

GENERAL ASSEMBLY OF NORTH CAROLINA
SESSION 2013

H

D

HOUSE BILL 998
PROPOSED COMMITTEE SUBSTITUTE H998-CSRbx-23 [v.2]

5/29/2013 6:28:00 PM

Short Title: Tax Simplification and Reduction Act.

(Public)

Sponsors:

Referred to:

April 18, 2013

A BILL TO BE ENTITLED
AN ACT TO REDUCE INDIVIDUAL AND BUSINESS TAX RATES AND TO EXPAND
THE SALES TAX BASE TO INCLUDE SERVICES COMMONLY TAXED IN OTHER
STATES.

The General Assembly of North Carolina enacts:

PART I. GENERAL FINDINGS AND INTENT

SECTION 1.(a) The General Assembly of North Carolina finds the following:

- (1) North Carolina's current tax structure has not been comprehensively revised since the Great Depression. The tax structure adopted then, while amended extensively over the years in a piecemeal fashion, no longer reflects North Carolina's 21st Century economy.
- (2) Over the years, the multiplication of credits, allowances, special rates, and exemptions has progressively narrowed the base of the State's individual and corporate income taxes, with the result that the rates for those income taxes are now among the highest in our region and among our peer states.
- (3) North Carolina's current tax structure undermines the State's competitive position and acts as a deterrent to new business investment and the creation of new jobs.
- (4) The State's reliance on temporary and expedient tax changes to meet budget shortfalls has created a tax structure that is unpredictable for taxpayers and a revenue stream that is unstable for the State.

SECTION 1.(b) It is the intent of this legislation to do the following:

- (1) Begin the implementation of comprehensive tax reform.
- (2) Simplify the process of tax preparation and tax administration.
- (3) Lower tax rates to make them more competitive with our neighboring states and to make the tax system more economically efficient.
- (4) Increase the State's reliance on consumption taxes by expanding the sales tax base to include services commonly taxed in other states.

SECTION 1.(c) It is the intent of the North Carolina General Assembly to do the following:

- (1) Phase out the State's reliance on income taxes.
- (2) Increase the State's reliance on consumption taxes.
- (3) Evaluate the changes made by this act and their impact on the State's revenue structure.

PART II. SIMPLE, FLAT TAX RATE FOR INDIVIDUAL INCOME TAX



* H 9 9 8 - C S R B X - 2 3 - V - 2 *

SECTION 2.1(a) G.S. 105-134.6(b)(22) reads as rewritten:

"(b) Deductions. – The following deductions from taxable income shall be made in calculating North Carolina taxable income, to the extent each item is included in taxable income:

(22) An amount not to exceed ~~fifty thousand dollars (\$50,000)~~ twenty-five thousand dollars (\$25,000) of net business income the taxpayer receives during the taxable year. In the case of a married couple filing a joint return where both spouses receive or incur net business income, the maximum dollar amounts apply separately to each spouse's net business income, not to exceed a total of ~~one hundred thousand dollars (\$100,000)~~ fifty thousand dollars (\$50,000). For purposes of this subdivision, the term "business income" does not include income that is considered passive income under the Code."

SECTION 2.1(b) This section is effective for taxable years beginning on or after January 1, 2013.

SECTION 2.2.(a) G.S. 105-134.2 reads as rewritten:

"§ 105-134.2. Individual income tax imposed.

(a) Tax. – A tax is imposed ~~upon for each taxable year on~~ the North Carolina taxable income of every individual. The tax shall be levied, collected, and ~~paid annually and shall be computed at the following percentages paid annually.~~ The tax is five and nine-tenths percent (5.9%) of the taxpayer's North Carolina taxable income.

(1) ~~For married individuals who file a joint return under G.S. 105-152 and for surviving spouses, as defined in section 2(a) of the Code:~~

Over	Up To	Rate
0	\$21,250	6%
\$21,250	\$100,000	7%
\$100,000	NA	7.75%

(2) ~~For heads of households, as defined in section 2(b) of the Code:~~

Over	Up To	Rate
0	\$17,000	6%
\$17,000	\$80,000	7%
\$80,000	NA	7.75%

(3) ~~For unmarried individuals other than surviving spouses and heads of households:~~

Over	Up To	Rate
0	\$12,750	6%
\$12,750	\$60,000	7%
\$60,000	NA	7.75%

(4) ~~For married individuals who do not file a joint return under G.S. 105-152:~~

Over	Up To	Rate
0	\$10,625	6%
\$10,625	\$50,000	7%
\$50,000	NA	7.75%

(b) Withholding Tables. – In lieu of the tax imposed by subsection (a) of this section, there is imposed for each taxable year upon the North Carolina taxable income of every individual a tax determined under tables, applicable to the taxable year, which may be prescribed by the Secretary. The amounts of the tax determined under the tables shall be computed on the basis of the ~~rates~~ rate prescribed by subsection (a) of this section. This subsection does not apply to an individual making a return under section 443(a)(1) of the Code for a period of less than 12 months on account of a change in the individual's annual accounting

1 period, or to an estate or trust. The tax imposed by this subsection shall be treated as the tax
 2 imposed by subsection (a) of this section."

3 **SECTION 2.2.(b)** G.S. 105-134.6, as amended by S.L. 2013-10 and by Section 2.1
 4 of this act, reads as rewritten:

5 **§ 105-134.6. Modifications to adjusted gross income.**

6 ...
 7 (a1) ~~Personal Exemption.—In calculating North Carolina taxable income, a taxpayer~~
 8 ~~may deduct an exemption amount equal to the amount listed in the table below based on the~~
 9 ~~taxpayer's filing status and adjusted gross income. The taxpayer is allowed the same personal~~
 10 ~~exemptions allowed under section 151 of the Code for the taxable year.~~

Filing Status	Adjusted Gross Income	Personal Exemption
Married, filing jointly	Up to \$100,000	\$2,500
	Over \$100,000	\$2,000
Head of Household	Up to \$80,000	\$2,500
	Over \$80,000	\$2,000
Single	Up to \$60,000	\$2,500
	Over \$60,000	\$2,000
Married, filing separately	Up to \$50,000	\$2,500
	Over \$50,000	\$2,000

11 (a2) Deduction Amount. – In calculating North Carolina taxable income, a taxpayer may
 12 deduct either the North Carolina standard deduction amount ~~for that~~ listed in the table below
 13 based on the taxpayer's filing status or the itemized deductions amount allowed under
 14 subsection (a3) of this section for interest paid or accrued with respect to a qualified residence
 15 and for charitable contributions. In the case of a married couple filing separate returns, a
 16 taxpayer may not deduct the standard deduction amount under this subsection if the taxpayer or
 17 the taxpayer's spouse claims the itemized deductions amount under subsection (a3) of this
 18 section.

19 ~~claimed under the Code. The North Carolina standard deduction amount is the lesser of the~~
 20 ~~amount shown in the table below or the amount allowed under the Code. In the case of a~~
 21 ~~married couple filing separate returns, a taxpayer may not deduct the standard deduction~~
 22 ~~amount if the taxpayer or the taxpayer's spouse claims itemized deductions for State purposes.~~

23 ~~A taxpayer that deducts the standard deduction amount under this subsection and is entitled~~
 24 ~~to an additional deduction amount under section 63(f) of the Code for the aged or blind may~~
 25 ~~deduct an additional amount under this subsection. The additional amount the taxpayer may~~
 26 ~~deduct is six hundred dollars (\$600.00) in the case of an individual who is married and seven~~
 27 ~~hundred fifty dollars (\$750.00) in the case of an individual who is not married and is not a~~
 28 ~~surviving spouse. The taxpayer is allowed the same number of additional amounts that the~~
 29 ~~taxpayer claimed under the Code for the taxable year.~~

Filing Status	Standard Deduction
Married, filing jointly	\$6,000 <u>\$12,000</u>
Head of Household	4,400 <u>9,600</u>
Single	3,000 <u>6,000</u>
Married, filing separately	3,000 <u>6,000</u>

30 (a3) Itemized Deductions Amount. – The itemized deductions amount allowed under this
 31 subsection is the sum of the amount claimed by the taxpayer as a deduction for interest paid or
 32 accrued during the taxable year under section 163(h) of the Code with respect to a qualified
 33 residence and the amount claimed by the taxpayer for charitable contributions made during the
 34 taxable year that are deductible under section 170 of the Code. The itemized deductions amount
 35 allowed under this subsection may not exceed the amount listed in the table below based on the
 36 taxpayer's filing status. In the case of a married couple filing separate returns, a taxpayer may
 37
 38
 39
 40
 41
 42
 43
 44
 45
 46
 47
 48
 49
 50
 51

1 not deduct the standard deduction amount under subsection (a2) of this section if the taxpayer
 2 or the taxpayer's spouse claims the itemized deductions amount under this subsection.

Filing Status	Standard <u>Maximum Itemized</u> Deduction
Married, filing jointly	\$6,000 <u>\$25,000</u>
Head of Household	4,400 <u>20,000</u>
Single	3,000 <u>12,500</u>
Married, filing separately	3,000 <u>12,500.</u>

8 (b) Other Deductions. – In calculating North Carolina taxable income, a taxpayer may
 9 deduct any of the following items to the extent those items are included in the taxpayer's
 10 adjusted gross income.

11 ...
 12 (11) ~~Severance wages received by a taxpayer from an employer as the result of~~
 13 ~~the taxpayer's permanent, involuntary termination from employment through~~
 14 ~~no fault of the employee. The amount of severance wages deducted as the~~
 15 ~~result of the same termination may not exceed thirty five thousand dollars~~
 16 ~~(\$35,000) for all taxable years in which the wages are received.~~

17 ...
 18 (17) ~~In each of the taxpayer's first five taxable years beginning on or after~~
 19 ~~January 1, 2005, an amount equal to twenty percent (20%) of the amount~~
 20 ~~added to taxable income in a previous year as accelerated depreciation under~~
 21 ~~subdivision (c)(8) of this section.~~

22 (17a) ~~An amount equal to twenty percent (20%) of the amount added to federal~~
 23 ~~taxable income as accelerated depreciation under subdivision (c)(8a) of this~~
 24 ~~section. For a taxpayer who made the addition for accelerated depreciation in~~
 25 ~~the 2008 taxable year, the deduction allowed by this subdivision applies to~~
 26 ~~the first five taxable years beginning on or after January 1, 2009. For a~~
 27 ~~taxpayer who made the addition for accelerated depreciation in the 2009~~
 28 ~~taxable year, the deduction allowed by this subdivision applies to the first~~
 29 ~~five taxable years beginning on or after January 1, 2010.~~

30 (17b) ~~An amount equal to twenty percent (20%) of the amount added to federal~~
 31 ~~taxable income as accelerated depreciation under subdivision (c)(8b) of this~~
 32 ~~section. For the amount added to adjusted gross income in the 2010 taxable~~
 33 ~~year, the deduction allowed by this subdivision applies to the first five~~
 34 ~~taxable years beginning on or after January 1, 2011. For the amount added to~~
 35 ~~taxable income in the 2011 taxable year, the deduction allowed by this~~
 36 ~~subdivision applies to the first five taxable years beginning on or after~~
 37 ~~January 1, 2012. For the amount added to taxable income in the 2012 taxable~~
 38 ~~year, the deduction allowed by this subdivision applies to the first five~~
 39 ~~taxable years beginning on or after January 1, 2013. For the amount added to~~
 40 ~~adjusted gross income in the 2013 taxable year, the deduction allowed by~~
 41 ~~this subdivision applies to the first five taxable years beginning on or after~~
 42 ~~January 1, 2014.~~

43 ...
 44 (21) ~~An amount equal to twenty percent (20%) of the amount added to federal~~
 45 ~~taxable income under subdivision (c)(15) of this section. For the amount~~
 46 ~~added to taxable income in the 2010 taxable year, the deduction allowed by~~
 47 ~~this subdivision applies to the first five taxable years beginning on or after~~
 48 ~~January 1, 2011. For the amount added to taxable income in the 2011 taxable~~
 49 ~~year, the deduction allowed by this subdivision applies to the first five~~
 50 ~~taxable years beginning on or after January 1, 2012.~~

~~(21a) An amount equal to twenty percent (20%) of the amount added to adjusted gross income under subdivision (c)(15a) of this section. For the amount added to adjusted gross income in the 2012 taxable year, the deduction allowed by this subdivision applies to the first five taxable years beginning on or after January 1, 2013. For the amount added to adjusted gross income in the 2013 taxable year, the deduction allowed by this subdivision applies to the first five taxable years beginning on or after January 1, 2014.~~

~~(22) An amount not to exceed twenty five thousand dollars (\$25,000) of net business income the taxpayer receives during the taxable year. In the case of a married couple filing a joint return where both spouses receive or incur net business income, the maximum dollar amounts apply separately to each spouse's net business income, not to exceed a total of fifty thousand dollars (\$50,000). For purposes of this subdivision, the term "business income" does not include income that is considered passive income under the Code.~~

~~(23) The amount allowed as a deduction under G.S. 105-134.6A as a result of an add-back for federal accelerated depreciation and expensing.~~

(c) Additions. – In calculating North Carolina taxable income, a taxpayer must add any of the following items to the extent those items are not included in the taxpayer's adjusted gross income. For a taxpayer who deducts the itemized deductions amount under subsection (a2) of this section, the taxpayer must add any of the following items to the extent those items are included in the itemized deductions amount.

...
~~(8) For taxable years 2002-2005, the applicable percentage of the amount allowed as a special accelerated depreciation deduction under section 168(k) or section 1400L of the Code, as set out in the table below. In addition, a taxpayer who was allowed a special accelerated depreciation deduction under section 168(k) or section 1400L of the Code in a taxable year beginning before January 1, 2002, and whose North Carolina taxable income in that earlier year reflected that accelerated depreciation deduction must add to federal taxable income in the taxpayer's first taxable year beginning on or after January 1, 2002, an amount equal to the amount of the deduction allowed in the earlier taxable year. These adjustments do not result in a difference in basis of the affected assets for State and federal income tax purposes. The applicable percentage is as follows:~~

Taxable Year	Percentage
2002	100%
2003	70%
2004	70%
2005	0%

~~(8a) The applicable percentage of the amount allowed as a special accelerated depreciation deduction under section 168(k) or 168(n) of the Code for property placed in service after December 31, 2007, but before January 1, 2010. The applicable percentage under this subdivision is eighty five percent (85%).~~

~~In addition, a taxpayer who was allowed a special accelerated depreciation deduction in taxable year 2007 or 2008 for property placed in service during that year, and whose North Carolina taxable income for that year reflected that accelerated depreciation deduction must make the adjustments set out below. These adjustments do not result in a difference in basis of the affected assets for State and federal income tax purposes.~~

1 a. ~~A taxpayer must add to federal taxable income in the taxpayer's 2008~~
2 ~~taxable year an amount equal to the applicable percentage of the~~
3 ~~accelerated depreciation deduction reflected in the taxpayer's 2007~~
4 ~~North Carolina taxable income.~~

5 b. ~~A taxpayer must add to federal taxable income in the taxpayer's 2009~~
6 ~~taxable year an amount equal to the applicable percentage of the~~
7 ~~accelerated depreciation deduction reflected in the taxpayer's 2008~~
8 ~~North Carolina taxable income.~~

9 (8b) ~~For taxable years 2010 through 2013, eighty five percent (85%) of the~~
10 ~~amount allowed as a special accelerated depreciation deduction under~~
11 ~~section 168(k) or 168(n) of the Code for property placed in service during~~
12 ~~the taxable year. In addition, for taxable year 2010, a taxpayer who placed~~
13 ~~property in service during the 2009 taxable year and whose North Carolina~~
14 ~~taxable income for the 2009 taxable year reflected a special accelerated~~
15 ~~depreciation deduction allowed for the property under section 168(k) of the~~
16 ~~Code must add eighty five percent (85%) of the amount of the special~~
17 ~~accelerated depreciation deduction. These adjustments do not result in a~~
18 ~~difference in basis of the affected assets for State and federal income tax~~
19 ~~purposes.~~

20 ...
21 (15) ~~For taxable years 2010 and 2011, eighty five percent (85%) of the amount~~
22 ~~by which the taxpayer's expense deduction under section 179 of the Code for~~
23 ~~property placed in service in taxable year 2010 or 2011 exceeds the amount~~
24 ~~that would have been allowed for the respective taxable year under section~~
25 ~~179 of the Code as of May 1, 2010. For purposes of this subdivision, the~~
26 ~~definition of section 179 property has the same meaning as under section~~
27 ~~179 of the Code as of January 1, 2011. These adjustments do not result in a~~
28 ~~difference in basis of the affected assets for State and federal income tax~~
29 ~~purposes.~~(15a) ~~For taxable years 2012 and 2013, eighty five percent~~
30 ~~(85%) of the amount by which the taxpayer's expense deduction under~~
31 ~~section 179 of the Code for property placed in service in taxable year 2012~~
32 ~~or 2013 exceeds the amount that would have been allowed for the respective~~
33 ~~taxable year under section 179 of the Code as of May 1, 2010. For purposes~~
34 ~~of this subdivision, the definition of section 179 property has the same~~
35 ~~meaning as under section 179 of the Code as of January 2, 2013. These~~
36 ~~adjustments do not result in a difference in basis of the affected assets for~~
37 ~~State and federal income tax purposes.~~

38 (15a) ~~For taxable years 2012 and 2013, eighty five percent (85%) of the amount by~~
39 ~~which the taxpayer's expense deduction under section 179 of the Code for~~
40 ~~property placed in service in taxable year 2012 or 2013 exceeds the amount~~
41 ~~that would have been allowed for the respective taxable year under section~~
42 ~~179 of the Code as of May 1, 2010. For purposes of this subdivision, the~~
43 ~~definition of section 179 property has the same meaning as under section~~
44 ~~179 of the Code as of January 2, 2013. These adjustments do not result in a~~
45 ~~difference in basis of the affected assets for State and federal income tax~~
46 ~~purposes.~~

47 (16) The amount required to be added under G.S. 105-134.6A when the State
48 decouples from federal accelerated depreciation and expensing.

49 ..."

50 **SECTION 2.2.(c)** Part 2 of Article 4 of Chapter 105 of the General Statutes is
51 amended by adding a new section to read:

"§ 105-134.6A. Adjustments when State decouples from federal accelerated depreciation and expensing.

(a) Special Accelerated Depreciation. – A taxpayer who places property in service during a taxable year listed in the table below and who takes a special accelerated depreciation deduction for that property under section 168(k) or 168(n) of the Code must add to the taxpayer's federal taxable income or adjusted gross income, as appropriate, eighty-five percent (85%) of the amount taken for that year under those Code provisions. For taxable years before 2013, the taxpayer must add the amount to the taxpayer's federal taxable income. For taxable year 2013 and after, the taxpayer must add the amount to the taxpayer's adjusted gross income.

A taxpayer is allowed to deduct twenty percent (20%) of the add-back in each of the first five taxable years following the year the taxpayer is required to include the add-back in income. The table below indicates the applicable five-year period.

<u>Taxable Year of 85% Add-Back</u>	<u>Five Taxable Years of 20% Deduction</u>
<u>2010</u>	<u>2011 through 2015</u>
<u>2011</u>	<u>2012 through 2016</u>
<u>2012</u>	<u>2013 through 2017</u>
<u>2013</u>	<u>2014 through 2018</u>

(b) 2009 Depreciation Exception. – A taxpayer who placed property in service during the 2009 taxable year and whose North Carolina taxable income for the 2009 taxable year reflected a special accelerated depreciation deduction allowed for the property under section 168(k) of the Code must add eighty-five percent (85%) of the amount of the special accelerated depreciation deduction to its federal taxable income for the 2010 taxable year. A taxpayer is allowed to deduct this add-back under subsection (a) of this section as if it were for property placed in service in 2010.

(c) Section 179 Expense. – For purposes of this subdivision, the definition of section 179 property has the same meaning as under section 179 of the Code as of January 1, 2011. A taxpayer who places section 179 property in service during a taxable year listed in the table below must add to the taxpayer's federal taxable income or adjusted gross income as appropriate, eighty-five percent (85%) of the amount by which the taxpayer's expense deduction under section 179 of the Code exceeds the amount that would have been allowed for that taxable year under section 179 of the Code as of May 1, 2010. For taxable years before 2013, the taxpayer must add the amount to the taxpayer's federal taxable income. For taxable year 2013 and after, the taxpayer must add the amount to the taxpayer's adjusted gross income.

A taxpayer is allowed to deduct twenty percent (20%) of the add-back in each of the first five taxable years following the year the taxpayer is required to include the add-back in income. The table in subsection (a) of this section indicates the applicable five-year period.

(d) Asset Basis. – The adjustments made in this section do not result in a difference in basis of the affected assets for State and federal income tax purposes."

SECTION 2.2.(d) G.S. 105-151.26 is repealed.

SECTION 2.2.(e) G.S. 105-151.24(a) reads as rewritten:

"(a) Credit. – ~~An individual~~ A taxpayer who is allowed a federal child tax credit under section 24 of the Code for the taxable year ~~and whose adjusted gross income (AGI), as calculated under the Code, is less than the amount listed below~~ is allowed a credit against the tax imposed by this Part ~~in an amount equal to one hundred dollars (\$100.00)~~ for each dependent child for whom the ~~individual taxpayer~~ individual taxpayer is allowed the federal ~~credit for the taxable year~~ credit. The amount of credit allowed is equal to the amount listed in the table below based on the taxpayer's adjusted gross income.

<u>Filing Status</u>	<u>AGI</u>
<u>Married, filing jointly</u>	<u>\$100,000</u>
<u>Head of Household</u>	<u>80,000</u>

1	<u>Single</u>		<u>60,000</u>
2	<u>Married, filing separately</u>		<u>50,000.</u>
3	<u>Filing Status</u>	<u>AGI</u>	<u>Credit Amount</u>
4	<u>Married, filing jointly</u>	<u>Up to \$100,000</u>	<u>\$250.00</u>
5		<u>Over \$100,000</u>	<u>\$125.00</u>
6			
7	<u>Head of Household</u>	<u>Up to \$80,000</u>	<u>\$250.00</u>
8		<u>Over \$80,000</u>	<u>\$125.00</u>
9			
10	<u>Single</u>	<u>Up to \$50,000</u>	<u>\$250.00</u>
11		<u>Over \$50,000</u>	<u>\$125.00</u>
12			
13	<u>Married, filing separately</u>	<u>Up to \$50,000</u>	<u>\$250.00</u>
14		<u>Over \$50,000</u>	<u>\$125.00."</u>

15 **SECTION 2.2.(f)** This section becomes effective for taxable years beginning on or
 16 after January 1, 2014.

17
 18 **PART III. REDUCE CORPORATE INCOME AND FRANCHISE TAX RATES**

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

20 **"§ 105-130.3. Corporations.**

21 A tax is imposed on the State net income of every C Corporation doing business in this
 22 State. An S Corporation is not subject to the tax levied in this section. The tax is a percentage
 23 of the taxpayer's State net income computed as follows:

24	Income Years Beginning	Tax
25	<u>In 1997</u>	<u>7.5%</u>
26	<u>In 1998</u>	<u>7.25%</u>
27	<u>In 1999</u>	<u>7%</u>
28	<u>After 1999</u>	<u>6.9%.</u>
29	<u>In 2014</u>	<u>6.5%</u>
30	<u>In 2015</u>	<u>6.35%</u>
31	<u>In 2016</u>	<u>6.2%</u>
32	<u>In 2017</u>	<u>5.6%</u>
33	<u>After 2017</u>	<u>5.4%."</u>

34 **SECTION 3.1.(b)** This section becomes effective for taxable years beginning on or
 35 after January 1, 2014.

36 **SECTION 3.2.(a)** G.S. 105-122(d) reads as rewritten:

37 "(d) After determining the proportion of its total capital stock, surplus and undivided
 38 profits as set out in subsection (c) of this section, which amount shall not be less than fifty-five
 39 percent (55%) of the appraised value as determined for ad valorem taxation of all the real and
 40 tangible personal property in this State of each corporation nor less than its total actual
 41 investment in tangible property in this State, every corporation taxed under this section shall
 42 annually pay to the Secretary of Revenue, at the time the report and statement are due, a
 43 franchise or privilege tax at the rate of ~~one dollar and fifty cents (\$1.50)~~ one dollar and
 44 thirty-five cents (\$1.35) per one thousand dollars (\$1,000) of the total amount of capital stock,
 45 surplus and undivided profits as provided in this section. The tax imposed in this section shall
 46 not be less than thirty-five dollars (\$35.00) and shall be for the privilege of carrying on, doing
 47 business, and/or the continuance of articles of incorporation or domestication of each
 48 corporation in this State. Appraised value of tangible property including real estate is the ad
 49 valorem valuation for the calendar year next preceding the due date of the franchise tax return.
 50 The term "total actual investment in tangible property" as used in this section means the total
 51 original purchase price or consideration to the reporting taxpayer of its tangible properties,

1 including real estate, in this State plus additions and improvements thereto less reserve for
 2 depreciation as permitted for income tax purposes, and also less any indebtedness incurred and
 3 existing by virtue of the purchase of any real estate and any permanent improvements made
 4 thereon. In computing "total actual investment in tangible personal property" there shall also be
 5 deducted reserves for the entire cost of any air-cleaning device or sewage or waste treatment
 6 plant, including waste lagoons, and pollution abatement equipment purchased or constructed
 7 and installed which reduces the amount of air or water pollution resulting from the emission of
 8 air contaminants or the discharge of sewage and industrial wastes or other polluting materials
 9 or substances into the outdoor atmosphere or into streams, lakes, or rivers, upon condition that
 10 the corporation claiming this deduction shall furnish to the Secretary a certificate from the
 11 Department of Environment and Natural Resources or from a local air pollution control
 12 program for air-cleaning devices located in an area where the Environmental Management
 13 Commission has certified a local air pollution control program pursuant to G.S. 143-215.112
 14 certifying that said Department or local air pollution control program has found as a fact that
 15 the air-cleaning device, waste treatment plant or pollution abatement equipment purchased or
 16 constructed and installed as above described has actually been constructed and installed and
 17 that the device, plant or equipment complies with the requirements of the Environmental
 18 Management Commission or local air pollution control program with respect to the devices,
 19 plants or equipment, that the device, plant or equipment is being effectively operated in
 20 accordance with the terms and conditions set forth in the permit, certificate of approval, or
 21 other document of approval issued by the Environmental Management Commission or local air
 22 pollution control program and that the primary purpose is to reduce air or water pollution
 23 resulting from the emission of air contaminants or the discharge of sewage and waste and not
 24 merely incidental to other purposes and functions. The cost of constructing facilities of any
 25 private or public utility built for the purpose of providing sewer service to residential and
 26 outlying areas is treated as deductible for the purposes of this section; the deductible liability
 27 allowed by this section shall apply only with respect to pollution abatement plants or equipment
 28 constructed or installed on or after January 1, 1955."

29 **SECTION 3.2.(b)** This section is effective for taxable years beginning on or after
 30 January 1, 2015, and applies to taxes due in that year or a subsequent year.

31 **SECTION 3.3.(a)** G.S. 105-130.5, as amended by S.L. 2013-10, reads as rewritten:
 32 "**§ 105-130.5. Adjustments to federal taxable income in determining State net income.**

33 (a) The following additions to federal taxable income shall be made in determining
 34 State net income:

35 ...
 36 (15) ~~For taxable years 2002-2005, the applicable percentage of the amount~~
 37 ~~allowed as a special accelerated depreciation deduction under section 168(k)~~
 38 ~~or section 1400L of the Code, as set out in the table below. In addition, a~~
 39 ~~taxpayer who was allowed a special accelerated depreciation deduction~~
 40 ~~under section 168(k) or section 1400L of the Code in a taxable year~~
 41 ~~beginning before January 1, 2002, and whose North Carolina taxable income~~
 42 ~~in that earlier year reflected that accelerated depreciation deduction must add~~
 43 ~~to federal taxable income in the taxpayer's first taxable year beginning on or~~
 44 ~~after January 1, 2002, an amount equal to the amount of the deduction~~
 45 ~~allowed in the earlier taxable year. These adjustments do not result in a~~
 46 ~~difference in basis of the affected assets for State and federal income tax~~
 47 ~~purposes. The applicable percentage is as follows:~~

Taxable Year	Percentage
2002	100%
2003	70%
2004	70%

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26
27
28
29
30
31
32
33
34
35
36
37
38
39
40
41
42
43
44
45
46
47
48
49
50

2005

0%

~~(15a) The applicable percentage of the amount allowed as a special accelerated depreciation deduction under section 168(k) or 168(n) of the Code for property placed in service after December 31, 2007, but before January 1, 2010. The applicable percentage under this subdivision is eighty five percent (85%).~~

~~In addition, a taxpayer who was allowed a special accelerated depreciation deduction in taxable year 2007 or 2008 for property placed in service during that year, and whose North Carolina taxable income for that year reflected that accelerated depreciation deduction must make the adjustments set out below. These adjustments do not result in a difference in basis of the affected assets for State and federal income tax purposes:~~

~~a. A taxpayer must add to federal taxable income in the taxpayer's 2008 taxable year an amount equal to the applicable percentage of the accelerated depreciation deduction reflected in the taxpayer's 2007 North Carolina taxable income.~~

~~b. A taxpayer must add to federal taxable income in the taxpayer's 2009 taxable year an amount equal to the applicable percentage of the accelerated depreciation deduction reflected in the taxpayer's 2008 North Carolina taxable income.~~

~~(15b) For taxable years 2010 through 2013, eighty five percent (85%) of the amount allowed as a special accelerated depreciation deduction under section 168(k) or 168(n) of the Code for property placed in service during the taxable year. In addition, for taxable year 2010, a taxpayer who placed property in service during the 2009 taxable year and whose North Carolina taxable income for the 2009 taxable year reflected a special accelerated depreciation deduction allowed for the property under section 168(k) of the Code must add eighty five percent (85%) of the amount of the special accelerated depreciation deduction. These adjustments do not result in a difference in basis of the affected assets for State and federal income tax purposes.~~

~~...~~
~~(23) For taxable years 2010 and 2011, eighty five percent (85%) of the amount by which the taxpayer's expense deduction under section 179 of the Code for property placed in service in taxable year 2010 or 2011 exceeds the amount that would have been allowed for the respective taxable year under section 179 of the Code as of May 1, 2010. For purposes of this subdivision, the definition of section 179 property has the same meaning as under section 179 of the Code as of January 1, 2011. These adjustments do not result in a difference in basis of the affected assets for State and federal income tax purposes.~~

~~(23a) For taxable years 2012 and 2013, eighty five percent (85%) of the amount by which the taxpayer's expense deduction under section 179 of the Code for property placed in service in taxable year 2012 or 2013 exceeds the amount that would have been allowed for the respective taxable year under section 179 of the Code as of May 1, 2010. For purposes of this subdivision, the definition of section 179 property has the same meaning as under section 179 of the Code as of January 2, 2013. These adjustments do not result in a difference in basis of the affected assets for State and federal income tax purposes.~~

- 1 (24) The amount required to be added under G.S. 105-130.5B when the State
2 decouples from federal accelerated depreciation and expensing.
3 (b) The following deductions from federal taxable income shall be made in determining
4 State net income:
5 ...
6 (21) ~~In each of the taxpayer's first five taxable years beginning on or after~~
7 ~~January 1, 2005, an amount equal to twenty percent (20%) of the amount~~
8 ~~added to taxable income in a previous year as accelerated depreciation under~~
9 ~~subdivision (a)(15) of this section.~~
10 (21a) ~~An amount equal to twenty percent (20%) of the amount added to federal~~
11 ~~taxable income as accelerated depreciation under subdivision (a)(15a) of this~~
12 ~~section. For a taxpayer who made the addition for accelerated depreciation in~~
13 ~~the 2008 taxable year, the deduction allowed by this subdivision applies to~~
14 ~~the first five taxable years beginning on or after January 1, 2009. For a~~
15 ~~taxpayer who made the addition for accelerated depreciation in the 2009~~
16 ~~taxable year, the deduction allowed by this subdivision applies to the first~~
17 ~~five taxable years beginning on or after January 1, 2010.~~
18 (21b) ~~An amount equal to twenty percent (20%) of the amount added to federal~~
19 ~~taxable income as accelerated depreciation under subdivision (a)(15b) of this~~
20 ~~section. For the amount added to taxable income in the 2010 taxable year,~~
21 ~~the deduction allowed by this subdivision applies to the first five taxable~~
22 ~~years beginning on or after January 1, 2011. For the amount added to taxable~~
23 ~~income in the 2011 taxable year, the deduction allowed by this subdivision~~
24 ~~applies to the first five taxable years beginning on or after January 1, 2012.~~
25 ~~For the amount added to taxable income in the 2012 taxable year, the~~
26 ~~deduction allowed by this subdivision applies to the first five taxable years~~
27 ~~beginning on or after January 1, 2013. For the amount added to taxable~~
28 ~~income in the 2013 taxable year, the deduction allowed by this subdivision~~
29 ~~applies to the first five taxable years beginning on or after January 1, 2014.~~
30 ...
31 (26) ~~An amount equal to twenty percent (20%) of the amount added to federal~~
32 ~~taxable income under subdivision (a)(23) of this section. For the amount~~
33 ~~added to taxable income in the 2010 taxable year, the deduction allowed by~~
34 ~~this subdivision applies to the first five taxable years beginning on or after~~
35 ~~January 1, 2011. For the amount added to taxable income in the 2011 taxable~~
36 ~~year, the deduction allowed by this subdivision applies to the first five~~
37 ~~taxable years beginning on or after January 1, 2012.~~
38 (26a) ~~An amount equal to twenty percent (20%) of the amount added to federal~~
39 ~~taxable income under subdivision (a)(23a) of this section. For the amount~~
40 ~~added to taxable income in the 2012 taxable year, the deduction allowed by~~
41 ~~this subdivision applies to the first five taxable years beginning on or after~~
42 ~~January 1, 2013. For the amount added to taxable income in the 2013 taxable~~
43 ~~year, the deduction allowed by this subdivision applies to the first five~~
44 ~~taxable years beginning on or after January 1, 2014.~~
45 (27) The amount allowed as a deduction under G.S. 105-130.5B as a result of an
46 add-back for federal accelerated depreciation and expensing.

47 ...".

48 **SECTION 3.3.(b)** Part 1 of Article 4 of Chapter 105 of the General Statutes is
49 amended by adding a new section to read:

50 **"§ 105-130.5B. Adjustments when State decouples from federal accelerated depreciation**
51 **and expensing.**

(a) Special Accelerated Depreciation. – A taxpayer who places property in service during a taxable year listed in the table below and who takes a special accelerated depreciation deduction for that property under section 168(k) or 168(n) of the Code must add to the taxpayer's federal taxable income eighty-five percent (85%) of the amount taken for that year under those Code provisions.

A taxpayer is allowed to deduct twenty percent (20%) of the add-back in each of the first five taxable years following the year the taxpayer is required to include the add-back in income. The table below indicates the applicable five-year period.

<u>Taxable Year of 85% Add-Back</u>	<u>Five Taxable Years of 20% Deduction</u>
<u>2010</u>	<u>2011 through 2015</u>
<u>2011</u>	<u>2012 through 2016</u>
<u>2012</u>	<u>2013 through 2017</u>
<u>2013</u>	<u>2014 through 2018</u>

(b) 2009 Depreciation Exception. – A taxpayer who placed property in service during the 2009 taxable year and whose North Carolina taxable income for the 2009 taxable year reflected a special accelerated depreciation deduction allowed for the property under section 168(k) of the Code must add eighty-five percent (85%) of the amount of the special accelerated depreciation deduction to its federal taxable income for the 2010 taxable year. A taxpayer is allowed to deduct this add-back under subsection (a) of this section as if it were for property placed in service in 2010.

(c) Section 179 Expense. – For purposes of this subdivision, the definition of section 179 property has the same meaning as under section 179 of the Code as of January 1, 2011. A taxpayer who places section 179 property in service during a taxable year in subsection (a) of this section must add to the taxpayer's federal taxable income eighty-five percent (85%) of the amount by which the taxpayer's expense deduction under section 179 of the Code exceeds the amount that would have been allowed for that taxable year under section 179 of the Code as of May 1, 2010.

A taxpayer is allowed to deduct twenty percent (20%) of the add-back in each of the first five taxable years following the year the taxpayer is required to include the add-back in income. The table in subsection (a) of this section indicates the applicable five-year period.

(d) Asset Basis. – The adjustments made in this section do not result in a difference in basis of the affected assets for State and federal income tax purposes."

SECTION 3.3.(c) This section is effective when it becomes law.

SECTION 3.4.(a) G.S. 115C-546.1 reads as rewritten:

"§ 115C-546.1. Creation of Fund; administration.

(a) There is created the Public School Building Capital Fund. The Fund shall be used to assist county governments in meeting their public school building capital needs and their equipment needs under their local school technology plans.

~~(b) Each calendar quarter, the Secretary of Revenue shall remit to the State Treasurer for credit to the Public School Building Capital Fund an amount equal to the applicable fraction provided in the table below of the net collections received during the previous quarter by the Department of Revenue under G.S. 105-130.3. All funds deposited in the Public School Building Capital Fund shall be invested as provided in G.S. 147-69.2 and G.S. 147-69.3.~~

<u>Period</u>	<u>Fraction</u>
<u>10/1/97 to 9/30/98</u>	<u>One-fifteenth (1/15)</u>
<u>10/1/98 to 9/30/99</u>	<u>Two-twenty-ninths (2/29)</u>
<u>10/1/99 to 9/30/00</u>	<u>One-fourteenth (1/14)</u>
<u>After 9/30/00</u>	<u>Five-sixty-ninths (5/69)</u>

(c) The Fund shall be administered by the Department of Public Instruction."

SECTION 3.4.(b) G.S. 115C-546.2(a) is repealed.

1 **SECTION 3.4.(c)** This section becomes effective April 1, 2014, and applies to
2 distributions for collections for quarters beginning on or after that date.

3
4 **PART IV. EXPAND SALES TAX BASE TO INCLUDE SERVICES COMMONLY**
5 **TAXED IN OTHER STATES**

6 **SECTION 4.1.(a)** G.S. 105-164.13(13c) and G.S. 105-164.13D are repealed.

7 **SECTION 4.1.(b)** G.S. 105-467(b) reads as rewritten:

8 "(b) Exemptions and Refunds. – The State exemptions and exclusions contained in
9 G.S. 105-164.13, the State sales and use tax ~~holidays~~ holiday contained in G.S. 105-164.13C
10 ~~and G.S. 105-164.13D~~, and the State refund provisions contained in G.S. 105-164.14 through
11 G.S. 105-164.14B apply to the local sales and use tax authorized to be levied and imposed
12 under this Article. Except as provided in this subsection, a taxing county may not allow an
13 exemption, exclusion, or refund that is not allowed under the State sales and use tax. A local
14 school administrative unit and a joint agency created by interlocal agreement among local
15 school administrative units pursuant to G.S. 160A-462 to jointly purchase food service-related
16 materials, supplies, and equipment on their behalf is allowed an annual refund of sales and use
17 taxes paid by it under this Article on direct purchases of tangible personal property and
18 services, other than electricity, telecommunications service, and ancillary service. Sales and use
19 tax liability indirectly incurred by the entity on building materials, supplies, fixtures, and
20 equipment that become a part of or annexed to any building or structure that is owned or leased
21 by the entity and is being erected, altered, or repaired for use by the entity is considered a sales
22 or use tax liability incurred on direct purchases by the entity for the purpose of this subsection.
23 A request for a refund shall be in writing and shall include any information and documentation
24 required by the Secretary. A request for a refund is due within six months after the end of the
25 entity's fiscal year. Refunds applied for more than three years after the due date are barred."

26 **SECTION 4.1.(c)** This section becomes effective July 1, 2013, and applies to sales
27 made on or after that date.

28 **SECTION 4.2.(a)** G.S. 105-37.1, 105-38.1, and 105-40 are repealed.

29 **SECTION 4.2.(b)** G.S. 105-164.4(a) is amended by adding the following new
30 subdivisions to read:

31 **"§ 105-164.4. Tax imposed on retailers.**

32 (a) A privilege tax is imposed on a retailer at the following percentage rates of the
33 retailer's net taxable sales or gross receipts, as appropriate. The general rate of tax is four and
34 three-quarters percent (4.75%).

35 ...

36 (9) The general rate of tax applies to admission charges to an entertainment
37 activity listed in this subdivision. Offering any of these listed activities is a
38 service. An admission charge includes a charge for a single ticket, a
39 multioccasion ticket, a seasonal pass, an annual pass, and a cover charge. An
40 admission charge does not include a charge for amenities. When an
41 admission ticket is resold and the price of the admission ticket is printed on
42 the face of the ticket, the tax does not apply to the face price. When an
43 admission ticket is resold and the price of the admission ticket is not printed
44 on the face of the ticket, the tax applies to the difference between the amount
45 the reseller paid for the ticket and the amount the reseller charges for the
46 ticket. Admission charges to the following entertainment activities are
47 subject to tax:

48 a. A live performance or other live event of any kind.

49 b. A movie.

50 c. A museum, a cultural site, a garden, an exhibit, a show, or a similar
51 attraction or a guided tour at any of these attractions."

1 SECTION 4.2.(c) G.S. 105-164.13 is amended by adding the following new
2 subdivisions to read:

3 "(60) Admission charges to any of the following recreational or entertainment
4 activities:

5 a. All exhibitions, performances, and entertainments, except as in this
6 Article expressly mentioned as not exempt, produced by local talent
7 exclusively for the benefit of religious, charitable, benevolent, or
8 educational purposes, as long as no compensation is paid to the local
9 talent.

10 b. The North Carolina Symphony Society, Incorporated, as specified in
11 G.S. 140-10.1.

12 c. All exhibits, shows, attractions, and amusements operated by a
13 society or association organized under the provisions of Chapter 106
14 of the General Statutes where the society or association has obtained
15 a permit from the Secretary to operate without the payment of taxes
16 under this Article.

17 d. All outdoor historical dramas, as specified in Article 19C of Chapter
18 143 of the General Statutes.

19 e. All elementary and secondary school athletic contests, dances, and
20 other amusements.

21 f. The first one thousand dollars (\$1,000) of gross receipts derived from
22 dances and other amusements actually promoted and managed by
23 civic organizations when the entire proceeds of the dances or other
24 amusements are used exclusively for civic and charitable purposes of
25 the organizations and not to defray the expenses of the organization
26 conducting the dance or amusement. The mere sponsorship of a
27 dance or another amusement by a civic or fraternal organization does
28 not exempt the dance or other amusement, because the exemption
29 applies only when the dance or amusement is actually managed and
30 conducted by the civic or fraternal organization.

31 g. A youth athletic contest with an admissions price that does not
32 exceed ten dollars (\$10.00) sponsored by a person exempt from
33 income tax under Article 4 of this Chapter. For the purpose of this
34 subdivision, a youth athletic contest means a contest in which each
35 participating athlete is less than 20 years of age.

36 h. All dances, motion picture shows, and other amusements promoted
37 and managed by a qualifying corporation that operates a center for
38 the performing and visual arts if the dance or other amusement is
39 held at the center. "Qualifying corporation" means a corporation that
40 is exempt from income tax under G.S. 105-130.11(a)(3). "Center for
41 the performing and visual arts" means a facility having a fixed
42 location that provides space for dramatic performances, studios,
43 classrooms, and similar accommodations to organized arts groups
44 and individual artists. This exemption does not apply to athletic
45 events.

46 i. All exhibitions, performances, and entertainments promoted and
47 managed by a "nonprofit arts organization." This exemption does not
48 apply to athletic events. A "nonprofit arts organization" is an
49 organization that meets both of the following requirements:

50 1. It is exempt from income tax under G.S. 105-130.11(a)(3).

- 1 2. Its primary purpose is to create, produce, present, or support
2 music, dance, theatre, literature, or visual arts.
3 j. A person that is exempt from income tax under Article 4 of this
4 Chapter and is engaged in the business of operating a teen center. A
5 "teen center" is a fixed facility whose primary purpose is to provide
6 recreational activities, dramatic performances, dances, and other
7 amusements exclusively for teenagers.
8 k. Arts festivals held by a person that is exempt from income tax under
9 Article 4 of this Chapter and that meets the following conditions:
10 1. The person holds no more than two arts festivals during a
11 calendar year.
12 2. Each of the person's arts festivals last no more than seven
13 consecutive days.
14 3. The arts festivals are held outdoors on public property and
15 involve a variety of exhibitions, entertainments, and
16 activities.
17 l. Community festivals held by a person who is exempt from income
18 tax under Article 4 of this Chapter and that meets all of the following
19 conditions:
20 1. The person holds no more than one community festival
21 during a calendar year.
22 2. The community festival lasts no more than seven consecutive
23 days.
24 3. The community festival involves a variety of exhibitions,
25 entertainments, and activities, the majority of which are held
26 outdoors and are open to the public.
27 m. All farm-related exhibitions, shows, attractions, or amusements
28 offered on land used for bona fide farm purposes as defined in
29 G.S. 153A-340."

30 **SECTION 4.2.(d)** This section becomes effective October 1, 2013, and applies to
31 sales made on or after that date and to gross receipts received on or after October 1, 2013, from
32 admissions purchased on or after that date. Gross receipts received on or after October 1, 2013,
33 from admissions purchased before that date are taxable under G.S. 105-37.1 or G.S. 105-38.1,
34 as appropriate.

35 **SECTION 4.3.(a)** G.S. 105-116, 105-116.1, 105-164.21A, and 159B-27(b), (c),
36 (d), and (e) are repealed.

37 **SECTION 4.3.(b)** G.S. 105-164.4(a)(1f) and (a)(4a) are repealed.

38 **SECTION 4.3.(c)** G.S. 105-164.13(44) and Article 5E of Chapter 105 of the
39 General Statutes are repealed.

40 **SECTION 4.3.(d)** G.S. 105-164.4(a) is amended by adding a new subdivision to
41 read:

42 "(10) The combined general rate applies to the gross receipts derived from sales of
43 electricity and piped natural gas."

44 **SECTION 4.3.(e)** Pursuant to G.S. 62-31 and G.S. 62-32, the Utilities Commission
45 must lower the rate set for the following utilities:

- 46 (1) Electricity to reflect the repeal of G.S. 105-116 and the resulting liability of
47 electric power companies for the tax imposed under G.S. 105-114.4 and for
48 the increase in the rate of tax imposed on sales of electricity under
49 G.S. 105-164.4.
50 (2) Piped natural gas to reflect the repeal of Article 5E of Chapter 105 of the
51 General Statutes, the repeal of the credit formerly allowed under

1 G.S. 105-122(d1), and the resulting liability of companies for the tax
2 imposed on sales of piped natural gas under G.S. 105-164.4.

3 **SECTION 4.3.(f)** Part 8 of Article 5 of Chapter 105 of the General Statutes is
4 amended by adding a new section to read:

5 "**§ 105-164.44K. Distribution of part of tax on electricity to cities.**

6 (a) Distribution. – The Secretary must distribute to cities part of the taxes imposed by
7 G.S. 105-164.4(a)(9) on electricity. Each city's share of the amount to be distributed is its
8 franchise tax share calculated under subsection (b) of this section. The Secretary must make the
9 distribution within 75 days after the end of each quarter.

10 (b) Franchise Tax Share. – The Department must calculate the franchise tax share of
11 city. The initial franchise tax share of a city is the amount of electricity gross receipts franchise
12 tax distributed to the city under repealed G.S. 105-116.1 for the same quarter that was the last
13 quarter in which taxes were imposed on electric power companies under repealed
14 G.S. 105-116. The Department must re-calculate the franchise tax share of a city every five
15 years, beginning with distributions for fiscal years beginning on or after July 1, 2020. The
16 re-calculated franchise tax share of a city is the amount of electricity gross receipts franchise
17 tax that would have been distributed to the city under repealed G.S. 105-116.1 for the preceding
18 fiscal year if taxes had been imposed on electric power companies under repealed
19 G.S. 105-116, divided by four.

20 The franchise tax share of a city that has dissolved, merged with another city, or divided
21 into two or more cities since it received a distribution under repealed G.S. 105-116.1 is adjusted
22 as follows:

- 23 (1) If a city dissolves and is no longer incorporated, the franchise tax share of
24 the city is eliminated.
25 (2) If two or more cities merge or otherwise consolidate, their franchise tax
26 shares are combined.
27 (3) If a city divides into two or more cities, the franchise tax share of the city
28 that divides is allocated among the new cities in proportion to the total
29 amount of ad valorem taxes levied by each on property having a tax situs in
30 the city.

31 (c) Nature. – The General Assembly finds that the revenue distributed under this
32 section is local revenue, not a State expenditure, for the purpose of Section 5(3) of Article III of
33 the North Carolina Constitution. Therefore, the Governor may not reduce or withhold the
34 distribution."

35 **SECTION 4.3.(g)** Part 8 of Article 5 of Chapter 105 of the General Statutes is
36 amended by adding a new section to read:

37 "**§ 105-164.44L. Distribution of part of tax on piped natural gas to cities.**

38 (a) Distribution. – The Secretary must distribute to cities part of the taxes imposed by
39 G.S. 105-164.4(a)(10) on piped natural gas. Each city's share of the amount to be distributed is
40 its excise tax share calculated under subsection (b) of this section. The Secretary must make the
41 distribution within 75 days after the end of each quarter.

42 (b) Excise Tax Share. – The Department must calculate the excise tax share of city. The
43 initial excise tax share of a city is the amount of piped natural gas excise tax distributed to the
44 city under repealed G.S. 105-187.44 for the same quarter that was the last quarter in which
45 taxes were imposed on piped natural gas under repealed Article 5E of this Chapter. The
46 Department must re-calculate the excise tax share of a city every five years, beginning with
47 distributions for fiscal years beginning on or after July 1, 2020. The re-calculated excise tax
48 share of a city is the amount of excise tax on piped natural gas that would have been distributed
49 to the city under repealed G.S. 105-187.44 for the preceding fiscal year if taxes had been
50 imposed on piped natural gas under repealed Article 5E of this Chapter, divided by four.

The excise tax share of a city that has dissolved, merged with another city, or divided into two or more cities since it received a distribution under repealed G.S. 105-187.44 is adjusted as follows:

- (1) If a city dissolves and is no longer incorporated, the excise tax share of the city is eliminated.
- (2) If two or more cities merge or otherwise consolidate, their excise tax shares are combined.
- (3) If a city divides into two or more cities, the excise tax share of the city that divides is allocated among the new cities in proportion to the total amount of ad valorem taxes levied by each on property having a tax situs in the city.

(c) Nature. – The General Assembly finds that the revenue distributed under this section is local revenue, not a State expenditure, for the purpose of Section 5(3) of Article III of the North Carolina Constitution. Therefore, the Governor may not reduce or withhold the distribution."

SECTION 4.3.(h) G.S. 160A-211 reads as rewritten:

"(c) Prohibition. – A city may not impose a license, franchise, or privilege tax on a person engaged in any of the businesses listed in this subsection. These businesses are subject to a State tax for which the city receives a share of the tax ~~revenue~~ revenue or they are subject to the local sales tax.

- (1) Supplying piped natural ~~gas taxed under Article 5E of Chapter 105 of the General Statutes~~ gas.
- (2) Providing telecommunications service taxed under G.S. 105-164.4(a)(4c).
- (3) Providing video programming taxed under G.S. 105-164.4(a)(6).
- (4) Providing electricity. A city may continue to impose and collect the license, franchise, or privilege taxes on an electric power company that it imposed and collected on or before January 1, 1947, but it may not impose or collect any greater franchise, privilege, or license taxes, in the aggregate, on an electric power company that was imposed and collected on or before January 1, 1947."

SECTION 4.3.(i) This section becomes effective July 1, 2014, and applies to piped natural gas received on or after July 1, 2014, pursuant to a sale made on or before that date.

SECTION 4.4.(a) G.S. 105-164.3 is amended by adding a new subdivision to read:

"§ 105-164.3. Definitions.

The following definitions apply in this Article:

- ...
- (1c) Alteration, repair, maintenance, cleaning, and installation services. – The term includes all of the following:
- a. Altering tangible personal property by tailoring, monogramming, engraving, or making similar changes to the property.
 - b. Repairing tangible personal property to restore it to proper working order. This subdivision applies regardless of whether the property is able to be restored to proper working order.
 - c. Maintaining tangible personal property to keep the property in working order, to avoid breakdown, or to prevent unnecessary repairs.
 - d. Cleaning tangible personal property.
 - e. Installing tangible personal property or a fixture that becomes part of real property.
- ...

1 (38b) Service contract. – A warranty agreement, a maintenance agreement, a repair
2 contract, or a similar agreement or contract by which the provider agrees to
3 maintain or repair tangible personal property.

4 "

5 **SECTION 4.4.(b)** G.S. 105-164.4(a) is amended by adding a new subdivision to
6 read:

7 "(11) The general rate of tax applies to the following services on tangible personal
8 property:

9 a. A service contract.

10 b. Alteration, repair, maintenance, cleaning, and installation services."

11 **SECTION 4.4.(c)** G.S. 105-164.13(49) is repealed.

12 **SECTION 4.4.(d)** G.S. 105-164.13 is amended by adding a new subdivision to
13 read:

14 "(61) Any of the following provided for tangible personal property that is exempt
15 from tax under this Article, other than an item exempt from tax under
16 G.S. 105-164.13(32):

17 a. A service contract.

18 b. Alteration, repair, maintenance, cleaning, or installation services."

19 **SECTION 4.4.(e)** This section becomes effective July 1, 2014, and applies to sales
20 made on or after that date.

21 **PART V. EFFECTIVE DATE**

22 **SECTION 5.(a)** This act does not affect the rights or liabilities of the State, a
23 taxpayer, or another person arising under a statute amended or repealed by this act before the
24 effective date of its amendment or repeal; nor does it affect the right to any refund or credit of a
25 tax that accrued under the amended or repealed statute before the effective date of its
26 amendment or repeal.

27 **SECTION 5.(b)** G.S. 105-237.1(a) reads as rewritten:

28 (a) Authority. – The Secretary may compromise a taxpayer's liability for a tax that is
29 collectible under G.S. 105-241.22 when the Secretary determines that the compromise is in the
30 best interest of the State and makes one or more of the following findings:

31 ...

32 (6) The taxpayer is a retailer or a person under Article 5 of this Chapter, the
33 assessment is for sales or use tax the retailer failed to collect or the person
34 failed to pay on an item taxable under G.S. 105-164.4(a)(9) or (a)(11), and
35 the retailer or person made a good faith effort to comply with the sales and
36 use tax laws. This subdivision expires for assessments issued after July 1,
37 2020."

38 **SECTION 5.(c)** Except as otherwise provided, this act is effective when it
39 becomes law.
40