer shall add to federal taxable income the amount of any recovery during the taxable year not included in federal taxable income, to the extent the taxpayer's deduction of the recovered amount in a prior taxable year reduced the taxpayer's tax imposed by this Part but, due to differences between the Code and this Part, did not reduce the amount of the taxpayer's tax imposed by the Code. The taxpayer may deduct from federal taxable income the amount of any recovery during the taxable year included in federal taxable income under section 111 of the Code, to the extent the taxpayer's deduction of the recovered amount in a prior taxable year reduced the taxpayer's tax imposed by the Code but, due to differences between the Code and this Part, did not reduce the amount of the taxpayer's tax imposed by this Part.

(5) A savings and loan association may deduct interest earned on deposits at the Federal Home Loan Bank of Atlanta, or its successor, to the extent included in federal taxable income.

...”

SECTION 3.3.(b) G.S. 105-130.7A reads as rewritten:

"§ 105-130.7A. Royalty income and interest expense reporting option.

(a) Purpose. – Royalty payments received for the use of intangible property in this State and interest expense received from a related member are income derived from doing business in this State. This section provides taxpayers with an option concerning the method by which these royalties and interest expense can be reported for taxation when the recipient and the payer are related members. As provided in this section, these royalty and interest expense payments can be either (i) deducted by the payer and included in the income of the recipient, or (ii) added back to the income of the payer and excluded from the income of the recipient. The use of the royalty and interest expense reporting option does not prevent a corporation from otherwise having a filing requirement under other provisions of this Chapter.

(b) Definitions. – The following definitions apply in this section:

... (1b) Interest expense. – An amount directly or indirectly allowed as a deduction under section 163 of the Code.

... (c) Election. – For the purpose of computing its State net income, a taxpayer must add royalty payments and interest expense made to, or in connection with transactions with, a related member during the taxable year. This addition is not required for an amount of royalty payments or interest expense that meets any of the following conditions:

(1) The related member includes the amount as income on a return filed under this Part for the same taxable year that the amount is deducted by the taxpayer, and the related member does not elect to deduct the amount pursuant to G.S. 105-130.5(b)(20).

(2) The taxpayer can establish that the related member during the same taxable year directly or indirectly paid, accrued, or incurred the amount to a person who is not a related member.

(3) The taxpayer can establish that the related member to whom the amount was paid is organized under the laws of a country other than the United States, the country has a comprehensive income tax treaty with the United States, and the country imposes a tax on the royalty income of the related member at a rate that equals or exceeds the rate set in G.S. 105-130.3.
(d) Indirect Transactions. – For the purpose of this section, an indirect transaction or relationship has the same effect as if it were direct."

SECTION 3.3.(c) This section becomes effective for taxable years beginning on or after January 1, 2016.

PART IV. PHASE IN SINGLE SALES FACTOR APPORTIONMENT AND USE MARKET-BASED SOURCING

SECTION 4.1.(a) Effective for taxable years beginning on or after January 1, 2016, G.S. 105-130.4(i) reads as rewritten:

"(i) All apportionable income of corporations other than public utilities, excluded corporations, and qualified capital intensive corporations shall be apportioned to this State by multiplying the income by a fraction, the numerator of which is the property factor plus the payroll factor plus twice four times the sales factor, and the denominator of which is four-six. If the sales factor does not exist, the denominator of the fraction is the number of existing factors and if the sales factor exists but the payroll factor or the property factor does not exist, the denominator of the fraction is the number of existing factors plus one-three."

SECTION 4.1.(b) Effective for taxable years beginning on or after January 1, 2017, G.S. 105-130.4(i), as amended by subsection (a) of this section, reads as rewritten:

"(i) All apportionable income of corporations other than public utilities, excluded corporations, and qualified capital intensive corporations shall be apportioned to this State by multiplying the income by a fraction, the numerator of which is the property factor plus the payroll factor plus four times the sales factor, and the denominator of which is six. If the sales factor does not exist, the denominator of the fraction is the number of existing factors and if the sales factor exists but the payroll factor or the property factor does not exist, the denominator of the fraction is the number of existing factors plus three the sales factor as determined under subsection (l) of this section."

SECTION 4.1.(c) Effective for taxable years beginning on or after January 1, 2017, G.S. 105-130.4(a)(4), (j), (k), and (s1), and G.S. 105-130.4(r1) as enacted by Section 4.2 of this act, are repealed.

SECTION 4.1.(d) Except as otherwise provided, this section is effective when it becomes law.

SECTION 4.2.(a) G.S. 105-130.4 reads as rewritten:

"§ 105-130.4. Allocation and apportionment of income for corporations.

(a) As used in this section, unless the context otherwise requires:

…

(7) "Sales" means all gross receipts of the corporation except for the following receipts:

a. Receipts from a casual sale of property.

b. Receipts allocated under subsections (c) through (h) of this section.

c. Receipts exempt from taxation.

d. The portion of receipts realized from the sale or maturity of securities or other obligations that represents a return of principal.

e. The portion of receipts from financial swaps and other similar financial derivatives that represents the notional principal amount that generates the cash flow traded in the swap agreement.

f. Receipts in the nature of dividends subtracted under G.S. 105-130.5(b)(3a), (3b), and dividends excluded for federal tax purposes.

…

(4) Sales Factor. – The sales factor is a fraction, the numerator of which is the total sales of the corporation in this State during the income year, and the denominator of which is
the total sales of the corporation everywhere during the income year. Notwithstanding any other provision under this Part, the receipts from any casual sale of property shall be excluded from both the numerator and the denominator of the sales factor. Where a corporation is not taxable in another state on its apportionable income but is taxable in another state only because of nonapportionable income, all sales shall be treated as having been made in this State.

(2)(l1) Sales Sourcing of Sales of Tangible Personal Property. – Sales of tangible personal property are in this State if the property is received in this State by the purchaser. In the case of delivery of goods by common carrier or by other means of transportation, including transportation by the purchaser, the place at which the goods are ultimately received after all transportation has been completed shall be considered as the place at which the goods are received by the purchaser. Direct delivery into this State by the taxpayer to a person or firm designated by a purchaser from within or without the State shall constitute delivery to the purchaser in this State.

(12) Sourcing of Other Sales. – Other sales are in this State if the taxpayer’s market for the sales is in this State. The taxpayer’s market for sales is in this State if one or more of the following applies:

(3) Other sales are in this State if:

a. (1) The receipts are from real or tangible personal property located in this State.

b. (2) The receipts are from intangible property and are received from sources within used in this State; or State. The intangible property is used in this State if any of the following applies:

a. The intangible property is used in this State. Intangible property utilized to market a good or service to a consumer is used in this State if the good or service is purchased by a consumer who is in this State.

b. The intangible property authorized the holder to conduct a business activity in a specific geographic area that includes all or part of this State.

e. (3) The receipts are from services a service and the income-producing activities are in this State; the service is delivered to a location in this State.

... (r) All apportionable income of an excluded corporation and of all other a public utilities shall be utility is apportioned by multiplying the income by the sales factor as determined under subsection (l) of this section. Sales of tangible personal property are sourced as provided under subsection (11) of this section. Other sales are sourced to this State as follows:

(1) The receipts are from real or tangible personal property located in this State.

(2) The receipts are from intangible property and are received from sources within this State.

(3) The receipts are from services and the income-producing activities are in this State.

(r1) All apportionable income of an excluded corporation is apportioned by multiplying the income by the sales factor as determined under subsections (l), (l1), and (l2) of this section.

...”

SECTION 4.2.(b) This section is effective for taxable years beginning on or after January 1, 2016.

PART V. JDIG MODIFICATIONS

SECTION 5.(a) G.S. 143B-437.51 is amended by adding new subdivisions to read:
§ 143B-437.51. Definitions.
The following definitions apply in this Part:

(1) Agreement. – A community economic development agreement under G.S. 143B-437.57.

(2) Base period. – The period of time set by the Committee during which new employees are to be hired for the positions on which the grant is based.

(3) Business. – A corporation, sole proprietorship, cooperative association, partnership, S corporation, limited liability company, nonprofit corporation, or other form of business organization, located either within or outside this State.

(4) Committee. – The Economic Investment Committee established pursuant to G.S. 143B-437.54.

(4a) Development tier. – The classification assigned to an area pursuant to G.S. 143B-437.08.

(5) Eligible position. – A position created by a business and filled by a new full-time employee in this State during the base period.

(6) Full-time employee. – A person who is employed for consideration for at least 35 hours a week, whose wages are subject to withholding under Article 4A of Chapter 105 of the General Statutes, and who is determined by the Committee to be employed in a permanent position according to criteria it develops in consultation with the Attorney General. The term does not include any person who works as an independent contractor or on a consulting basis for the business.

(6a) High-yield project. – A project for which the agreement requires that a business invest at least one billion dollars ($1,000,000,000) in private funds and create at least 2,500 eligible positions.

(6b)–(6j) Reserved.

(6k) Major market community. – A county in which the average weekly wage for all insured private employers in the county is one of the three highest in the State.

(7) New employee. – A full-time employee who represents a net increase in the number of the business's employees statewide.

(8) Overdue tax debt. – Defined in G.S. 105-243.1.

(9) Related member. – Defined in G.S. 105-130.7A.

(10) Withholdings. – The amount withheld by a business from the wages of employees in eligible positions under Article 4A of Chapter 105 of the General Statutes."

SECTION 5.(b) G.S. 143B-437.52 reads as rewritten:

§ 143B-437.52. Job Development Investment Grant Program.

(a) Program. – There is established the Job Development Investment Grant Program to be administered by the Economic Investment Committee. In order to foster job creation and investment in the economy of this State, the Committee may enter into agreements with businesses to provide grants in accordance with the provisions of this Part. The Committee, in consultation with the Attorney General, shall develop criteria to be used in determining whether the conditions of this section are satisfied and whether the project described in the application is otherwise consistent with the purposes of this Part. Before entering into an agreement, the Committee must find that all the following conditions are met:

(1) The project proposed by the business will create, during the term of the agreement, a net increase in employment in this State by the business.

(2) The project will benefit the people of this State by increasing opportunities for employment and by strengthening this State's economy by, for example,
providing worker training opportunities, constructing and enhancing critical
infrastructure, increasing development in strategically important industries,
or increasing the State and local tax base.

(3) The project is consistent with economic development goals for the State and
for the area where it will be located.

(4) A grant under this Part is necessary for the completion of the project in this
State.

(5) The total benefits of the project to the State outweigh its costs and render the
grant appropriate for the project.

(b) Priority. – In selecting between applicants, a project that is located in an
Eco-Industrial Park certified under G.S. 143B-437.08 has priority over a comparable project
that is not located in a certified Eco-Industrial Park.

(c) Awards. — Award Limitations. – The following limitations apply to grants awarded
under this Part:

(1) Maximum liability. — The maximum amount of total annual liability for
grants awarded in any single calendar year under this Part, including
amounts transferred to the Utility Account pursuant to G.S. 143B-437.61, is
fifteen million dollars ($15,000,000) for a year in which no
grants are awarded for a high-yield project and is thirty million dollars
($30,000,000) for a year in which a grant is awarded for a high-yield project.
No agreement may be entered into that, when considered together with other
existing agreements governing grants awarded during a single calendar year,
could cause the State's potential total annual liability for grants awarded in a
single calendar year to exceed the applicable amount. The Department
shall make every effort to ensure that the average percentage of withholdings
of eligible positions for grants awarded under this Part does not exceed the
average of the range provided in G.S. 143B-437.56(a).

(2) Quarterly commitment limitations. – Of the amount authorized in
subdivision (1) of this subsection, no more than twenty-five percent (25%),
excluding roll-over amounts, may be awarded in any single calendar quarter.
A roll-over amount is any amount from a previous quarter in the same
calendar year that was not awarded as a grant. The limitation of this
subdivision does not apply to a grant awarded to a high-yield project.

(3) Major market community. — The maximum percentage of the amount
authorized in this subsection for grants awarded in a major market
community is equal to two times the population of that county as a
percentage, rounded to the nearest percent, of the total population of the
State. State and county populations shall be determined at the beginning of
each calendar year using the most recent population data used by the
Secretary for purposes of G.S. 143B-437.08. The limitation of this
subdivision does not apply to a high-yield project located in a major market
community.

(d) Measuring Employment. – For the purposes of subdivision (a)(1) of this section and
G.S. 143B-437.51(5), 143B-437.51(7), and 143B-437.57(a)(11), the Committee may designate
that the increase or maintenance of employment is measured at the level of a division or
another operating unit of a business, rather than at the business level, if both of the following
conditions are met:

(1) The Committee makes an explicit finding that the designation is necessary to
secure the project in this State.
The agreement contains terms to ensure that the business does not create eligible positions by transferring or shifting to the project existing positions from another project of the business or a related member of the business.

SECTION 5.(c) G.S. 143B-437.53 reads as rewritten:

"§ 143B-437.53. Eligible projects.
(a) Minimum Number of Eligible Positions. – A business may apply to the Committee for a grant for any project that creates the minimum number of eligible positions satisfying the wage standard as set out in the table below. If the project will be located in more than one development tier area, the location with the highest development tier area designation determines the minimum number of eligible positions that must be created and the applicable wage standard. The wage standard is met if the business pays an average weekly wage for all eligible positions that is equal to or greater than the percentage of the average wage for all insured private employers in the county as provided below:

<table>
<thead>
<tr>
<th>Development Tier-Area Designation</th>
<th>Number of Eligible Positions</th>
<th>Wage Standard</th>
</tr>
</thead>
<tbody>
<tr>
<td>Development Tier One</td>
<td>4025</td>
<td>100%</td>
</tr>
<tr>
<td>Development Tier Two</td>
<td>2050</td>
<td>110%</td>
</tr>
<tr>
<td>Development Tier Three</td>
<td>20200</td>
<td>115%</td>
</tr>
<tr>
<td>Major Market Community</td>
<td>250</td>
<td>125%</td>
</tr>
</tbody>
</table>

...."

SECTION 5.(d) G.S. 143B-437.56 reads as rewritten:

"(a) Subject to the limitations provisions of subsection subsections (a1) and (d) of this section, the amount of the grant awarded in each case shall be a percentage of the withholdings of eligible positions. The percentage shall be no less than ten percent (10%) and no more than seventy-five percent (75%) of the withholdings of the eligible positions for a period of years. The percentage shall be no more than eighty percent (80%) for a development tier one area, no more than seventy percent (70%) for a development tier two area, no more than sixty percent (60%) for a development tier three area, and no more than fifty percent (50%) for a major market community. If the project will be located in more than one area designation, the location with the highest area designation determines the maximum percentage to be used. The percentage used to determine the amount of the grant shall be based on criteria developed by the Committee, in consultation with the Attorney General, after considering at least the following:

(1) The number of eligible positions to be created.
(2) The expected duration of those positions.
(3) The type of contribution the business can make to the long-term growth of the State's economy.
(4) The amount of other financial assistance the project will receive from the State or local governments.
(5) The total dollar investment the business is making in the project.
(6) Whether the project utilizes existing infrastructure and resources in the community.
(7) Whether the project is located in a development zone.
(8) The number of eligible positions that would be filled by residents of a development zone.
(9) The extent to which the project will mitigate unemployment in the State and locality.

(a1) Notwithstanding the percentage specified by subsection (a) of this section, if the project is a high-yield project, the business has met the investment and job creation requirements, and, for three consecutive years, the business has met all terms of the agreement, the amount of the grant awarded shall be no more than one hundred percent (100%) of the withholdings of eligible positions for each consecutive year the business maintains the
minimum job creation requirement and meets all terms of the agreement. A business receiving an enhanced percentage of the withholdings of eligible positions under this subsection that fails to maintain the minimum job creation requirement or meet all terms of the agreement will be disqualified from receiving the enhanced percentage and will have the applicable percentage set forth in subsection (a) of this section applied in the year in which the failure occurs and all remaining years of the grant term.

(b) The term of the grant shall not exceed 12 years starting with the first year a grant payment is made, the duration listed in this subsection. The first grant payment must be made within six years after the date on which the grant was awarded. The number of years in the base period for which grant payments may be made shall not exceed five years.

(1) For high-yield projects in which the business receives the enhanced percentage pursuant to subsection (a1) of this section, 20 years starting with the first year a grant payment is made. If a business is disqualified from the enhanced percentage in one of the first 12 years, the term of the grant shall not exceed 12 years starting with the first year a grant payment is made. If a business is disqualified from receiving the enhanced percentage after the first 12 years, the term of the grant ends in the year the disqualification occurs.

(2) For all other projects, 12 years starting with the first year a grant payment is made.

c) The grant may be based only on eligible positions created during the base period.

d) For any eligible position that is located in a development tier three area, seventy-five percent (75%) of the annual grant approved for disbursement shall be payable to the business, and twenty-five percent (25%) shall be payable to the Utility Account pursuant to G.S. 143B-437.61. For any eligible position that is located in a development tier two area, eighty-five percent (85%) of the annual grant approved for disbursement shall be payable to the business, and fifteen percent (15%) shall be payable to the Utility Account pursuant to G.S. 143B-437.61. A position is located in the development tier area that has been assigned to the county in which the project is located at the time the application is filed with the Committee. This subsection does not apply to a high-yield project in years in which the business receives the enhanced percentage pursuant to subsection (a1) of this section.

e) A business that is receiving any other grant by operation of State law may not receive an amount as a grant pursuant to this Part that, when combined with any other grants, exceeds seventy-five percent (75%) of the withholdings of the business, unless the Committee makes an explicit finding that the additional grant is necessary to secure the project.

(f) The amount of a grant associated with any specific eligible position, including any amount transferred to the Utility Account pursuant to G.S. 143B-437.61, may not exceed six thousand five hundred dollars ($6,500) in any year.

SECTION 5. (e) G.S. 143B-437.62 reads as rewritten:

"§ 143B-437.62. Expiration.

The authority of the Committee to award new grants expires January 1, 2016-2018."

SECTION 5. (f) This section is effective when it becomes law and applies to awards made under Part 2G of Article 10 of Chapter 143B of the General Statutes on or after that date.

PART VI. EFFECTIVE DATE

SECTION 6. Except as otherwise provided, this act is effective when it becomes law.