

House Bill 998, Proposed Senate Committee Substitute, H998-CSRbx-41  
July 1, 2013

	<i>HB 998, 3rd Edition (House)</i>	<i>HB 998, 4th Edition (Senate)</i>	<i>New Senate PCS to H998 H998-CSRbx-40</i>
<b>INDIVIDUAL INCOME TAX CHANGE</b>			
<b>Rates</b>	Flat rate of 5.9%, 2014	Flat rate of 5.4%, 2014 Reduces rate to 5.25%, 2015	Flat Rate of 5.75%, 2014
<b>Zero Tax Bracket</b>	N/A	\$15,000 (MFJ); \$12,000 (H/H); \$7,500 (MFS & Single)	N/A
<b>Standard deduction</b>	\$12,000 (MFJ)	Eliminate	\$15,000 (MFJ) \$12,000 (H/H) \$7,500 (MFS & Single)
<b>Itemized deductions</b>	Unlimited charitable contributions Mtg. interest + property taxes paid on real estate (not to exceed \$25,000)	Eliminate	Unlimited charitable contributions \$15,000 cap on Mtg. interest + property taxes on real estate
<b>Personal exemption</b>	Eliminate	Eliminate	Eliminate
<b>Social security</b>	No change	Included to the extent included in federal AGI	Current law; no change
<b>\$4,000 retirement income exemption</b>	No change	Eliminate	Eliminate
<b>Deduction for severance wages</b>	Eliminate	Eliminate	Eliminate
<b>\$50k business deduction</b>	Eliminate , 2013	Eliminate, 2014	Eliminate, 2014
<b>Child credit</b>	AGI =< \$100K = \$250 AGI > \$100K = \$100	No change	Current law; no change
<b>Credit for non-itemizers charitable deductions</b>	Eliminate	Eliminate	Eliminate
<b>Credits scheduled to sunset 2014 <i>Long term care insurance premium,</i></b>	No change	No change	No change

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<b>earned income tax credit, adoption expenses</b>			
<b>Credits with no sunset Child care, disabled, 529 Plan, gleaned crop, handicapped dwelling units, conservation tillage equipment, real property donations, poultry composting facility</b>	No change	Eliminate	Eliminate
<b>CORPORATE INCOME TAX CHANGES</b>			
<b>Rate</b>	2014 – 6.5% 2015 – 6.35% 2016 – 6.2% 2017 – 5.6% Thereafter – 5.4%	2014 – 6% 2015 – 4% 2016 – 2% 2017 – Eliminate CIT	2014 – 6.4% 2015 – 5% 2016 – 4% 2017 – 2% 2018 – Eliminate
<b>Credit -- real property donation</b>	No change	Eliminate	Eliminate
<b>Credit – low-income housing</b>	Limit to Tier 1 and 2 Remove sunset Rename it	No change	Limit to tier 1 and 2 Rename it "Work Force Housing Credit" Phase it down 25% a year until it is eliminated in 2018
<b>CIT credits without a sunset, that parallel PIT credits</b>	No change	Eliminate	Eliminate, 2014, same as PIT
<b>Credit – S&amp;L supervisory fees</b>	No change	Eliminate, 2017 when CIT eliminated	Eliminate, 2018 when CIT eliminated
<b>Credit – manufacturing cigarettes for exportation</b>	No change, sunsets 2018	Eliminate, 2017 when CIT eliminated	Eliminate, 2018 when CIT eliminated
<b>Credit – recycling</b>	No change	Eliminate, 2017 when CIT eliminated	Eliminate, 2018 when CIT eliminated

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<b>facilities Article 3C</b>					
<b>Credit – Intermodal RR Facilities</b>	No change, sunsets 2038	Eliminate, 2017 when CIT eliminated	Eliminate, 2018 when CIT eliminated		
<b>Business Privilege Tax (New)</b>					
<b>Taxpayers</b>	N/A	All limited liability entities except C corporations, 2015 All limited liability entities, 2018	All business entities with limited liability		
<b>Rate</b>	N/A	2015 - \$400 2016 - \$600 2017 - \$750 2018 – C corporations = \$5,000; all others = \$750	<b>Income Year</b>	<b>C Corps</b>	<b>All others (LLC, Sub S)</b>
			2015		\$400
			2016 and 2017		\$500
			2018 and thereafter	\$3,500	\$500
<b>FRANCHISE TAX CHANGES</b>					
<b>Rate \$1.50 per \$1000 Minimum tax = \$35 Maximum tax for holding company = \$75,000</b>	\$1.35 per \$1000 No change to minimum tax of \$35 No change to maximum tax on holding company	2015 - \$1.20 per \$1,000 with minimum tax of \$500 2016 - \$0.90 per \$1,000 with minimum tax of \$1,000 2017 - \$0.60 per \$1,000 with minimum tax of \$2,000 2018 – eliminated & replaced with business privilege tax  No change to maximum tax on holding company; tax eliminated in 2018	2015 - \$1.25 per \$1,000 with minimum tax of \$500 2016 - \$1.00 per \$1,000 with minimum tax of \$2,000 2017 - \$0.75 per \$1,000 with minimum tax of \$3,000 2018 – eliminated & replaced with business privilege tax		
<b>GR tax on electricity</b>	Eliminate, include it in the sales tax base July 1, 2014	Eliminate, include it in the sales tax base July 1, 2014	Eliminate, include it in the sales tax base July 1, 2014		
<b>Taxpayers</b>	No change	Exclude S corporations, 2015	Exclude S corporations, Income Year 2015		
<b>Annual report filing fee</b>	No change	Eliminate, 2015	Eliminate, 2015		

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<b>PRIVILEGE TAX CHANGES</b>			
<b>Local authority in 153A and 160A</b>	No change	Eliminate, 2018	Current law; no change.
<b>Amusements, movies</b>	Eliminate, include in the sales tax base	Eliminate, include in sales tax base	Eliminate and include in the sales tax base, effective October 1, 2013
<b>Various State taxes</b>	No change	Eliminate, 2018	Current law; no change
<b>SALES TAX CHANGES</b>			
<b>State Rate = 4.75%</b>	No change	No change	No change
<b>Local Rate = 2% Optional ¼ cent</b>	No change	No change	No change
<b>Tax rate: manufactured home 2%, \$300 maximum</b>	No change	State general rate; not in local base	State general rate; not in local base July 1, 2014
<b>Tax rate: modular homes 2.5%</b>	No change	State general rate; not in local base	State general rate; not in local base July 1, 2014
<b>Tax rate: Electricity</b> <ul style="list-style-type: none"> <li>• 3%</li> <li>• 2.83% - dry cleaners</li> <li>• Exempt – mfgs, farmers, datacenters</li> </ul>	State tax only Combined general rate July 1, 2014 Retain current exemptions for farmers, eligible internet datacenter, and manufacturing	State tax only Combined general rate July 1, 2014 Retain current exemptions for farmers, eligible internet datacenter, and manufacturing	State tax only Combined general rate July 1, 2014 Retain current exemptions for farmers, eligible internet datacenter, and manufacturing
<b>Add service contracts</b>	Yes July 1, 2014	No	Yes, July 1, 2014 Exempt if item for which service contract provided is exempt (except motor vehicles)
<b>Add – alteration, repair, maintenance, cleaning, installation</b>	Yes July 1, 2014 Exempt if to an item exempt from tax	No	No
<b>Add - Amusements from privilege GR tax</b>	Yes October 1, 2013	Yes October 1, 2013	Yes October 1, 2013

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<b>Add – Attractions for which admission charged</b>	Yes October 1, 2013	Yes October 1, 2013	Yes July 1, 2014
<b>Amusement exemptions</b>	14	4	5 (add State attractions)
<b>Add – PNG</b>	State tax only Combined general rate July 1, 2014	State tax only Combined general rate July 1, 2014	State tax only Combined general rate July 1, 2014
<b>Exemption – nutritional supplements</b>	Eliminate July 1, 2013	Eliminate October 1, 2013	Eliminate October 1, 2013
<b>Exemption – newspapers</b>	No change	Eliminate October 1, 2013	Eliminate October 1, 2013
<b>Exemption – penny vending machines</b>	No change	Eliminate October 1, 2013	Eliminate October 1, 2013
<b>Exemption – 50% of sales from vending machines</b>	No change	Eliminate October 1, 2013	Phase out exemption over 4 years, beginning July 1, 2014
<b>Exemption – free distribution periodicals</b>	No change	Phased elimination	Repeal exemption; allow refund; phased elimination of refund (See below)
<b>Sales tax holiday for school</b>	No change	Eliminate July 1, 2014	Eliminate July 1, 2014
<b>Sales tax holiday for Energy Star</b>	Eliminate July 1, 2013	Eliminate July 1, 2014	Eliminate July 1, 2014
<b>Exemption – Food</b>	No change	<ul style="list-style-type: none"> <li>Eliminate local sales tax on food, November 2014</li> <li>Give counties the authority to impose a local sales tax on food at the county's local sales tax rate, January 2015</li> </ul>	Current law; no change

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<b>Exemptions – farm related</b> <i>Fuel and electricity, fertilizer, etc., farm machinery, containers, substances used on animals or plants, baby chicks</i>	No change	Annual gross income requirement of \$10,000	Annual gross income requirement of \$10,000; effective July 1, 2014
<b>Various exemptions/refunds</b> <i>Farm facilities and bulk barns, commercial logging, wood chippers, telephone companies, radio or television companies, cable service providers, commercial fishing, commercial laundries, diesel fuel sold to railroad, fuel sold to passenger air carrier</i>	No change	Phased elimination	<b>Remove packaging, remains exempt</b> 2014 – 80% refund of State and local sales tax paid 2015 – 60% 2016 – 40% 2017 – 20% 2018 -- Eliminate
<b>Tax refunds – existing sunset of 2014</b> <i>Passenger air carrier, motorsports, analytical services, industrial</i>	No change	No change	Current law; no change except as follows: <ul style="list-style-type: none"> <li>• Passenger air carrier moved to phased elimination of refund (-164.14A(1))</li> <li>• Motorsports extended 6 months, until July 1, 2014 (-164.14A(4) &amp; (5))</li> </ul>
<b>Tax refunds – nonprofits</b>	No change	Capped 2014 - \$7.5M State, \$2.25M local 2015 - \$5M State, \$1.5M local 2016 - \$1M State, \$300,000 local 2017 - \$100,000 State, \$30,000 local	Move UNC Healthcare to State agencies exemption. Cap remaining refunds: 2014-15 - \$10.5 million (State and local) 2015-16 - \$7 million (State and local) 2016-17 - \$5 (State and local) 2017-18 - \$2.85 (State and local)

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<b>Tax refunds – local governments</b>	No change	Eliminate, July 1, 2014	Eliminate, January 1, 2016
<b>EXCISE TAX CHANGES</b>			
<b>Excise tax on PNG</b>	Eliminate, include in the sales tax base July 1, 2014	Eliminate, include in the sales tax base July 1, 2014	Eliminate and include in the sales tax base
<b>Excise tax on motor fuel</b>	N/A	N/A	Cap for one year at current rate, beginning September 1, 2013 – until July 1, 2014
<b>LOCAL GOVERNMENT DISTRIBUTIONS</b>			
<b>CIT earmark for Public School Building Capital Fund (No funds applied since 2008)</b>	Eliminate	Eliminate	Eliminate
<b>GR tax on electricity distributed to cities</b>	Formula to preserve local distribution Re-calculate formula every 5 years, beginning 2020	Formula to preserve local distribution	Formula to preserve local distribution Recalculate every five years, beginning 2020
<b>Excise tax on PNG distributed to cities</b>	Formula to preserve local distribution	Formula to preserve local distribution	Formula to preserve local distribution
<b>Earmarking 20% of sales tax from modular homes</b>	No change	Eliminate	Eliminate
<b>ESTATE TAX</b>			
<b>Tax Levy</b>	Eliminate, HB 101 2013	Eliminate 2013	Eliminate 2013
<b>EARMARKING</b>			
<b>Real estate conveyance tax</b>	No change	Eliminate earmarks, State proceeds credited to General Fund	Eliminate earmarks, State proceeds credited to General Fund
<b>Scrap tire disposal tax</b>	No change	Eliminate earmarks, proceeds credited to General Fund	Eliminate earmarks, State proceeds credited to General Fund
<b>TOBACCO DISCOUNTS</b>			
<b>2% discount to taxpayers of cigarettes and OTP</b>	No change	Eliminate, July 2014	Eliminate, July 2014

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<b>REVENUE LAWS STUDY</b>			
<b>Revenue Law Study</b>	N/A	N/A	<ul style="list-style-type: none"> <li>• The 1%/\$80 privilege tax that applies to mill machinery and on other machinery and equipment purchased by certain industries and companies.</li> <li>• The feasibility of a preferential tax rate on diesel fuel sold to railroads, fuel sold to passenger air carriers, and fuel sold to motorsports.</li> <li>• The authority of cities and counties to impose a privilege tax on businesses and the various State privilege license taxes.</li> <li>• The impact of the elimination of the State and local sales and use tax refund on nonprofit entities and their ability to fulfill their stated mission.</li> <li>• The benefits of allowing corporations to deduct NOLs instead of NELs.</li> <li>• The simplification of the franchise tax base calculation.</li> <li>• The feasibility of expanding the sales tax base to additional services.</li> </ul>



TOTAL PLAN					
	FY13-14	FY14-15	FY15-16	FY16-17	FY17-18
<b>Total GF Revenues Forecast (\$ billions)</b>	<b>20.47</b>	<b>21.39</b>	<b>22.31</b>	<b>23.27</b>	<b>24.27</b>
<b>House Plan</b>	<b>20.51</b>	<b>21.04</b>	<b>21.92</b>	<b>22.80</b>	<b>23.69</b>
Difference from Forecast (\$ millions) <sup>1</sup>	(4.7)	(353.4)	(383.2)	(461.1)	(570.9)
<b>Senate Plan 4th Edition</b>	<b>20.29</b>	<b>20.88</b>	<b>21.27</b>	<b>21.94</b>	<b>22.94</b>
Difference from Forecast (\$ millions)	(173.8)	(523.2)	(1,108.1)	(1,414.8)	(1,382.1)
<b>Senate Plan PCS to H998</b>	<b>20.30</b>	<b>20.91</b>	<b>21.55</b>	<b>22.35</b>	<b>23.30</b>
Difference from Forecast (\$ millions)	(168.5)	(480.3)	(757.1)	(911.5)	(962.9)

<sup>1</sup> This item includes the estate tax repeal in HB 101.