GENERAL ASSEMBLY OF NORTH CAROLINA
SESSION 2013

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


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). 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:

<table>
<thead>
<tr>
<th>Over</th>
<th>Up To</th>
<th>Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>-0</td>
<td>$21,250</td>
<td>6%</td>
</tr>
<tr>
<td>$21,250</td>
<td>$100,000</td>
<td>7%</td>
</tr>
<tr>
<td>$100,000</td>
<td>NA</td>
<td>NA</td>
</tr>
</tbody>
</table>

(2) For heads of households, 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>$17,000</td>
<td>6%</td>
</tr>
<tr>
<td>$17,000</td>
<td>$80,000</td>
<td>7%</td>
</tr>
<tr>
<td>$80,000</td>
<td>NA</td>
<td>7.75%</td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th>Over</th>
<th>Up To</th>
<th>Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>-0</td>
<td>$12,750</td>
<td>6%</td>
</tr>
<tr>
<td>$12,750</td>
<td>$60,000</td>
<td>7%</td>
</tr>
<tr>
<td>$60,000</td>
<td>NA</td>
<td>7.75%</td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th>Over</th>
<th>Up To</th>
<th>Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>-0</td>
<td>$10,625</td>
<td>6%</td>
</tr>
<tr>
<td>$10,625</td>
<td>$50,000</td>
<td>7%</td>
</tr>
<tr>
<td>$50,000</td>
<td>NA</td>
<td>7.75%</td>
</tr>
</tbody>
</table>

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

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

§ 105-134.6. Modifications to adjusted gross income.

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

<table>
<thead>
<tr>
<th>Filing Status</th>
<th>Adjusted Gross Income</th>
<th>Personal Exemption</th>
</tr>
</thead>
<tbody>
<tr>
<td>Married, filing jointly</td>
<td>Up to $100,000</td>
<td>$2,500</td>
</tr>
<tr>
<td></td>
<td>Over $100,000</td>
<td>$2,000</td>
</tr>
<tr>
<td>Head of Household</td>
<td>Up to $80,000</td>
<td>$2,500</td>
</tr>
<tr>
<td></td>
<td>Over $80,000</td>
<td>$2,000</td>
</tr>
<tr>
<td>Single</td>
<td>Up to $60,000</td>
<td>$2,500</td>
</tr>
<tr>
<td></td>
<td>Over $60,000</td>
<td>$2,000</td>
</tr>
<tr>
<td>Married, filing separately</td>
<td>Up to $50,000</td>
<td>$2,500</td>
</tr>
<tr>
<td></td>
<td>Over $50,000</td>
<td>$2,000</td>
</tr>
</tbody>
</table>

(a2) Deduction Amount. – In calculating North Carolina taxable income, a taxpayer may
deduct either the North Carolina standard deduction amount for that listed in the table below
based on the taxpayer's filing status or the itemized deductions amount allowed under
subsection (a3) of this section for interest paid or accrued with respect to a qualified residence
and for charitable contributions. In the case of a married couple filing separate returns, a
taxpayer may not deduct the standard deduction amount under this subsection if the taxpayer or
the taxpayer's spouse claims the itemized deductions amount under subsection (a3) of this
section claimed under the Code. The North Carolina standard deduction amount is the lesser of the
amount shown in the table below or the amount allowed under the Code. In the case of a
married couple filing separate returns, a taxpayer may not deduct the standard deduction
amount if the taxpayer or the taxpayer's spouse claims itemized deductions for State purposes.

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

<table>
<thead>
<tr>
<th>Filing Status</th>
<th>Standard Deduction</th>
</tr>
</thead>
<tbody>
<tr>
<td>Married, filing jointly</td>
<td>$6,000/$12,000</td>
</tr>
<tr>
<td>Head of Household</td>
<td>4,409.600</td>
</tr>
<tr>
<td>Single</td>
<td>3,000.6,000</td>
</tr>
<tr>
<td>Married, filing separately</td>
<td></td>
</tr>
</tbody>
</table>

(a3) Itemized Deductions Amount. – The itemized deductions amount allowed under this
subsection is the sum of the amount claimed by the taxpayer as a deduction for interest paid or
accrued during the taxable year under section 163(h) of the Code with respect to a qualified
residence and the amount claimed by the taxpayer for charitable contributions made during the
taxable year that are deductible under section 170 of the Code. The itemized deductions amount
allowed under this subsection may not exceed the amount listed in the table below based on the
taxpayer's filing status. In the case of a married couple filing separate returns, a taxpayer may
not deduct the standard deduction amount under subsection (a2) of this section if the taxpayer
or the taxpayer's spouse claims the itemized deductions amount under this subsection.

<table>
<thead>
<tr>
<th>Filing Status</th>
<th>Standard Maximum Itemized Deduction</th>
</tr>
</thead>
<tbody>
<tr>
<td>Married, filing jointly</td>
<td>$6,000-$25,000</td>
</tr>
<tr>
<td>Head of Household</td>
<td>$4,400-$20,000</td>
</tr>
<tr>
<td>Single</td>
<td>$3,000-$12,500</td>
</tr>
<tr>
<td>Married, filing separately</td>
<td>$3,000-$12,500</td>
</tr>
</tbody>
</table>

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

…

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

…

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

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

(17b) An amount equal to twenty percent (20%) of the amount added to federal
taxable income as accelerated depreciation under subdivision (c)(8b) of this
section. For the amount added to adjusted gross income in the 2010 taxable
year, the deduction allowed by this subdivision applies to the first five
taxable years beginning on or after January 1, 2011. For the amount added to
taxable income in the 2011 taxable year, the deduction allowed by this
subdivision applies to the first five taxable years beginning on or after
January 1, 2012. For the amount added to taxable 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.

…

(21) An amount equal to twenty percent (20%) of the amount added to federal
taxable income under subdivision (c)(15) of this section. For the amount
added to taxable income in the 2010 taxable year, the deduction allowed by
this subdivision applies to the first five taxable years beginning on or after
January 1, 2011. For the amount added to taxable income in the 2011 taxable
year, the deduction allowed by this subdivision applies to the first five
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:

<table>
<thead>
<tr>
<th>Taxable Year</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>2002</td>
<td>100%</td>
</tr>
<tr>
<td>2003</td>
<td>70%</td>
</tr>
<tr>
<td>2004</td>
<td>70%</td>
</tr>
<tr>
<td>2005</td>
<td>0%</td>
</tr>
</tbody>
</table>

(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.
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.

(8b) 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.

…

(15) 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.

(15a) 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.

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

"..."

SECTION 2.2.(c) Part 2 of Article 4 of Chapter 105 of the General Statutes is 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.

<table>
<thead>
<tr>
<th>Taxable Year of 85% Add-Back</th>
<th>Five Taxable Years of 20% Deduction</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010</td>
<td>2011 through 2015</td>
</tr>
<tr>
<td>2011</td>
<td>2012 through 2016</td>
</tr>
<tr>
<td>2012</td>
<td>2013 through 2017</td>
</tr>
<tr>
<td>2013</td>
<td>2014 through 2018</td>
</tr>
</tbody>
</table>

(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 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 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.

<table>
<thead>
<tr>
<th>Filing Status</th>
<th>AGI</th>
</tr>
</thead>
<tbody>
<tr>
<td>Married, filing jointly</td>
<td>$100,000</td>
</tr>
<tr>
<td>Head of Household</td>
<td>$80,000</td>
</tr>
</tbody>
</table>
Single
Married, filing separately

<table>
<thead>
<tr>
<th>Filing Status</th>
<th>AGI</th>
<th>Credit Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Married, filing jointly</td>
<td>Up to $100,000</td>
<td>$250.00</td>
</tr>
<tr>
<td></td>
<td>Over $100,000</td>
<td>$125.00</td>
</tr>
<tr>
<td>Head of Household</td>
<td>Up to $80,000</td>
<td>$250.00</td>
</tr>
<tr>
<td></td>
<td>Over $80,000</td>
<td>$125.00</td>
</tr>
<tr>
<td>Single</td>
<td>Up to $50,000</td>
<td>$250.00</td>
</tr>
<tr>
<td></td>
<td>Over $50,000</td>
<td>$125.00</td>
</tr>
<tr>
<td>Married, filing separately</td>
<td>Up to $50,000</td>
<td>$250.00</td>
</tr>
<tr>
<td></td>
<td>Over $50,000</td>
<td>$125.00</td>
</tr>
</tbody>
</table>

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

PART III. REDUCE CORPORATE INCOME AND FRANCHISE TAX RATES

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. An S Corporation is not subject to the tax levied in this section. The tax is a percentage of the taxpayer's State net income computed as follows:

<table>
<thead>
<tr>
<th>Income Years Beginning</th>
<th>Tax</th>
</tr>
</thead>
<tbody>
<tr>
<td>In 1997</td>
<td>7.5%</td>
</tr>
<tr>
<td>In 1998</td>
<td>7.25%</td>
</tr>
<tr>
<td>In 1999</td>
<td>7%</td>
</tr>
<tr>
<td>After 1999</td>
<td>6.9%</td>
</tr>
<tr>
<td>In 2014</td>
<td>6.5%</td>
</tr>
<tr>
<td>In 2015</td>
<td>6.35%</td>
</tr>
<tr>
<td>In 2016</td>
<td>6.2%</td>
</tr>
<tr>
<td>In 2017</td>
<td>5.6%</td>
</tr>
<tr>
<td>After 2017</td>
<td>5.4%</td>
</tr>
</tbody>
</table>

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

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

"(d) After determining the proportion of its total capital stock, surplus and undivided profits 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 report and statement are due, a franchise or privilege tax at the rate of one dollar and fifty cents ($1.50) 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) and shall be 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 less 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" there shall also be
deducted 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 shall apply only with respect to pollution abatement plants or equipment
constructed or installed on or after January 1, 1955."

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

SECTION 3.3.(a) G.S. 105-130.5, as amended by S.L. 2013-10, 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:

(15) 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:

<table>
<thead>
<tr>
<th>Taxable Year</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>2002</td>
<td>100%</td>
</tr>
<tr>
<td>2003</td>
<td>70%</td>
</tr>
<tr>
<td>2004</td>
<td>70%</td>
</tr>
</tbody>
</table>
(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.
The amount required to be added under G.S. 105-130.5B when the State decouples from federal accelerated depreciation and expensing.

The following deductions from federal taxable income shall be made in determining State net income:

In each of the taxpayer's first five taxable years beginning on or after January 1, 2005, an amount equal to twenty percent (20%) of the amount added to taxable income in a previous year as accelerated depreciation under subdivision (a)(15) of this section.

An amount equal to twenty percent (20%) of the amount added to federal taxable income as accelerated depreciation under subdivision (a)(15a) of this section. For a taxpayer who made the addition for accelerated depreciation in the 2008 taxable year, the deduction allowed by this subdivision applies to the first five taxable years beginning on or after January 1, 2009. For a taxpayer who made the addition for accelerated depreciation in the 2009 taxable year, the deduction allowed by this subdivision applies to the first five taxable years beginning on or after January 1, 2010.

An amount equal to twenty percent (20%) of the amount added to federal taxable income as accelerated depreciation under subdivision (a)(15b) of this section. For the amount added to taxable income in the 2010 taxable year, the deduction allowed by this subdivision applies to the first five taxable years beginning on or after January 1, 2011. For the amount added to taxable income in the 2011 taxable year, the deduction allowed by this subdivision applies to the first five taxable years beginning on or after January 1, 2012. For the amount added to taxable 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 taxable 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.

An amount equal to twenty percent (20%) of the amount added to federal taxable income under subdivision (a)(23) of this section. For the amount added to taxable income in the 2010 taxable year, the deduction allowed by this subdivision applies to the first five taxable years beginning on or after January 1, 2011. For the amount added to taxable income in the 2011 taxable year, the deduction allowed by this subdivision applies to the first five taxable years beginning on or after January 1, 2012.

An amount equal to twenty percent (20%) of the amount added to federal taxable income under subdivision (a)(23a) of this section. For the amount added to taxable 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 taxable 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.

The amount allowed as a deduction under G.S. 105-130.5B as a result of an add-back for federal accelerated depreciation and expensing.

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

"§ 105-130.5B. 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 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.

<table>
<thead>
<tr>
<th>Taxable Year of Special Accelerated Depreciation</th>
<th>Five Taxable Years of Add-Back</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010</td>
<td>2011 through 2015</td>
</tr>
<tr>
<td>2011</td>
<td>2012 through 2016</td>
</tr>
<tr>
<td>2012</td>
<td>2013 through 2017</td>
</tr>
<tr>
<td>2013</td>
<td>2014 through 2018</td>
</tr>
</tbody>
</table>

(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.

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

(c) The Fund shall be administered by the Department of Public Instruction."
SECTION 3.4.(c) This section becomes effective April 1, 2014, and applies to distributions for collections for quarters beginning on or after that date.

PART IV. EXPAND SALES TAX BASE TO INCLUDE SERVICES COMMONLY TAXED IN OTHER STATES

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

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

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

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

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

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

"§ 105-164.4. Tax imposed on retailers.

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

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

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

b. A movie.

c. A museum, a cultural site, a garden, an exhibit, a show, or a similar attraction or a guided tour at any of these attractions."
SECTON 4.2.(c) G.S. 105-164.13 is amended by adding the following new subdivisions to read:

'(60) Admission charges to any of the following recreational or entertainment activities:

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

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

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

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

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

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

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

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

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

1. It is exempt from income tax under G.S. 105-130.11(a)(3).
2. Its primary purpose is to create, produce, present, or support
   music, dance, theatre, literature, or visual arts.

j. A person that is exempt from income tax under Article 4 of this
   Chapter and is engaged in the business of operating a teen center. A
   "teen center" is a fixed facility whose primary purpose is to provide
   recreational activities, dramatic performances, dances, and other
   amusements exclusively for teenagers.

k. Arts festivals held by a person that is exempt from income tax under
   Article 4 of this Chapter and that meets the following conditions:
   1. The person holds no more than two arts festivals during a
      calendar year.
   2. Each of the person's arts festivals last no more than seven
      consecutive days.
   3. The arts festivals are held outdoors on public property and
      involve a variety of exhibitions, entertainments, and
      activities.

l. Community festivals held by a person who is exempt from income
   tax under Article 4 of this Chapter and that meets all of the following
   conditions:
   1. The person holds no more than one community festival
      during a calendar year.
   2. The community festival lasts no more than seven consecutive
      days.
   3. The community festival involves a variety of exhibitions,
      entertainments, and activities, the majority of which are held
      outdoors and are open to the public.

m. All farm-related exhibitions, shows, attractions, or amusements
   offered on land used for bona fide farm purposes as defined in
   G.S. 153A-340."

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

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

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

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

SECTION 4.3.(d) G.S. 105-164.4(a) is amended by adding a new subdivision to
read:
"(10) The combined general rate applies to the gross receipts derived from sales of
   electricity and piped natural gas."

SECTION 4.3.(e) Pursuant to G.S. 62-31 and G.S. 62-32, the Utilities Commission
must lower the rate set for the following utilities:
(1) Electricity to reflect the repeal of G.S. 105-116 and the resulting liability of
    electric power companies for the tax imposed under G.S. 105-114.4 and for
    the increase in the rate of tax imposed on sales of electricity under
    G.S. 105-164.4.
(2) Piped natural gas to reflect the repeal of Article 5E of Chapter 105 of the
    General Statutes, the repeal of the credit formerly allowed under
G.S. 105-122(d1), and the resulting liability of companies for the tax imposed on sales of piped natural gas under G.S. 105-164.4.

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

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

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

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

The franchise 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. 105-116.1 is adjusted as follows:

(1) If a city dissolves and is no longer incorporated, the franchise tax share of the city is eliminated.

(2) If two or more cities merge or otherwise consolidate, their franchise tax shares are combined.

(3) If a city divides into two or more cities, the franchise 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.(g) Part 8 of Article 5 of Chapter 105 of the General Statutes is amended by adding a new section to read:

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

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

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

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

"...

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

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

a. A service contract.

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

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

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

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

a. A service contract.

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

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

PART V. EFFECTIVE DATE

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

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

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

..."

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

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