

GENERAL ASSEMBLY OF NORTH CAROLINA
SESSION 2013

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HOUSE BILL 998
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Short Title: Tax Reduction Act.

(Public)

Sponsors:

Referred to:

April 18, 2013

1 A BILL TO BE ENTITLED
2 AN ACT TO SIMPLIFY THE NORTH CAROLINA TAX STRUCTURE AND TO REDUCE
3 INDIVIDUAL AND BUSINESS TAX RATES.

4 The General Assembly of North Carolina enacts:

5
6 **PART I. INDIVIDUAL INCOME TAX CHANGES**

7 **SECTION 1.1.(a)** The following statutes are recodified as indicated:

8 <u>Current Statute</u>	<u>Recodified Statute</u>
9 G.S. 105-133	G.S. 105-153.1
10 G.S. 105-134	G.S. 105-153.2
11 G.S. 105-134.1	G.S. 105-153.3
12 G.S. 105-134.5	G.S. 105-153.4
13 G.S. 105-151	G.S. 105-153.9
14 G.S. 105-151.24	G.S. 105-153.10
15 G.S. 105-152	G.S. 105-153.8

16 **SECTION 1.1.(b)** The following statutes are repealed:

17 G.S. 105-134.2
18 G.S. 105-134.3
19 G.S. 105-134.6
20 G.S. 105-134.7
21 G.S. 105-134.8
22 G.S. 105-151.1 and G.S. 105-130.22
23 G.S. 105-151.11
24 G.S. 105-151.12 and G.S. 105-130.34
25 G.S. 105-151.13 and G.S. 105-130.36
26 G.S. 105-151.14 and G.S. 105-130.37
27 G.S. 105-151.18
28 G.S. 105-151.20
29 G.S. 105-151.21
30 G.S. 105-151.25 and G.S. 105-130.44
31 G.S. 105-151.26
32 G.S. 105-151.33



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1 **SECTION 1.1.(c)** G.S. 105-134.1, recodified by this Part as G.S. 105-153.3, reads
2 as rewritten:

3 **"§ 105-153.3. Definitions.**

4 The following definitions apply in this Part:

5 (1) Adjusted gross income. – Defined in section 62 of the Code.

6 ~~(1a)(2)~~ Code. – Defined in G.S. 105-228.90.

7 ~~(2)(3)~~ Department. – The Department of Revenue.

8 ~~(3)(4)~~ Educational institution. – An educational institution that normally maintains
9 a regular faculty and curriculum and normally has a regularly organized
10 body of students in attendance at the place where its educational activities
11 are carried on.

12 ~~(4)(5)~~ Fiscal year. – Defined in section 441(e) of the Code.

13 ~~(5)(6)~~ Gross income. – Defined in section 61 of the Code.

14 ~~(6)(7)~~ Head of household. – Defined in section 2(b) of the Code.

15 ~~(7)(8)~~ Individual. – A human being.

16 ~~(7a)(9)~~ Limited liability company. – Either a domestic limited liability company
17 organized under Chapter 57C of the General Statutes or a foreign limited
18 liability company authorized by that Chapter to transact business in this
19 State that is classified for federal income tax purposes as a partnership. As
20 applied to a limited liability company that is a partnership under this Part,
21 the term "partner" means a member of the limited liability company.

22 ~~(7b)~~ ~~Repealed by Session Laws 1998-98, s. 9, effective August 14, 1998.~~

23 ~~(8)(10)~~ Married individual. – An individual who is married and is considered
24 married as provided in section 7703 of the Code.

25 ~~(9)(11)~~ Nonresident individual. – An individual who is not a resident of this State.

26 ~~(10)(12)~~ North Carolina taxable income. – Defined in G.S. 105-134.5.

27 ~~(10a)(13)~~ Partnership. – A domestic partnership, a foreign partnership, or a limited
28 liability company.

29 ~~(11)(14)~~ Person. – Defined in G.S. 105-228.90.

30 ~~(12)(15)~~ Resident. – An individual who is domiciled in this State at any time
31 during the taxable year or who resides in this State during the taxable year
32 for other than a temporary or transitory purpose. In the absence of
33 convincing proof to the contrary, an individual who is present within the
34 State for more than 183 days during the taxable year is presumed to be a
35 resident, but the absence of an individual from the state for more than 183
36 days raises no presumption that the individual is not a resident. A resident
37 who removes from the State during a taxable year is considered a resident
38 until he has both established a definite domicile elsewhere and abandoned
39 any domicile in this State. The fact of marriage does not raise any
40 presumption as to domicile or residence.

41 (13) ~~Retirement benefits.— Amounts paid to a former employee or the beneficiary~~
42 ~~of a former employee under a written retirement plan established by the~~
43 ~~employer to provide payments to an employee or the beneficiary of an~~
44 ~~employee after the end of the employee's employment with the employer~~
45 ~~where the right to receive the payments is based upon the employment~~
46 ~~relationship. With respect to a self-employed individual or the beneficiary of~~
47 ~~a self-employed individual, the term means amounts paid to the individual or~~
48 ~~beneficiary of the individual under a written retirement plan established by~~
49 ~~the individual to provide payments to the individual or the beneficiary of the~~
50 ~~individual after the end of the self employment. In addition, the term~~
51 ~~includes amounts received from an individual retirement account described~~

~~in section 408 of the Code or from an individual retirement annuity described in section 408 of the Code. For the purpose of this subdivision, the term "employee" includes a volunteer worker.~~

~~(14)(16)~~ S Corporation. – Defined in G.S. 105-131(b).

~~(15)(17)~~ Secretary. – The Secretary of Revenue.

~~(16)~~ Repealed by Session Laws 2011-145, s. 31A.1(a), effective for taxable years beginning on or after January 1, 2012.

~~(17)(18)~~ Taxable year. – Defined in section 441(b) of the Code.

~~(18)(19)~~ Taxpayer. – An individual subject to the tax imposed by this Part.

~~(19)(20)~~ This State. – The State of North Carolina."

SECTION 1.1.(d) Part 2 of Article 4 of Chapter 105 of the General Statutes is amended by adding the following new sections to read:

"§ 105-153.5. Modifications to adjusted gross income.

(a) Deduction Amount. – In calculating North Carolina taxable income, a taxpayer may deduct from adjusted gross income either the standard deduction amount or the itemized deduction amount. 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 the itemized deductions amount.

(1) Standard deduction amount. – An amount equal to the amount listed in the table below based on the taxpayer's filing status:

<u>Filing Status</u>	<u>Standard Deduction</u>
<u>Married, filing jointly</u>	<u>\$15,000</u>
<u>Head of Household</u>	<u>12,000</u>
<u>Single</u>	<u>7,500</u>
<u>Married, filing separately</u>	<u>7,500.</u>

(2) Itemized deduction amount. – An amount equal to the sum of the following:

- a. The amount claimed by the taxpayer as a deduction for charitable contributions under section 170 of the Code for that taxable year.
- b. 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 any qualified residence plus the amount claimed by the taxpayer as a deduction for property taxes paid or accrued on real estate under section 164 of the Code for that taxable year. The amount claimed under this sub-subdivision may not exceed the amount listed in the table below based on the taxpayer's filing status.

<u>Filing Status</u>	<u>Maximum Amount</u>
<u>Married, filing jointly</u>	<u>\$15,000</u>
<u>Head of Household</u>	<u>12,000</u>
<u>Single</u>	<u>7,500</u>
<u>Married, filing separately</u>	<u>7,500.</u>

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

(1) Interest upon the obligations of any of the following:

- a. The United States or its possessions.
- b. This State, a political subdivision of this State, or a commission, an authority, or another agency of this State or of a political subdivision of this State.
- c. A nonprofit educational institution organized or chartered under the laws of this State.

- 1 (2) Gain from the disposition of obligations issued before July 1, 1995, to the
2 extent the gain is exempt from tax under the laws of this State.
- 3 (3) Benefits received under Title II of the Social Security Act and amounts
4 received from retirement annuities or pensions paid under the provisions of
5 the Railroad Retirement Act of 1937.
- 6 (4) Refunds of State, local, and foreign income taxes included in the taxpayer's
7 gross income.
- 8 (5) The amount received during the taxable year from one or more State, local,
9 or federal government retirement plans to the extent the amount is exempt
10 from tax under this Part pursuant to a court order in settlement of any of the
11 following cases:
- 12 a. Bailey v. State, 92 CVS 10221, 94 CVS 6904, 95 CVS 6625, 95 CVS
13 8230.
- 14 b. Emory v. State, 98 CVS 0738.
- 15 c. Patton v. State, 95 CVS 04346.
- 16 (6) Income that meets both of the following requirements:
- 17 a. Is earned or received by an enrolled member of a federally
18 recognized Indian tribe.
- 19 b. Is derived from activities on a federally recognized Indian
20 reservation while the member resides on the reservation. Income
21 from intangibles having a situs on the reservation and retirement
22 income associated with activities on the reservation are considered
23 income derived from activities on the reservation.
- 24 (7) The amount by which the basis of property under this Article exceeds the
25 basis of the property under the Code, in the year the taxpayer disposes of the
26 property.
- 27 (8) The amount allowed as a deduction under G.S. 105-153.6 as a result of an
28 add-back for federal accelerated depreciation and expensing.
- 29 (c) Additions. – In calculating North Carolina taxable income, a taxpayer must add to
30 the taxpayer's adjusted gross income any of the following items that are not included in the
31 taxpayer's adjusted gross income:
- 32 (1) Interest upon the obligations of states other than this State, political
33 subdivisions of those states, and agencies of those states and their political
34 subdivisions.
- 35 (2) The amount by which a shareholder's share of S Corporation income is
36 reduced under section 1366(f)(2) of the Code for the taxable year by the
37 amount of built-in gains tax imposed on the S Corporation under section
38 1374 of the Code.
- 39 (3) The amount by which the basis of property under the Code exceeds the basis
40 of the property under this Article, in the year the taxpayer disposes of the
41 property.
- 42 (4) The amount excluded from gross income under section 199 of the Code.
- 43 (5) The amount required to be added under G.S. 105-153.6 when the State
44 decouples from federal accelerated depreciation and expensing.

45 **"§ 105-153.6. Adjustments when State decouples from federal accelerated depreciation**
46 **and expensing.**

47 (a) Special Accelerated Depreciation. – A taxpayer who takes a special accelerated
48 depreciation deduction for that property under section 168(k) or 168(n) of the Code must add to
49 the taxpayer's federal taxable income or adjusted gross income, as appropriate, eighty-five
50 percent (85%) of the amount taken for that year under those Code provisions. For taxable years
51 before 2012, the taxpayer must add the amount to the taxpayer's federal taxable income. For

1 taxable year 2012 and after, the taxpayer must add the amount to the taxpayer's adjusted gross
 2 income. A taxpayer is allowed to deduct twenty percent (20%) of the add-back in each of the
 3 first five taxable years following the year the taxpayer is required to include the add-back in
 4 income.

5 (b) 2009 Depreciation Exception. – A taxpayer who placed property in service during
 6 the 2009 taxable year and whose North Carolina taxable income for the 2009 taxable year
 7 reflected a special accelerated depreciation deduction allowed for the property under section
 8 168(k) of the Code must add eighty-five percent (85%) of the amount of the special accelerated
 9 depreciation deduction to its federal taxable income for the 2010 taxable year. A taxpayer is
 10 allowed to deduct this add-back under subsection (a) of this section as if it were for property
 11 placed in service in 2010.

12 (c) Section 179 Expense. – For purposes of this subdivision, the definition of section
 13 179 property has the same meaning as under section 179 of the Code as of January 2, 2013. A
 14 taxpayer who places section 179 property in service during a taxable year listed in the table
 15 below must add to the taxpayer's federal taxable income or adjusted gross income, as
 16 appropriate, eighty-five percent (85%) of the amount by which the taxpayer's expense
 17 deduction under section 179 of the Code exceeds the dollar and investment limitation listed in
 18 the table below for that taxable year. For taxable years before 2012, the taxpayer must add the
 19 amount to the taxpayer's federal taxable income. For taxable year 2012 and after, the taxpayer
 20 must add the amount to the taxpayer's adjusted gross income.

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

<u>Taxable Year of</u> <u>85% Add-Back</u>	<u>Dollar Limitation</u>	<u>Investment Limitation</u>
<u>2010</u>	<u>\$250,000</u>	<u>\$800,000</u>
<u>2011</u>	<u>\$250,000</u>	<u>\$800,000</u>
<u>2012</u>	<u>\$250,000</u>	<u>\$800,000</u>
<u>2013</u>	<u>\$25,000</u>	<u>\$125,000</u>

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

32 **"§ 105-153.7. Individual income tax imposed.**

33 (a) Tax. – A tax is imposed for each taxable year on the North Carolina taxable income
 34 of every individual. The tax shall be levied, collected, and paid annually. The tax is five and
 35 seventy-five hundredths percent (5.75%) of the taxpayer's North Carolina taxable income.

36 (b) Withholding Tables. – The Secretary may provide tables that compute the amount
 37 of tax due for a taxable year under this Part. The tables do not apply to an individual who files a
 38 return under section 443(a)(1) of the Code for a period of less than 12 months due to a change
 39 in the individual's annual accounting period or to an estate or trust."

40 **SECTION 1.1.(e)** This section is effective for taxable years beginning on or after
 41 January 1, 2014.

42 **SECTION 1.2.(a)** G.S. 105-134.5, recodified by this Part as G.S. 105-153.4, reads
 43 as rewritten:

44 **"§ 105-153.4. North Carolina taxable income defined.**

45 (a) Residents. – For an individual who is a resident of this State, the term "North
 46 Carolina taxable income" means the taxpayer's adjusted gross income as modified in
 47 G.S. 105-134.6; G.S. 105-153.5.

48 (b) Nonresidents. – For a nonresident individual, the term "North Carolina taxable
 49 income" means the taxpayer's adjusted gross income as modified in ~~G.S. 105-134.6,~~
 50 G.S. 105-153.5 and G.S. 105-153.6, multiplied by a fraction the denominator of which is the
 51 taxpayer's gross income as modified in ~~G.S. 105-134.6,~~ G.S. 105-153.5 and G.S. 105-153.6,

1 and the numerator of which is the amount of that gross income, as modified, that is derived
 2 from North Carolina sources and is attributable to the ownership of any interest in real or
 3 tangible personal property in this State, is derived from a business, trade, profession, or
 4 occupation carried on in this State, or is derived from gambling activities in this State.

5 (c) Part-year Residents. – If an individual was a resident of this State for only part of
 6 the taxable year, having moved into or removed from the State during the year, the term "North
 7 Carolina taxable income" has the same meaning as in subsection (b) of this section except that
 8 the numerator includes adjusted gross income, as modified under ~~G.S. 105-134.6,~~
 9 G.S. 105-153.5 and G.S. 105-153.6, derived from all sources during the period the individual
 10 was a resident.

11"

12 **SECTION 1.2.(b)** G.S. 105-152 and G.S. 105-151, recodified by this Part as
 13 G.S. 105-153.8 and G.S. 105-153.9, read as rewritten:

14 "**§ 105-153.8. Income tax returns.**

15 (a) Who Must File. – The following individuals ~~shall~~must file with the Secretary an
 16 income tax return under affirmation:

17 (1) Every resident required to file an income tax return for the taxable year
 18 under the ~~Code and every Code.~~

19 (2) Every nonresident individual who (i) ~~derived~~meets all of the following
 20 requirements:

21 a. Receives during the taxable year gross income that is derived from
 22 North Carolina sources ~~during the taxable year~~and is attributable to
 23 the ownership of any interest in real or tangible personal property in
 24 this State ~~or State,~~ is derived from a business, trade, profession, or
 25 occupation carried on in this State ~~and (ii) is~~State, or is derived from
 26 gambling activities in this State.

27 b. Is required to file an income tax return for the taxable year under the
 28 Code.

29 (2) ~~Repealed by Session Laws 1991 (Reg. Sess., 1992), c. 930, s. 1.~~

30 (3) Any individual whom the Secretary believes to be liable for a tax under this
 31 Part, when so notified by the Secretary and requested to file a return.

32 (b) Taxpayer Deceased or Unable to Make Return. – If ~~the a~~ taxpayer is unable to file
 33 ~~the an~~ income tax return, ~~the return shall be filed by~~ a duly authorized agent of the taxpayer or
 34 ~~by~~ a guardian or other person charged with the care of the person or property of the
 35 ~~taxpayer.~~ taxpayer must file the return. If an individual who was required to file an income tax
 36 return for the taxable year while living has died before making the return, the administrator or
 37 executor of the estate ~~shall~~must file the return in the decedent's name and behalf, and the tax
 38 ~~shall be levied upon and collected from~~ is payable by the estate.

39 (c) Information Required With Return. – The income tax return ~~shall~~must show the
 40 ~~taxable income and adjustments~~ adjusted gross income and modifications required by this Part
 41 Part, and any other information the Secretary requires. The Secretary may require some or all
 42 individuals required to file an income tax return to attach to the return a copy of their federal
 43 income tax return for the taxable year. The Secretary may require a taxpayer to provide the
 44 Department with copies of any other return the taxpayer has filed with the Internal Revenue
 45 Service and to verify any information in the return.

46 (d) Secretary May Require Additional Information. – When the Secretary has reason to
 47 believe that any taxpayer conducts a trade or business in a way that directly or indirectly
 48 distorts the taxpayer's ~~taxable income~~ adjusted gross income or North Carolina taxable income,
 49 the Secretary may require any additional information for the proper computation of the
 50 taxpayer's ~~taxable income~~ adjusted gross income and North Carolina taxable income. In
 51 computing the taxpayer's ~~taxable income~~ adjusted gross income and North Carolina taxable

1 income, the Secretary ~~shall~~must consider the fair profit that would normally arise from the
2 conduct of the trade or business.

3 (e) Joint Returns. – A husband and wife whose ~~federal taxable income~~adjusted gross
4 income is determined on a joint federal return ~~shall~~must file a single income tax return jointly
5 if each spouse either is a resident of this State or has North Carolina taxable income and may
6 file a single income tax return jointly if one spouse is not a resident and has no North Carolina
7 taxable income. Except as otherwise provided in this Part, a wife and husband filing jointly are
8 treated as one taxpayer for the purpose of determining the tax imposed by this Part. A husband
9 and wife filing jointly are jointly and severally liable for the tax imposed by this Part reduced
10 by the sum of all credits allowable including tax payments made by or on behalf of the husband
11 and wife. However, if a spouse qualifies for relief of liability for federal tax attributable to a
12 substantial understatement by the other spouse pursuant to section 6015 of the Code, that
13 spouse is not liable for the corresponding tax imposed by this Part attributable to the same
14 substantial understatement by the other spouse. A wife and husband filing jointly have
15 expressly agreed that if the amount of the payments made by them with respect to the taxes for
16 which they are liable, including withheld and estimated taxes, exceeds the total of the taxes
17 due, refund of the excess may be made payable to both spouses jointly or, if either is deceased,
18 to the survivor alone.

19 (f) ~~Repealed by Session Laws 1991.~~

20 "**§ 105-153.9. Tax credits for income taxes paid to other states by individuals.**

21 (a) An individual who is a resident of this State is allowed a credit against the taxes
22 imposed by this Part for income taxes imposed by and paid to another state or country on
23 income taxed under this Part, subject to the following conditions:

24 (1) The credit is allowed only for taxes paid to another state or country on
25 income that is derived from sources within that state or country ~~that and~~ is
26 taxed under its laws irrespective of the residence or domicile of the recipient,
27 except that whenever a taxpayer who is ~~deemed to be considered~~ a resident
28 of this State under ~~the provisions of this Part~~ is ~~deemed also to be considered~~
29 a resident of another state or country under the laws of that state or country,
30 the Secretary may allow a credit against the taxes imposed by this Part for
31 taxes imposed by and paid to the other state or country on income taxed
32 under this Part.

33 (2) The fraction of the gross income, as ~~calculated under the Code and adjusted~~
34 ~~as provided in G.S. 105-134.6 and G.S. 105-134.7,~~ modified as provided in
35 G.S. 105-153.5 and G.S. 105-153.6, that is subject to income tax in another
36 state or country shall be ascertained, and the North Carolina net income tax
37 before credit under this section shall be multiplied by that fraction. The
38 credit allowed is either the product thus calculated or the income tax actually
39 paid the other state or country, whichever is smaller.

40 (3) Receipts showing the payment of income taxes to another state or country
41 and a true copy of a return or returns upon the basis of which the taxes are
42 assessed shall be filed with the Secretary when the credit is claimed. If credit
43 is claimed on account of a deficiency assessment, a true copy of the notice
44 assessing or proposing to assess the deficiency, as well as a receipt showing
45 the payment of the deficiency, shall be filed.

46 (b) If any taxes paid to another state or country for which a taxpayer has been allowed a
47 credit under this section are at any time credited or refunded to the taxpayer, a tax equal to that
48 portion of the credit allowed for the taxes so credited or refunded is due and payable from the
49 taxpayer and is subject to the penalties and interest provided in Subchapter I of this Chapter."

50 **SECTION 1.2.(c)** This section is effective for taxable years beginning on or after
51 January 1, 2014.

1 business entity is the calendar year or the fiscal year upon the basis of which the net income is
2 computed for federal income tax purposes under the Code. After the end of the income year in
3 which a business entity is dissolved, the business entity is no longer subject to the tax levied in
4 this Article unless the Secretary finds that the business entity has engaged in business activities
5 in this State not appropriate to winding up and liquidating its business and affairs. A business
6 entity that ceases its operations in this State before the end of its income year is not entitled to a
7 refund of tax for any full calendar months remaining in the entity's income year.

8 **"§ 105-129.101. Definitions.**

9 The following definitions apply in this Article:

- 10 (1) Business entity. – A business whose statutory form of organization provides
11 that one or more of its owners or members may not be held individually
12 liable for the debts and obligations of the business. The term includes each
13 of the following:
14 a. An S Corporation.
15 b. A domestic limited liability or a foreign limited liability company.
16 c. A domestic limited partnership or a foreign limited partnership.
17 d. A domestic limited liability partnership or a foreign limited liability
18 partnership.
19 e. A domestic or foreign limited liability limited partnership.
20 (2) C Corporation. – Defined in G.S. 105-131.
21 (3) Code. – Defined in G.S. 105-228.90.
22 (4) Doing business. – Each and every act, power, or privilege exercised or
23 enjoyed in this State, as an incident to, or by virtue of the powers and
24 privileges granted by the laws of this State.
25 (5) Reserved.
26 (6) Person. – Defined in G.S. 105-228.90.
27 (7) S Corporation. – Defined in G.S. 105-131.
28 (8) Secretary. – Defined in G.S. 105-228.90.

29 **"§ 105-129.102. Exempt business entities.**

30 A business entity listed in this section is exempt from the business privilege tax imposed by
31 this Article. Upon request of the Secretary, an exempt business entity must establish its claim
32 for exemption in writing. The exempt entities are:

- 33 (1) A business entity exempt from federal income tax under section 501 of the
34 Code.
35 (2) An insurance company subject to tax under Article 8B of this Chapter.
36 (3) A C Corporation."

37 **SECTION 2.1.(b)** This section is effective for taxable years beginning on or after
38 January 1, 2015, and applies to taxes due for income years beginning in that year or a
39 subsequent year.

40 **SECTION 2.2.(a)** G.S. 105-129.100(b), as enacted by this Part, reads as rewritten:

41 "(b) Tax Imposed. – An annual privilege tax is imposed on a business entity doing
42 business in this State in the amount of ~~four hundred dollars (\$400).~~ five hundred dollars
43 (\$500.00). The tax is due when a return is due. A return is due on or before the 15th day of the
44 fourth month following the end of the business entity's income year. A taxpayer may ask the
45 Secretary for an extension of time to file a return under G.S. 105-263. A business entity must
46 file a return under affirmation with the Secretary at the place and in the manner prescribed by
47 the Secretary. The return must be signed by the president, vice-president, treasurer, or chief
48 financial officer of the business entity."

49 **SECTION 2.2.(b)** This section is effective for taxable years beginning on or after
50 January 1, 2016, and applies to taxes due for income years beginning in that year or a
51 subsequent year.

1
2 **PART III. LOWER FRANCHISE TAX RATE**

3 **SECTION 3.1.(a)** G.S. 105-114(a) and G.S. 105-122.1 are repealed.

4 **SECTION 3.1.(b)** G.S. 105-125(a) is amended by adding a new subdivision to
5 read:

6 "(a) Exemptions. – The following corporations are exempt from the taxes levied by this
7 Article. Upon request of the Secretary, an exempt corporation must establish its claim for
8 exemption in writing:

9 ...
10 (2a) An S Corporation subject to the privilege license tax under Article 3L of this
11 Chapter. For purposes of this subdivision, an S Corporation is defined in
12 G.S. 105-131.

13"

14 **SECTION 3.1.(c)** This section is effective for taxable years beginning on or after
15 January 1, 2015, and applies to taxes due in that year or a subsequent year.

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

17 **"§ 105-122. Franchise or privilege tax on domestic and foreign corporations.**

18 ...
19 (d) After determining the proportion of its total capital stock, surplus and undivided
20 profits as set out in subsection (c) of this section, which amount shall not be less than fifty-five
21 percent (55%) of the appraised value as determined for ad valorem taxation of all the real and
22 tangible personal property in this State of each corporation nor less than its total actual
23 investment in tangible property in this State, every corporation taxed under this section shall
24 annually pay to the Secretary of Revenue, at the time the report and statement are due, a
25 franchise or privilege tax at the rate of ~~one dollar and fifty cents (\$1.50) per one thousand~~
26 ~~dollars (\$1,000) of the total amount of capital stock, surplus and undivided profits as provided~~
27 ~~in this section. The tax imposed in this section shall not be less than thirty five dollars (\$35.00)~~
28 ~~and shall be provided in subsection (d2) of this section. The tax is imposed for the privilege of~~
29 carrying on, doing business, and/or the continuance of articles of incorporation or
30 domestication of each corporation in this State. Appraised value of tangible property including
31 real estate is the ad valorem valuation for the calendar year next preceding the due date of the
32 franchise tax return. The term "total actual investment in tangible property" as used in this
33 section means the total original purchase price or consideration to the reporting taxpayer of its
34 tangible properties, including real estate, in this State plus additions and improvements thereto
35 less reserve for depreciation as permitted for income tax purposes, and also less any
36 indebtedness incurred and existing by virtue of the purchase of any real estate and any
37 permanent improvements made thereon. In computing "total actual investment in tangible
38 personal property" there shall also be deducted reserves for the entire cost of any air-cleaning
39 device or sewage or waste treatment plant, including waste lagoons, and pollution abatement
40 equipment purchased or constructed and installed which reduces the amount of air or water
41 pollution resulting from the emission of air contaminants or the discharge of sewage and
42 industrial wastes or other polluting materials or substances into the outdoor atmosphere or into
43 streams, lakes, or rivers, upon condition that the corporation claiming this deduction shall
44 furnish to the Secretary a certificate from the Department of Environment and Natural
45 Resources or from a local air pollution control program for air-cleaning devices located in an
46 area where the Environmental Management Commission has certified a local air pollution
47 control program pursuant to G.S. 143-215.112 certifying that said Department or local air
48 pollution control program has found as a fact that the air-cleaning device, waste treatment plant
49 or pollution abatement equipment purchased or constructed and installed as above described
50 has actually been constructed and installed and that the device, plant or equipment complies
51 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.

...
 (d2) Tax Rate. – The rate is the amount set in the table below for each one thousand dollars (\$1,000) of the total amount of capital stock, surplus, and undivided profits as provided in subsection (d) of this section. The tax imposed in this section may not be less than the amount set in the table below.

<u>Income Year</u>	<u>Tax Rate</u>	<u>Minimum Tax Due</u>
2015	\$1.25	\$ 500
2016	\$1.00	\$1,000
2017	\$0.75	\$1,000."

SECTION 3.2.(b) G.S. 105-120.2(b) reads as rewritten:

"§ 105-120.2. Franchise or privilege tax on holding companies.

...
 (b) (1) 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, ~~which is hereby levied, at the rate of one dollar and fifty cents (\$1.50) per one thousand dollars (\$1,000) of the amount determined under subsection (a) of this section, tax at the rate established in G.S. 105-120(d2),~~ but in no case shall the tax be more than seventy-five thousand dollars (\$75,000) nor less than ~~thirty-five dollars (\$35.00)~~ the minimum tax due under G.S. 101-120(d2).

(2) Notwithstanding the provisions of subdivision (1) of this subsection, if the tax produced pursuant to application of this paragraph (2) exceeds the tax produced pursuant to application of subdivision (1), then the tax shall be levied ~~at the rate of one dollar and fifty cents (\$1.50) per one thousand dollars (\$1,000)~~ on the greater of the amounts of

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

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

PART IV. PHASED ELIMINATION OF THE CORPORATE INCOME TAX

SECTION 4.1.(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:

1	Income Years Beginning	Tax
2	In 1997	7.5%
3	In 1998	7.25%
4	In 1999	7%
5	After 1999	6.9%
6	<u>In 2014</u>	<u>6.4%</u>
7	<u>In 2015</u>	<u>5%</u>
8	<u>In 2016</u>	<u>4%</u>
9	<u>In 2017</u>	<u>2%."</u>

10 **SECTION 4.1.(b)** This section is effective for taxable years beginning on or after
 11 January 1, 2014.

12 **SECTION 4.2.(a)** The title of Article 3E of Chapter 105 of the General Statutes
 13 reads as rewritten:

14 "Article 3E.

15 ~~Low Income Housing Tax Credits.~~Workforce Housing Construction Loan Program."

16 **SECTION 4.2.(b)** G.S. 105-129.42(a) reads as rewritten:

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

18 (1) Development tier. – The classification assigned to an area pursuant to
 19 G.S. 143B-437.08.

20 ~~(1)(2)~~ Qualified Allocation Plan. – The plan governing the allocation of federal
 21 low-income housing tax credits for a particular year, as approved by the
 22 Governor after a public hearing and publication in the North Carolina
 23 Register.

24 ~~(2)(3)~~ Qualified North Carolina low-income housing development. – A qualified
 25 low-income project or building that is allocated a federal tax credit under
 26 section 42(h)(1) of the Code and is described in subsection (c) of this
 27 section.

28 ~~(3)(4)~~ Qualified residential unit. – A housing unit that meets the requirements of
 29 section 42 of the Code."

30 **SECTION 4.2.(c)** G.S. 105-129.42(b) reads as rewritten:

31 "(b) Credit. – A taxpayer who is allocated a federal low-income housing tax credit under
 32 section 42 of the Code to construct or substantially rehabilitate a qualified North Carolina
 33 low-income housing development that is located in a development tier area one or two
 34 allowed a credit under this section. The amount of the credit is equal to a percentage of the
 35 development's qualified basis, as determined pursuant to section 42 of the Code. ~~Code, limited~~
 36 as provided in this subsection. For the purpose of this section, qualified basis is calculated
 37 based on the information contained in the carryover allocation and is not recalculated to reflect
 38 subsequent increases or decreases. No credit is allowed for a development that uses tax-exempt
 39 bond financing. The amount of the credit allowed for a taxable year is the percentage provided
 40 in the table below of the credit amount determined above:

<u>Taxable Year Beginning In</u>	<u>Percentage of Credit Amount Allowed</u>
<u>2014</u>	<u>100%</u>
<u>2015</u>	<u>75%</u>
<u>2016</u>	<u>50%</u>
<u>2017</u>	<u>25%."</u>

46 **SECTION 4.2.(d)** G.S. 105-129.45 reads as rewritten:

47 "**§ 105-129.45. Sunset.**

48 This Article is repealed effective ~~January 1, 2015.~~ January 1, 2018. The repeal applies to
 49 developments to which federal credits are allocated on or after ~~January 1, 2015.~~ January 1,
 50 2018."

1 **SECTION 4.2.(e)** This section is effective for taxable years beginning on or after
2 January 1, 2014.

3 **SECTION 4.3.(a)** Part 1 of Article 4 of Chapter 105 of the General Statutes is
4 repealed.

5 **SECTION 4.3.(b)** G.S. 105-129.27(b) reads as rewritten:

6 "(b) Taxes Credited. – The credit provided in this section is allowed against the franchise
7 tax levied in Article 3 of this Chapter ~~and the income tax levied in Part 1 of Article 4 of this~~
8 Chapter. Any other nonrefundable credits allowed the owner are subtracted before the credit
9 allowed by this section."

10 **SECTION 4.3.(c)** G.S. 105-129.96(b) reads as rewritten:

11 "(b) Taxes Credited. – The credit provided in this section is allowed against the franchise
12 tax levied in Article 3 of this Chapter ~~or the income taxes levied in Article 4 of this Chapter.~~
13 The taxpayer must elect the tax against which a credit will be claimed when filing the return on
14 which the first installment of the credit is claimed. This election is binding. The credit may not
15 exceed fifty percent (50%) of the tax against which it is applied. Any unused portion of a credit
16 may be carried forward for the succeeding 10 years. Any carryforwards of a credit must be
17 claimed against the same tax."

18 **SECTION 4.3.(d)** G.S. 105-131.7(a) reads as rewritten:

19 "(a) An S Corporation incorporated or doing business in the State ~~shall~~ must file with the
20 Department an annual ~~return, return~~ on a form prescribed by the Secretary, ~~on or before the due~~
21 ~~date prescribed for the filing of C Corporation returns in G.S. 105-130.17.~~ Secretary. The return
22 must be filed on or before the 15th day of the fourth month following the close of its income
23 year. An income year ending on any day other than the last day of the month is considered to
24 end on the last day of the calendar month ending nearest to the last day of a taxpayer's actual
25 income year. The return shall show the name, address, and social security or federal
26 identification number of each shareholder, income attributable to the State and the income not
27 attributable to the State with respect to each shareholder as defined in G.S. 105-131(4) and (5),
28 and such other information as the Secretary may require."

29 **SECTION 4.3.(e)** G.S. 105-164.3 reads as rewritten:

30 **"§ 105-164.3. Definitions.**

31 The following definitions apply in this Article:

32 ...
33 (19) Major recycling facility. — ~~Defined in G.S. 105-129.25.~~ A recycling facility
34 that meets all of the following conditions:

35 a. The facility is located in an area that, at the time the owner began
36 construction of the facility, was an enterprise tier one area pursuant
37 to G.S. 105-129.3.

38 b. The Secretary of Commerce has certified that the owner will, by the
39 end of the fourth year after the year the owner begins construction of
40 the recycling facility, invest at least three hundred million dollars
41 (\$300,000,000) in the facility and create at least 250 new, full-time
42 jobs at the facility.

43 c. The jobs at the recycling facility meet the wage standard in effect
44 pursuant to G.S. 105-129.4(b) as of the date the owner begins
45 construction of the facility.

46 ...
47 (33a) Recycling facility. – A manufacturing plant at least three-fourths of whose
48 products are made of at least fifty percent (50%) post-consumer waste
49 material measured by weight or volume. The term includes real and personal
50 property located at or on land in the same county and reasonably near the
51 plant site and used to perform business functions related to the plant or to

transport materials and products to or from the plant. The term also includes utility infrastructure and transportation infrastructure to and from the plant.

...."

SECTION 4.3.(f) G.S. 105-275(8)d. reads as rewritten:

"§ 105-275. Property classified and excluded from the tax base.

The following classes of property are designated special classes under Article V, Sec. 2(2), of the North Carolina Constitution and are excluded from tax:

...

d. Real or personal property that is used or, if under construction, is to be used by a major recycling facility as defined in ~~G.S. 105-129.25~~G.S. 105-164.3 predominantly for recycling or resource recovering of or from solid waste, if the Department of Environment and Natural Resources furnishes a certificate to the tax supervisor of the county in which the property is situated stating the Department of Environment and Natural Resources has found that the described property has been or will be constructed or installed for use by a major recycling facility, complies or will comply with the rules of the Department of Environment and Natural Resources, and has, or will have as a purpose recycling or resource recovering of or from solid waste."

SECTION 4.3.(g) Subsections (e) and (f) of this section become effective January 1, 2018. The remainder of this section is effective for taxable years beginning on or after January 1, 2018.

SECTION 4.4.(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.~~

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

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

SECTION 4.4.(b) G.S. 115C-546.2(a) is repealed.

SECTION 4.4.(c) This section is effective when it becomes law.

PART V. ELIMINATE ANNUAL REPORT FILING FEES

SECTION 5.(a) G.S. 55-1-22 reads as rewritten:

"§ 55-1-22. Filing, service, and copying fees.

(a) The Secretary of State shall collect the following fees when the documents described in this subsection are delivered to the Secretary for filing:

Document	Fee
...	
(23) Annual report (paper)	25.00 <u>No fee</u>
(23a) Annual report (electronic)	18.00

1 ...
2 (d) ~~The fee for the annual report in subdivision (23) of this section is nonrefundable."~~

3 **SECTION 5.(b)** G.S. 55-16-22 reads as rewritten:

4 **"§ 55-16-22. Annual report.**

5 (a) ~~Except as provided in subsections (a1) and (a2) of this section, each domestic~~
6 ~~corporation and each foreign corporation authorized to transact business in this State shall~~
7 ~~deliver an annual report to the Secretary of Revenue in paper form or, in the alternative,~~
8 ~~directly to the Secretary of State in electronic form as prescribed by the Secretary of State~~
9 ~~under this section.~~Requirement. – The following businesses shall file an annual report with the
10 Secretary of State on a form prescribed by the Secretary and in the manner required by the
11 Secretary:

12 (1) A corporation that is incorporated under this Chapter.

13 (2) A corporation that has received a certificate of authority under this Chapter
14 authorizing the corporation to transact business in this State.

15 (3) A company that is an insurance company regulated under Chapter 58 of the
16 General Statutes.

17 (a1) ~~Each insurance company subject to the provisions of Chapter 58 of the General~~
18 ~~Statutes shall deliver an annual report to the Secretary of State.~~

19 (a2) ~~A domestic corporation governed by Chapter 55B of the General Statutes is exempt~~
20 ~~from this section.~~

21 (a3) ~~The annual report required by this section shall be in a form jointly prescribed by~~
22 ~~the Secretary of Revenue and the Secretary of State. The Secretary of Revenue shall provide~~
23 ~~the form needed to file an annual report. The Secretary of State shall prescribe the form needed~~
24 ~~to file an annual report electronically and shall provide this form by electronic means. The~~
25 ~~annual report shall set forth all of the following:~~

26 (1) ~~The name of the corporation and the state or country under whose law it is~~
27 ~~incorporated.~~

28 (2) ~~The street address, and the mailing address if different from the street~~
29 ~~address, of the registered office, the county in which its registered office is~~
30 ~~located, and the name of its registered agent at that office in this State, and a~~
31 ~~statement of any change of such registered office or registered agent, or~~
32 ~~both.~~

33 (3) ~~The address and telephone number of its principal office.~~

34 (4) ~~The names, titles, and business addresses of its principal officers.~~

35 (4a) ~~Repealed by Session Laws 1997-475, s. 6.1, effective January 1, 1998.~~

36 (5) ~~A brief description of the nature of its business.~~

37 ~~If the information contained in the most recently filed annual report has not changed, a~~
38 ~~certification to that effect may be made instead of setting forth the information required by~~
39 ~~subdivisions (2) through (5) of this subsection.~~

40 (b) Content. – An annual report must set out the information listed in this subsection.
41 The information must be current as of the date the business completes the report.~~Information in~~
42 ~~the annual report must be current as of the date the annual report is executed on behalf of the~~
43 ~~corporation. If the information set out in the business' most recent annual report has not~~
44 ~~changed, the business may certify on its annual report that the information has not changed in~~
45 ~~lieu of restating the information. A business may amend an annual report at any time to correct,~~
46 ~~update, or augment information included in a prior report.~~

47 The following information must be included on the annual report of a business:

48 (1) Its name.

49 (2) The state or country under whose law it is incorporated or, if it is an
50 insurance company and is not a corporation, the state or country under
51 whose law it is organized.

- (3) The street address of its registered office in this State, the county in which the registered office is located, and the name of the registered agent at the registered office. If the registered office or registered agent differs from the registered office or registered agent listed on the preceding annual report, the report must indicate that the registered office or registered agent has changed. A change in registered office or registered agent that is indicated on an annual report is effective when the report is filed.
- (4) The mailing address of its registered office, if the street address of the office is not the mailing address.
- (5) The address and telephone number of its principal office.
- (6) The name, title, and business address of each of its principal officers.
- (7) A brief description of the nature of its business.

(c) ~~Due Date. – An annual report is due by the 15th day of the fourth month following the close of the fiscal year of the business filing the report. An annual report is delinquent if it is not filed within 120 days after it is due. eligible to be delivered to the Secretary of Revenue is due by the due date for filing the corporation's income and franchise tax returns. An extension of time to file a return is an extension of time to file an annual report. At the option of the filer, an annual report may be filed directly with the Secretary of State in electronic form. An annual report required to be delivered to the Secretary of State is due by the fifteenth day of the fourth month following the close of the corporation's fiscal year.~~

(d) ~~Incomplete Report. – If the Secretary of State determines that an annual report filed with the Secretary does not contain the information required by this section, the Secretary must send a written notice to the business that the report is incomplete. An annual report that is corrected to contain the information and filed with the Secretary within 30 days of the date of the notice is considered timely filed. If an annual report does not contain the information required by this section, the Secretary of State shall promptly notify the reporting domestic or foreign corporation in writing and return the report to it for correction. If the report is corrected to contain the information required by this section and delivered to the Secretary of State within 30 days after the effective date of notice, it is deemed to be timely filed.~~

(e) ~~Amendments to any previously filed annual report may be filed with the Secretary of State at any time for the purpose of correcting, updating, or augmenting the information contained in the annual report.~~

(f) ~~Expired.~~

(g) ~~When a statement of change of registered office or registered agent is filed in the annual report, the change shall become effective when the statement is received by the Secretary of State.~~

(h) ~~If the Secretary of State does not receive an annual report within 120 days of the date the return is due, the Secretary of State may presume that the annual report is delinquent. This presumption may be rebutted by receipt of the annual report from the Secretary of Revenue or by evidence of delivery presented by the filing corporation."~~

SECTION 5.(c) G.S. 57D-1-22(a)(28), as enacted by S.L. 2013-157, reads as rewritten:

"(a) The Secretary of State shall collect the following fees when the documents described in this subsection are delivered to the Secretary of State for filing:

...	
(28) Annual report	200.00 <u>No fee</u>
...."	

SECTION 5.(d) G.S. 59-35.2(a)(18) reads as rewritten:

"(a) The Secretary of State shall collect the following fees when the documents described in this subsection are submitted by a partnership to the Secretary of State for filing:

Document	Fee
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...
(18) Annual report200.00No fee
...."

SECTION 5.(e) G.S. 59-1106(a)(22) reads as rewritten:

"(a) The Secretary of State shall collect the following fees when the documents described in this subsection are delivered to the Secretary of State for filing:

Document	Fee
...	
(22) Annual report for a limited liability limited partnership	<u>200.00</u> No fee
...."	

SECTION 5.(f) G.S. 105-122.1 is repealed.

SECTION 5.(g) G.S. 105-228.90(a) reads as rewritten:

"(a) Scope. – This Article applies to Subchapters I, V, and VIII of this Chapter, ~~to the annual report filing requirements of G.S. 55-16-22,~~ to the primary forest product assessment levied under Article 12 of Chapter 113A of the General Statutes, and to inspection taxes levied under Article 3 of Chapter 119 of the General Statutes."

SECTION 5.(h) G.S. 105-256.1 is repealed.

SECTION 5.(i) G.S. 105-259(a) reads as rewritten:

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

- ...
 - (2) Tax information. – Any information from any source concerning the liability of a taxpayer for a tax, as defined in G.S. 105-228.90. The term includes the following:
 - a. Information contained on a tax return, a tax report, or an application for a license for which a tax is imposed.
 - b. Information obtained through an audit of a taxpayer or by correspondence with a taxpayer.
 - c. Information on whether a taxpayer has filed a tax return or a tax report.
 - d. A list or other compilation of the names, addresses, social security numbers, or similar information concerning taxpayers.

The term does not include ~~(i)~~ statistics classified so that information about specific taxpayers cannot be identified, ~~(ii) an annual report required to be filed under G.S. 55-16-22 or~~ (iii) identified or the amount of tax refunds paid to a governmental entity listed in G.S. 105-164.14(c) or to a State agency."

SECTION 5.(j) This section becomes effective January 1, 2015. Subsection (f) of this section applies to returns due on or after April 15, 2015, for taxable years beginning on or after January 1, 2015. The remaining sections apply to annual reports due on or after January 1, 2015.

PART VI. SALES TAX CHANGES

SECTION 6.1.(a) G.S. 105-164.13(13c), (28), and (30) are repealed.

SECTION 6.1.(b) G.S. 105-164.13(50) reads as rewritten:

§ 105-164.13. Retail sales and use tax.

The sale at retail and the use, storage, or consumption in this State of the following tangible personal property, digital property, and services are specifically exempted from the tax imposed by this Article:

- ...
 - (50) ~~Fifty percent (50%)~~ The percentage set in the table below of the sales price of tangible personal property sold through a coin-operated vending ~~machine,~~ machine on or after the date set in the table below, other than tobacco.

Percentage of Sales Price Exempt

Sold on or After

40%

October 1, 2013

30%

July 1, 2014

20%

July 1, 2015

10%

July 1, 2016.

...."

SECTION 6.1.(c) G.S. 105-164.13(50) is repealed.

SECTION 6.1.(d) Subsection (c) of this section becomes effective July 1, 2017, and applies to items sold on or after that date. The remainder of this section becomes effective October 1, 2013, and applies to sales made and items sold on or after that date.

SECTION 6.2.(a) G.S. 105-164.13(27) and (27a), 105-164.13C, and 105-164.13D are repealed.

SECTION 6.2.(b) This section becomes effective July 1, 2014, and applies to sales made on or after that date.

SECTION 6.3.(a) Part 3 of Article 5 of Chapter 105 of the General Statutes is amended by adding a new section to read:

"§ 105-164.13E. Exemption for farmers.

The following tangible personal property, digital property, and services are exempt from sales and use tax if purchased by a qualifying farmer and for use by the farmer in the planting, cultivating, harvesting, or curing of farm crops or in the production of dairy products, eggs, or animals. A qualifying farmer is a farmer who has an annual gross income of ten thousand dollars (\$10,000) or more from farming operations for the preceding calendar year and includes a dairy operator, a poultry farmer, an egg producer, a livestock farmer, a farmer of crops, and a farmer of an aquatic species, as defined in G.S. 106-758.

- (1) Fuel and electricity used for a purpose other than preparing food, heating dwellings, and other household purposes.
- (2) Commercial fertilizer, lime, land plaster, plastic mulch, plant bed covers, potting soil, baler twine, and seeds.
- (3) Farm machinery, attachment and repair parts for farm machinery, and lubricants applied to farm machinery. The term "machinery" includes implements that have moving parts or are operated or drawn by an animal. The term does not include implements operated wholly by hand or motor vehicles required to be registered under Chapter 20 of the General Statutes.
- (4) A container used in the planting, cultivating, harvesting, or curing of farm crops or in the production of dairy products, eggs, or animals or used in packaging and transporting the farmer's product for sale.
- (5) Any of the following substances when purchased for use on animals or plants, as appropriate, held or produced for commercial purposes. This exemption does not apply to any equipment or devices used to administer, release, apply, or otherwise dispense these substances:
 - a. Remedies, vaccines, medications, litter materials, and feeds for animals.
 - b. Rodenticides, insecticides, herbicides, fungicides, and pesticides.
 - c. Defoliants for use on cotton or other crops.
 - d. Plant growth inhibitors, regulators, or stimulators, including systemic and contact or other sucker control agents for tobacco and other crops.
 - e. Semen.
- (6) Baby chicks and poults sold for commercial poultry or egg production."

SECTION 6.3.(b) G.S. 105-164.13(1), (1a), (1b), (2a), (4a), and (4d) are repealed.

1 **SECTION 6.3.(c)** This section becomes effective July 1, 2014, and applies to sales
2 made on or after that date.

3 **SECTION 6.4.(a)** G.S. 105-164.4(a) reads as rewritten:

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

7 ...

8 (1a) The ~~general rate of two percent (2%)~~ applies to the sales price of each
9 manufactured home sold at retail, including all accessories attached to the
10 manufactured home when it is delivered to the purchaser. ~~The maximum tax~~
11 ~~is three hundred dollars (\$300.00) per article. Each section of a~~
12 ~~manufactured home that is transported separately to the site where it is to be~~
13 ~~erected is a separate article.~~

14 ...

15 (8) The ~~general rate of two and one half percent (2.5%)~~ applies to the sales price
16 of each modular home sold at retail, including all accessories attached to the
17 modular home when it is delivered to the purchaser. The sale of a modular
18 home to a modular homebuilder is considered a retail sale. A person who
19 sells a modular home at retail is allowed a credit against the tax imposed by
20 this subdivision for sales or use tax paid to another state on tangible personal
21 property incorporated in the modular home. The retail sale of a modular
22 home occurs when a modular home manufacturer sells a modular home to a
23 modular homebuilder or directly to the end user of the modular home."

24 **SECTION 6.4.(b)** G.S. 105-164.44G is repealed.

25 **SECTION 6.4.(c)** G.S. 105-467(a) reads as rewritten:

26 "(a) Sales Tax. – The sales tax that may be imposed under this Article is limited to a tax
27 at the rate of one percent (1%) of the following:

28 (1) A retailer's net taxable sales and gross receipts that are subject to the general
29 rate of sales tax imposed by the State under ~~G.S. 105-164.4~~ G.S. 105-164.4
30 except the tax does not apply to the sales price of a manufactured home or a
31 modular home.

32 (2) through (4) Repealed by Session Laws 2011-330, s. 45, effective June 27,
33 2011.

34 (5) The sales price of food that is not otherwise exempt from tax pursuant to
35 G.S. 105-164.13 but is exempt from the State sales and use tax pursuant to
36 G.S. 105-164.13B.

37 (5a) The sales price of a bundled transaction that includes food subject to tax
38 under subdivision (5) of this subsection, if the price of the food exceeds ten
39 percent (10%) of the price of the bundle. A retailer must determine the price
40 of food in a bundled transaction in accordance with G.S. 105-164.4D.

41 ~~(5b) The sales price of bread, rolls, and buns that are sold at a bakery thrift store~~
42 ~~and are exempt from State tax under G.S. 105-164.13(27a).~~

43 (6), (7) Repealed by Session Laws 2011-330, s. 45, effective June 27, 2011."

44 **SECTION 6.4.(d)** This section becomes effective July 1, 2014, and applies to sales
45 made on or after that date.

46 **PART VII. SALES TAX REFUNDS**

47 **SECTION 7.1.(a)** G.S. 105-164.3(43) reads as rewritten:

48 "**§ 105-164.3. Definitions.**

49 The following definitions apply in this Article:

50 ...

(43) State agency. – A unit of the executive, legislative, or judicial branch of State government, such as a department, a commission, a board, a council, or The University of North Carolina. The term includes The University of North Carolina Health Care System. The term does not include a local board of ~~education~~ education or an affiliate of the University of North Carolina Health Care System that is a separately incorporated entity."

SECTION 7.1.(b) G.S. 105-164.14(c) is repealed.

SECTION 7.1.(c) This section becomes effective January 1, 2016, and applies to purchases made on or after that date.

SECTION 7.2.(a) G.S. 105-164.14(b) reads as rewritten:

"(b) Nonprofit Entities and Hospital Drugs. – A nonprofit entity is allowed a semiannual 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, for use in carrying on the work of the nonprofit entity. Sales and use tax liability indirectly incurred by a nonprofit 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 nonprofit entity and is being erected, altered, or repaired for use by the nonprofit entity for carrying on its nonprofit activities is considered a sales or use tax liability incurred on direct purchases by the nonprofit entity. A request for a refund must be in writing and must include any information and documentation required by the Secretary. A request for a refund for the first six months of a calendar year is due the following October 15; a request for a refund for the second six months of a calendar year is due the following April 15. The aggregate annual refund amount allowed for a nonprofit entity under this subsection for a fiscal year may not exceed the amount set in the table below:

<u>Fiscal Year</u>	<u>Amount</u>
<u>Beginning July 1, 2014</u>	<u>\$7,500,000</u>
<u>Beginning July 1, 2015</u>	<u>\$5,000,000</u>
<u>Beginning July 1, 2016</u>	<u>\$3,500,000</u>
<u>Beginning on or after July 1, 2017</u>	<u>\$2,000,000.</u>

The refunds allowed under this subsection do not apply to an entity that is owned and controlled by the United States or to an entity that is owned or controlled by the State and is not listed in this subsection. A hospital that is not listed in this subsection is allowed a semiannual refund of sales and use taxes paid by it on medicines and drugs purchased for use in carrying out its work. The following nonprofit entities are allowed a refund under this subsection:

- (1) Hospitals not operated for profit, including hospitals and medical accommodations operated by an authority or other public hospital described in Article 2 of Chapter 131E of the General Statutes.
- (2) An organization that is exempt from income tax under section 501(c)(3) of the Code, other than an organization that is properly classified in any of the following major group areas of the National Taxonomy of Exempt Entities:
 - a. Community Improvement and Capacity Building.
 - b. Public and Societal Benefit.
 - c. Mutual and Membership Benefit.
- (2a) An organization that is exempt from income tax under the Code and is one of the following:
 - a. A volunteer fire department.
 - b. A volunteer emergency medical services squad.
- (3) Repealed by Session Laws 2008-107, s. 28.22(a), effective July 1, 2008, and applicable to purchases made on or after that date.
- (4) Qualified retirement facilities whose property is excluded from property tax under G.S. 105-278.6A.

(5) A university affiliated nonprofit organization that procures, designs, constructs, or provides facilities to, or for use by, a constituent institution of The University of North Carolina. For purposes of this subdivision, a nonprofit organization includes an entity exempt from taxation as a disregarded entity of the nonprofit organization."

SECTION 7.2.(b) G.S. 105-164.14(d) reads as rewritten:

"(d) Late Applications. – Refunds applied for more than ~~three years~~ one year after the due date are barred."

SECTION 7.2.(c) 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~~ G.S. 105-164.13 apply to the local sales and use tax authorized to be levied and imposed under this Article. 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 ~~The aggregate local refund amount allowed to a nonprofit entity under G.S. 105-164.14(b) for a fiscal year may not exceed the amount set in the table below:~~

<u>Fiscal Year</u>	<u>Amount</u>
<u>Beginning July 1, 2014</u>	<u>\$3,000,000</u>
<u>Beginning July 1, 2015</u>	<u>\$2,000,000</u>
<u>Beginning July 1, 2016</u>	<u>\$1,500,000</u>
<u>Beginning on or after July 1, 2017</u>	<u>\$ 850,000.</u>

(b1) Additional Refunds. – ~~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~~ one year after the due date are barred."

SECTION 7.2.(d) This section becomes effective July 1, 2014, and applies to purchases made on or after that date.

SECTION 7.3.(a) Part 3 of Article 5 of Chapter 105 of the General Statutes is amended by adding a new section to read:

"§ 105-164.14C. Phaseout of sales tax preferences.

(a) Refund Amount. – The refund amount allowed under this section for a fiscal year is the percentage amount of sales and use taxes paid during the fiscal year as provided in the table below:

<u>Fiscal Year</u>	<u>Percentage Allowed</u>
<u>Beginning July 1, 2014</u>	<u>80%</u>
<u>Beginning July 1, 2015</u>	<u>60%</u>
<u>Beginning July 1, 2016</u>	<u>40%</u>
<u>Beginning July 1, 2017</u>	<u>20%.</u>

1 **(b) Administration.** – A request for a refund must be in writing and must include any
2 information and documentation required by the Secretary. A request for a refund is due within
3 six months after the end of the State's fiscal year. Refunds applied for after the due date are
4 barred.

5 **(c) Not an Overpayment.** – A tax for which a refund is allowed under this section is not
6 an overpayment of tax and does not accrue interest as provided in G.S. 105-241.21.

7 **(d) Refund Allowed.** – The following taxpayers are allowed an annual refund of sales
8 and use taxes paid under this Article in the amount provided in subsection (a) of this section.

9 **(1) Farmer.** – A farmer that qualifies for a sales tax exemption under
10 G.S. 105-164.13E is allowed a refund of the sales and use tax paid by the
11 farmer on the following items purchased for use in farming operations:

12 a. A grain, feed, or soybean storage facility and parts and accessories
13 attached to the facility.

14 b. A commercially manufactured facility to be used for commercial
15 purposes for housing, raising, or feeding animals or for housing
16 equipment necessary for these commercial activities. The refund also
17 applies to commercially manufactured equipment, and parts and
18 accessories for the equipment, used in the facility.

19 c. Building materials, supplies, fixtures, and equipment that become a
20 part of and are used in the construction, repair, or improvement of an
21 enclosure or a structure specifically designed, constructed, and used
22 for housing, raising, or feeding animals or for housing equipment
23 necessary for one of these commercial activities. The refund also
24 applies to commercially manufactured equipment, and parts and
25 accessories for the equipment, used in the enclosure or a structure.

26 d. A bulk tobacco barn or rack, parts and accessories attached to the
27 tobacco barn or rack, and any similar apparatus, part, or accessory
28 used to cure or dry tobacco or another crop.

29 **(2) Commercial logging.** – A person engaged in the commercial logging
30 business is allowed a refund of the sales and use tax by it on the following:

31 a. Logging machinery. – Logging machinery is machinery used to
32 harvest raw forest products for transport to first market.

33 b. Attachments and repair parts for logging machinery.

34 c. Lubricants applied to logging machinery.

35 d. Fuel used to operate logging machinery.

36 **(3) Wood chippers.** – A person is allowed a refund of the sales and use tax paid
37 by it on a wood chipper that meets all of the following requirements:

38 a. It is designed to be towed by a motor vehicle.

39 b. It is assigned a 17-digit vehicle identification number by the National
40 Highway Transportation Safety Association.

41 c. It is sold to a person who purchases a motor vehicle in this State that
42 is to be registered in another state and who uses the purchased motor
43 vehicle to tow the wood chipper to the state in which the purchased
44 motor vehicle is to be registered.

45 **(4) Telephone company.** – A telephone company regularly engaged in providing
46 telecommunications service to subscribers on a commercial basis is allowed
47 a refund of the sales and use tax paid by it on central office equipment,
48 switchboard equipment, private branch exchange equipment, terminal
49 equipment other than public pay telephone terminal equipment, and parts
50 and accessories attached to the equipment.

- 1 (5) Radio or television company. – A radio or television company licensed by
2 the Federal Communications Commission is allowed a refund of the sales
3 and use tax paid by it on towers, broadcasting equipment, and parts and
4 accessories attached to the equipment.
- 5 (6) Cable service provider. – A cable service provider is allowed a refund of the
6 sales and use tax paid by it on broadcasting equipment and parts and
7 accessories attached to the equipment. A refund is not allowed on cable.
- 8 (7) Commercial fishing. – A person listed in this subdivision is allowed a refund
9 of the sales and use tax paid by it on boats, fuel oil, lubricating oils,
10 machinery, equipment, nets, rigging, paints, parts, accessories, and supplies.
11 a. The holder of a standard commercial fishing license issued under
12 G.S. 113-168.2 for principal use in commercial fishing operations.
13 b. The holder of a shellfish license issued under G.S. 113-169.2 for
14 principal use in commercial shellfishing operations.
15 c. The operator of a for-hire boat, as defined in G.S. 113-174, for
16 principal use in the commercial use of the boat.
- 17 (8) Commercial laundries and dry cleaners. – A commercial laundry or dry
18 cleaning establishment is allowed a refund of the sales and use tax paid by it
19 on the following:
20 a. Articles or materials used for the identification of garments being
21 laundered or dry cleaned, wrapping paper, bags, hangers, starch,
22 soaps, detergents, cleaning fluids and other compounds or chemicals
23 applied directly to the garments in the direct performance of the
24 laundering or the pressing and cleaning service.
25 b. Laundry and dry-cleaning machinery, parts and accessories attached
26 to the machinery, and lubricants applied to the machinery.
27 c. Fuel used in the direct performance of the laundering or the pressing
28 and cleaning service.
- 29 (9) Commercial printer and publisher. – A commercial printer or a commercial
30 publisher is allowed a refund of the sales and use tax paid by it on paper, ink,
31 and other tangible personal property for use as ingredients or component
32 parts of free distribution periodicals and sales by printers of free distribution
33 periodicals to the publishers of these periodicals. As used in this subdivision,
34 the term "free distribution periodical" means a publication that is
35 continuously published on a periodic basis monthly or more frequently, is
36 provided without charge to the recipient, and is distributed in any manner
37 other than by mail.
- 38 (10) Railroad company. – A railroad company is allowed a refund of the sales
39 and use tax paid by it on diesel fuel for use in rolling stock other than motor
40 vehicles. The definitions in G.S. 105-333 apply in this subdivision.
- 41 (11) Passenger air carrier. – An interstate passenger air carrier is allowed a refund
42 of the sales and use tax paid by it on fuel in excess of two million five
43 hundred thousand dollars (\$2,500,000). The amount of sales and use tax paid
44 does not include a refund allowed to the interstate passenger air carrier under
45 G.S. 105-164.14(a)."

46 **SECTION 7.3.(b)** G.S. 105-164.13(4c), (4f), (4g), (5b), (5c), (5d), (9), (10), (11a),
47 and (39) are repealed.

48 **SECTION 7.3.(c)** G.S. 105-467(b), as amended in this act, reads as rewritten:

49 "(b) Exemptions and Refunds. – The State exemptions and exclusions contained in
50 G.S. 105-164.13 apply to the local sales and use tax authorized to be levied and imposed under
51 this Article. The State refund provisions contained in G.S. 105-164.14 through

1 ~~G.S. 105-164.14B~~ G.S. 105-164.14C apply to the local sales and use tax authorized to be levied
 2 and imposed under this Article. The amount of a refund allowed under G.S. 105-164.14C is the
 3 same percentage refund amount allowed for a State refund under that section. The aggregate
 4 local refund amount allowed to a nonprofit entity under G.S. 105-164.14(b) for a fiscal year
 5 may not exceed the amount set in the table below:

Fiscal Year	Amount
Beginning July 1, 2014	\$3,000,000
Beginning July 1, 2015	\$2,000,000
Beginning July 1, 2016	\$1,500,000
Beginning on or after July 1, 2017	\$ 850,000."

11 **SECTION 7.3.(d)** This section becomes effective July 1, 2014, and applies to
 12 purchases made on or after that date.

13 **SECTION 7.4.(a)** G.S. 105-164.14C, as enacted by this Part, is repealed.

14 **SECTION 7.4.(b)** G.S. 105-467(b), as amended by this Part, reads as rewritten:

15 "(b) Exemptions and Refunds. – The State exemptions and exclusions contained in
 16 G.S. 105-164.13 apply to the local sales and use tax authorized to be levied and imposed under
 17 this Article. The State refund provisions contained in G.S. 105-164.14 through
 18 ~~105-164.14C~~ G.S. 105-164.14B apply to the local sales and use tax authorized to be levied and
 19 imposed under this Article. ~~The amount of a refund allowed under G.S. 105-164.14C is the~~
 20 ~~same percentage refund amount allowed for a State refund under that section.~~ The aggregate
 21 local refund amount allowed to a nonprofit entity under G.S. 105-164.14(b) for a fiscal year
 22 may not exceed the amount set in the table below:

Fiscal Year	Amount
Beginning July 1, 2014	\$3,000,000
Beginning July 1, 2015	\$2,000,000
Beginning July 1, 2016	\$1,500,000
Beginning on or after July 1, 2017	\$ 850,000."

28 **SECTION 7.4.(c)** This section becomes effective July 1, 2018, and applies to
 29 purchases made on or after that date.

30 **SECTION 7.5.(a)** G.S. 105-164.14A(a)(4) and (5) read as rewritten:

31 **"§ 105-164.14A. Economic incentive refunds.**

32 (a) Refund. – The following taxpayers are allowed an annual refund of sales and use
 33 taxes paid under this Article:

- 34 ...
- 35 (4) Motorsports team or sanctioning body. – A professional motorsports racing
 36 team, a motorsports sanctioning body, or a related member of such a team or
 37 body is allowed a refund of the sales and use tax paid by it in this State on
 38 aviation fuel that is used to travel to or from a motorsports event in this
 39 State, to travel to a motorsports event in another state from a location in this
 40 State, or to travel to this State from a motorsports event in another state. For
 41 purposes of this subdivision, a "motorsports event" includes a motorsports
 42 race, a motorsports sponsor event, and motorsports testing. This subdivision
 43 is repealed for purchases made on or after ~~January 1, 2014~~ July 1, 2014.
- 44 (5) Professional motorsports team. – A professional motorsports racing team or
 45 a related member of a team is allowed a refund of fifty percent (50%) of the
 46 sales and use tax paid by it in this State on tangible personal property, other
 47 than tires or accessories, that comprises any part of a professional
 48 motorsports vehicle. For purposes of this subdivision, "motorsports
 49 accessories" includes instrumentation, telemetry, consumables, and paint.
 50 This subdivision is repealed for purchases made on or after ~~January 1,~~
 51 2014 July 1, 2014."

1 **SECTION 7.5.(b)** This section is effective when it becomes law.

2
3 **PART VIII. ELECTRICITY AND PIPED NATURAL GAS TAX CHANGES**

4 **SECTION 8.1.(a)** G.S. 105-116, 105-116.1, 105-164.21A, and 159B-27(b), (c),
5 (d), and (e) are repealed.

6 **SECTION 8.1.(b)** G.S. 105-130.6A(a)(4) reads as rewritten:

7 "(a) Definitions. – The provisions of G.S. 105-130.6 govern the determination of
8 whether a corporation is a subsidiary or an affiliate of another corporation. In addition, the
9 following definitions apply in this section:

10 ...

11 (4) Electric power holding company. – A holding company with an affiliate or a
12 subsidiary that is engaged in the business of producing electric
13 power subject to the franchise tax on electric power companies levied in
14 G.S. 105-116.

15 "

16 **SECTION 8.1.(c)** G.S. 105-164.4(a)(1f) and (a)(4a) are repealed.

17 **SECTION 8.1.(d)** G.S. 105-164.13(44) and Article 5E of Chapter 105 of the
18 General Statutes are repealed.

19 **SECTION 8.1.(e)** G.S. 105-164.4(a) is amended by adding a new subdivision to
20 read:

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

23 **SECTION 8.1.(f)** G.S. 105-164.15A reads as rewritten:

24 **"§ 105-164.15A. Effective date of tax changes on services and items taxed at combined**
25 **general rate.**

26 (a) Services. – The effective date of a tax change for a service taxable under this Article
27 is administered as follows:

28 (1) For a service that is provided and billed on a monthly or other periodic basis:

29 a. A new tax or a tax rate increase applies to the first billing period that
30 is at least 30 days after enactment and that starts on or after the
31 effective date.

32 b. A tax repeal or a tax rate decrease applies to bills rendered on or after
33 the effective date.

34 (2) For a service that is not billed on a monthly or other periodic basis, a tax
35 change applies to amounts received for services provided on or after the
36 effective date, except amounts received for services provided under a
37 lump-sum or unit-price contract entered into or awarded before the effective
38 date or entered into or awarded pursuant to a bid made before the effective
39 date.

40 (b) Combined Rate Items. – The effective date of a rate change for an item that is
41 taxable under this Article at the combined general rate is the effective date of any of the
42 following:

43 (1) The effective date of a change in the State general rate of tax set in
44 G.S. 105-164.4.

45 (2) For an increase in the authorization for local sales and use taxes, the date on
46 which local sales and use taxes authorized by Subchapter VIII of this
47 Chapter for every county become effective in the first county or group of
48 counties to levy the authorized taxes.

49 (3) For a repeal in the authorization for local sales and use taxes, the effective
50 date of the repeal.

1 (4) For an item billed on a monthly or other periodic basis, the change applies to
2 the first billing period that is at least 30 days after enactment and that starts
3 on or after the effective date."

4 **SECTION 8.1.(g)** This section becomes effective July 1, 2014, and applies to gross
5 receipts billed on or after that date.

6 **SECTION 8.2.(a)** Pursuant to G.S. 62-31 and G.S. 62-32, the Utilities Commission
7 must adjust the rate set for the following utilities:

8 (1) Electricity to reflect the repeal of G.S. 105-116 and the resulting liability of
9 electric power companies for the tax imposed under G.S. 105-122 and for
10 the increase in the rate of tax imposed on sales of electricity under
11 G.S. 105-164.4.

12 (2) Piped natural gas to reflect the repeal of Article 5E of Chapter 105 of the
13 General Statutes, the repeal of the credit formerly allowed under
14 G.S. 105-122(d1), and the resulting liability of companies for the tax
15 imposed on sales of piped natural gas under G.S. 105-164.4.

16 **SECTION 8.2.(b)** This section is effective when it becomes law.

17 **SECTION 8.3.(a)** Part 8 of Article 5 of Chapter 105 of the General Statutes is
18 amended by adding a new section to read:

19 "§ 105-164.44K. Distribution of part of tax on electricity to cities.

20 (a) Distribution. – The Secretary must distribute to cities forty-four percent (44%) of
21 the net proceeds of the tax collected under G.S. 105-164.4 on electricity. Each city's share of
22 the amount to be distributed is its franchise tax share calculated under subsection (b) of this
23 section plus its ad valorem share calculated under subsection (c) of this section. The Secretary
24 must make the distribution within 75 days after the end of each quarter.

25 (b) Franchise Tax Share. – The quarterly franchise tax share of a city is the amount of
26 electricity gross receipts franchise tax distributed to the city under repealed G.S. 105-116.1 for
27 the same related quarter that was the last quarter in which taxes were imposed on electric power
28 companies under repealed G.S. 105-116.

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

32 (1) If a city dissolves and is no longer incorporated, the franchise tax share of
33 the city is added to the amount distributed under subsection (c) of this
34 section.

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

37 (3) If a city divides into two or more cities, the franchise tax share of the city
38 that divides is allocated among the new cities in proportion to the total
39 amount of ad valorem taxes levied by each on property having a tax situs in
40 the city.

41 (c) Ad Valorem Share. – The ad valorem share of a city is its proportionate share of the
42 amount that remains for distribution after determining each city's franchise tax share under
43 subsection (b) of this section. A city's proportionate share is the amount of ad valorem taxes it
44 levies on property having a tax situs in the city compared to the ad valorem taxes levied by all
45 cities on property having a tax situs in the cities.

46 (d) Methodology. – The ad valorem method set out in G.S. 105-472(b)(2) applies in
47 determining the share of a city under this section based on ad valorem taxes, except that the
48 amount of ad valorem taxes levied by a city does not include ad valorem taxes levied on behalf
49 of a taxing district and collected by the city.

50 (e) Determination Final. – The determination made by the Department with respect to a
51 city's franchise tax share is final and is not subject to administrative or judicial review.

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

4 **SECTION 8.3.(b)** Part 8 of Article 5 of Chapter 105 of the General Statutes is
5 amended by adding a new section to read:

6 **"§ 105-164.44L. Distribution of part of tax on piped natural gas to cities.**

7 (a) Distribution. – The Secretary must distribute to cities twenty percent (20%) of the
8 net proceeds of the tax collected under G.S. 105-164.4 on piped natural gas. Each city's share of
9 the amount to be distributed is its excise tax share calculated under subsection (b) of this
10 section plus its ad valorem share calculated under subsection (c) of this section. The Secretary
11 must make the distribution within 75 days after the end of each quarter.

12 (b) Excise Tax Share. – The quarterly excise tax share of a city that is not a gas city is
13 the amount of piped natural gas excise tax distributed to the city under repealed
14 G.S. 105-187.44 for the same related quarter that was the last quarter in which taxes were
15 imposed on piped natural gas under repealed Article 5E of this Chapter. The Secretary must
16 determine the excise tax share of a gas city and divide that amount by four to calculate the
17 quarterly distribution amount for a gas city. The excise tax share of a gas city is the amount the
18 gas city would have received under repealed G.S. 105-187.44 for the last year in which taxes
19 were imposed under repealed Article 5E of this Chapter if piped natural gas consumed by the
20 city or delivered by the city to a customer had not been exempt from tax under repealed
21 G.S. 105-187.41(c)(1) and (c)(2). A gas city must report the information required by the
22 Secretary to make the distribution under this section in the form, manner, and time required by
23 the Secretary. For purposes of this subsection, the term "gas city" has the same meaning as
24 defined in repealed G.S. 105-187.40.

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

- 28 (1) If a city dissolves and is no longer incorporated, the excise tax share of the
29 city is added to the amount distributed under subsection (c) of this section.
- 30 (2) If two or more cities merge or otherwise consolidate, their excise tax shares
31 are combined.
- 32 (3) If a city divides into two or more cities, the excise tax share of the city that
33 divides is allocated among the new cities in proportion to the total amount of
34 ad valorem taxes levied by each on property having a tax situs in the city.

35 (c) Ad Valorem Share. – The ad valorem share of a city is its proportionate share of the
36 amount that remains for distribution after determining each city's excise tax share under
37 subsection (b) of this section. A city's proportionate share is the amount of ad valorem taxes it
38 levies on property having a tax situs in the city compared to the ad valorem taxes levied by all
39 cities on property having a tax situs in the cities.

40 (d) Methodology. – The ad valorem method set out in G.S. 105-472(b)(2) applies in
41 determining the share of a city under this section based on ad valorem taxes, except that the
42 amount of ad valorem taxes levied by a city does not include ad valorem taxes levied on behalf
43 of a taxing district and collected by the city.

44 (e) Determination Final. – The determination made by the Department with respect to a
45 city's excise tax share is final and is not subject to administrative or judicial review.

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

49 **SECTION 8.3.(c)** This section is effective for quarters beginning on or after July 1,
50 2014.

51 **SECTION 8.4.(a)** G.S. 160A-211 reads as rewritten:

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

5 (1) ~~Supplying piped natural gas taxed under Article 5E of Chapter 105 of the~~
6 ~~General Statutes gas.~~

7 (2) Providing telecommunications service taxed under G.S. 105-164.4(a)(4c).

8 (3) Providing video programming taxed under G.S. 105-164.4(a)(6).

9 (4) Providing electricity. A city may continue to impose and collect the license,
10 franchise, or privilege taxes on an electric power company that it imposed
11 and collected on or before January 1, 1947, but it may not impose or collect
12 any greater franchise, privilege, or license taxes, in the aggregate, on an
13 electric power company that was imposed and collected on or before January
14 1, 1947."

15 **SECTION 8.4.(b)** This section becomes effective July 1, 2014.

16
17 **PART IX. CONVERT GROSS RECEIPTS TAX ON AMUSEMENTS TO SALES TAX**

18 **SECTION 9.1.(a)** G.S. 105-37.1, 105-38.1, and 105-40 are repealed.

19 **SECTION 9.1.(b)** G.S. 105-164.4(a) is amended by adding the following new
20 subdivision to read:

21 **"§ 105-164.4. Tax imposed on retailers.**

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

25 ...

26 (9) The general rate of tax applies to admission charges to an entertainment
27 activity listed in this subdivision. Offering any of these listed activities is a
28 service. An admission charge includes a charge for a single ticket, a
29 multioccasion ticket, a seasonal pass, an annual pass, and a cover charge.

30 An admission charge does not include a charge for amenities. If charges
31 for amenities are not separately stated on the face of an admission ticket,
32 then the charge for admission is considered to be equal to the admission
33 charge for a ticket to the same event that does not include amenities and is
34 for a seat located directly in front of or closest to a seat that includes
35 amenities.

36 When an admission ticket is resold and the price of the admission ticket
37 is printed on the face of the ticket, the tax does not apply to the face price.
38 When an admission ticket is resold and the price of the admission ticket is
39 not printed on the face of the ticket, the tax applies to the difference between
40 the amount the reseller paid for the ticket and the amount the reseller charges
41 for the ticket.

42 Admission charges to the following entertainment activities are subject
43 to tax:

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

45 b. A motion picture or film."

46 **SECTION 9.1.(c)** G.S. 105-164.13 is amended by adding the following new
47 subdivision to read:

48 **"§ 105-164.13. Retail sales and use tax.**

49 The sale at retail and the use, storage, or consumption in this State of the following tangible
50 personal property, digital property, and services are specifically exempted from the tax imposed
51 by this Article:

- 1 ...
- 2 (60) Admission charges to any of the following recreational or entertainment
- 3 activities:
- 4 a. An event that is held at an elementary or secondary school and is
- 5 sponsored by the school.
- 6 b. A commercial agricultural fair that meets the requirements of
- 7 G.S. 106-520.1, as determined by the Commissioner of Agriculture.
- 8 c. A festival or other recreational or entertainment activity that lasts no
- 9 more than seven consecutive days and is sponsored by a nonprofit
- 10 entity that is exempt from tax under Article 4 of this Chapter and
- 11 uses the entire proceeds of the activity exclusively for the entity's
- 12 nonprofit purposes. This exemption applies to the first two activities
- 13 sponsored by the entity during a calendar year.
- 14 d. A youth athletic contest sponsored by a nonprofit entity that is
- 15 exempt from tax under Article 4 of this Chapter. For the purpose of
- 16 this subdivision, a youth athletic contest is a contest in which each
- 17 participating athlete is less than 20 years of age.
- 18 e. A State attraction."

19 **SECTION 9.1.(d)** The following statutes are repealed:

20 G.S. 106-507

21 G.S. 106-516

22 G.S. 106-517

23 G.S. 106-518

24 G.S. 106-519

25 G.S. 106-520

26 G.S. 140-10.1

27 **SECTION 9.1.(e)** G.S. 105-164.9 is repealed.

28 **SECTION 9.1.(f)** G.S. 105-164.10 reads as rewritten:

29 **"§ 105-164.10. Retail bracket system.**

30 For the convenience of the retailer in collecting the tax due under this Article, the Secretary

31 ~~shall~~ must prescribe tables that compute the tax due on sales by rounding off the amount of tax

32 due to the nearest whole cent. The Secretary ~~shall~~ must issue a separate table for each rate of

33 tax that may apply to a sale, ~~including the general rate established in G.S. 105-164.4,~~

34 ~~preferential rates, and combined State and local rates. Use of the tables prescribed by the~~

35 ~~Secretary does not relieve a retailer of liability for the applicable rate of tax due on the gross~~

36 ~~receipts or net taxable sales of the retailer.sale."~~

37 **SECTION 9.1.(g)** This section becomes effective October 1, 2013, and applies to

38 admissions purchased on or after that date. For admissions to a live event, the tax applies to the

39 initial sale or resale of tickets occurring on or after that date; gross receipts received on or after

40 October 1, 2013, for admission to a live event, for which the initial sale of tickets occurred

41 before that date, other than gross receipts received by a ticket reseller, are taxable under

42 G.S. 105-37.1.

43 **SECTION 9.2.(a)** G.S. 105-164.4(a)(9), as enacted by this Part, reads as rewritten:

44 "(9) The general rate of tax applies to admission charges to an entertainment

45 activity listed in this subdivision. Offering any of these listed activities is a

46 service. An admission charge includes a charge for a single ticket, a

47 multioccasion ticket, a seasonal pass, an annual pass, and a cover charge.

48 An admission charge does not include a charge for amenities. If charges

49 for amenities are not separately stated on the face of an admission ticket,

50 then the charge for admission is considered to be equal to the admission

51 charge for a ticket to the same event that does not include amenities and is

1 for a seat located directly in front of or closest to a seat that includes
2 amenities.

3 When an admission ticket is resold and the price of the admission ticket
4 is printed on the face of the ticket, the tax does not apply to the face price.
5 When an admission ticket is resold and the price of the admission ticket is
6 not printed on the face of the ticket, the tax applies to the difference between
7 the amount the reseller paid for the ticket and the amount the reseller charges
8 for the ticket.

9 Admission charges to the following entertainment activities are subject
10 to tax:

- 11 a. A live performance or other live event of any kind.
- 12 b. A motion picture or film.
- 13 c. A museum, a cultural site, a garden, an exhibit, a show, or a similar
14 attraction or a guided tour at any of these attractions."

15 **SECTION 9.2.(b)** This section becomes effective July 1, 2014, and applies to
16 admissions purchased on or after that date.

17

18 **PART X. SERVICE CONTRACTS**

19 **SECTION 10.(a)** G.S. 105-164.3 is amended by adding a new subdivision to read:

20 **"§ 105-164.3. Definitions.**

21 The following definitions apply in this Article:

22 ...

23 (38b) Service contract. – A warranty agreement, a maintenance agreement, a repair
24 contract, or a similar agreement or contract by which the provider agrees to
25 maintain or repair tangible personal property.

26"

27 **SECTION 10.(b)** G.S. 105-164.4(a) is amended by adding the following new
28 subdivision to read:

29 **"§ 105-164.4. Tax imposed on retailers.**

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

33 ...

34 (11) The general rate of tax applies to a service contract."

35 **SECTION 10.(c)** G.S. 105-164.13 is amended by adding a new subdivision to
36 read:

37 "(61) A service contract on tangible personal property described in
38 G.S. 105-164.4(a)(11) that is provided for any of the following:

- 39 a. An item exempt from tax under this Article, other than an item
40 exempt from tax under G.S. 105-164.13(32).
- 41 b. A newly constructed building or structure.
- 42 c. A transmission, distribution, or other network cable or asset of an
43 entity providing electric, gas, telecommunications, cable, broadband,
44 or other utility services contained on utility-owned land or other
45 rights-of-way or easements authorized for utility and related
46 purposes."

47 **SECTION 10.(d)** This section becomes effective July 1, 2014, and applies to sales
48 made on or after that date.

49

50 **PART XI. ELIMINATE ESTATE TAX**

51 **SECTION 11.(a)** Article 1A of Chapter 105 of the General Statutes is repealed.

1 **SECTION 11.(b)** G.S. 105-241.10 reads as rewritten:

2 "**§ 105-241.10. Limit on refunds and assessments after a federal determination.**

3 The limitations in this section apply when a taxpayer files a timely return reflecting a
4 federal determination that affects the amount of State tax payable and the general statute of
5 limitations for requesting a refund or proposing an assessment of the State tax has expired. A
6 federal determination is a correction or final determination by the federal government of the
7 amount of a federal tax due. A return reflecting a federal determination is timely if it is filed
8 within the time required by ~~G.S. 105-32.8, 105-130.20~~G.S. 105-130.20, 105-159, 105-160.8, or
9 105-163.6A, as appropriate. The limitations are:

10 (1) Refund. – A taxpayer is allowed a refund only if the refund is the result of
11 adjustments related to the federal determination.

12 (2) Assessment. – A taxpayer is liable for additional tax only if the additional
13 tax is the result of adjustments related to the federal determination. A
14 proposed assessment may not include an amount that is outside the scope of
15 this liability."

16 **SECTION 11.(c)** G.S. 105-236(a)(5) reads as rewritten:

17 "(a) Penalties. – The following civil penalties and criminal offenses apply:

18 ...
19 (5) Negligence. –

20 ...
21 e. ~~Estate tax deficiencies.—This subdivision does not apply to estate~~
22 ~~tax deficiencies that are the result of valuation understatements.~~

23 "

24 **SECTION 11.(d)** This section becomes effective January 1, 2013, and applies to
25 the estates of decedents dying on or after that date.

26 **PART XII. ELIMINATE EARMARKS AND CREDIT TO GENERAL FUND**

27 **SECTION 12.1.(a)** G.S. 105-228.30(b) reads as rewritten:

28 "(b) The register of deeds of each county must remit the proceeds of the tax levied by
29 this section to the county finance officer. The finance officer of each county must credit
30 one-half of the proceeds to the county's general fund and remit the remaining one-half of the
31 proceeds, less taxes refunded and the county's allowance for administrative expenses, to the
32 Department of Revenue on a monthly basis. A county may retain two percent (2%) of the
33 amount of tax proceeds allocated for remittance to the Department of Revenue as compensation
34 for the county's cost in collecting and remitting the State's share of the tax. ~~Of the funds~~
35 ~~remitted to it pursuant to this section, the Department of Revenue must credit seventy five~~
36 ~~percent (75%) to the Parks and Recreation Trust Fund established under G.S. 113-44.15 and~~
37 ~~twenty five percent (25%) to the Natural Heritage Trust Fund established under~~
38 ~~G.S. 113-77.7.~~The Department of Revenue must credit the funds remitted to it under this
39 subsection to the General Fund."

40 **SECTION 12.1.(b)** G.S. 113-44.15(a) reads as rewritten:

41 "(a) Fund Created. – There is established a Parks and Recreation Trust Fund in the State
42 Treasurer's Office. The Trust Fund shall be a ~~nonreverting~~ special revenue fund consisting of
43 gifts and grants to the Trust Fund, ~~monies credited to the Trust Fund pursuant to~~
44 ~~G.S. 105-228.30(b),~~Fund and other monies appropriated to the Trust Fund by the General
45 Assembly. Investment earnings credited to the assets of the Fund shall become part of the
46 Fund."
47

48 **SECTION 12.1.(c)** G.S. 113-77.9 reads as rewritten:

49 "**§ 113-77.9. Acquisition of lands with funds from the Natural Heritage Trust Fund.**

50 ...

1 (b) Land Acquisition and Debt Service. – The Trustees may authorize expenditures
2 from the Fund for the following purposes:

3 (1) To acquire land that represents the ecological diversity of North Carolina,
4 including natural features such as riverine, montane, coastal, and geologic
5 systems and other natural areas to ensure their preservation and conservation
6 for recreational, scientific, educational, cultural, and aesthetic purposes, and
7 to retire debt incurred for this purpose under Article 9 of Chapter 142 of the
8 General Statutes.

9 (2) To acquire land as additions to the system of parks, State trails, aesthetic
10 forests, fish and wildlife management areas, wild and scenic rivers, and
11 natural areas for the beneficial use and enjoyment of the public, and to retire
12 debt incurred for this purpose under Article 9 of Chapter 142 of the General
13 Statutes.

14 ~~(3) Subject to the limitations of subsection (b2) of this section, to acquire land
15 that contributes to the development of a balanced State program of historic
16 properties.~~

17 ...

18 ~~(b2) Historic Properties.—The Trustees may authorize expenditure of up to twenty five
19 percent (25%) of the funds credited to the Fund pursuant to G.S. 105-228.30 during the
20 preceding fiscal year to acquire land under subdivision (3) of subsection (b) of this section. No
21 other funds in the Fund may be used for expenditures to acquire land under subdivision (3) of
22 subsection (b) of this section.~~

23 ~~(b3) Debt.—Of the funds credited annually to the Fund pursuant to G.S. 105-228.30, the
24 Trustees may authorize expenditure of up to sixty percent (60%) to reimburse the General Fund
25 for debt service on special indebtedness to be issued or incurred under Article 9 of Chapter 142
26 of the General Statutes for the purposes provided in subdivisions (b)(1) and (2) of this section.
27 In order to authorize expenditure of funds for debt service reimbursement, the Trustees must
28 identify to the State Treasurer and the Department of Administration the specific natural
29 heritage projects for which they would like special indebtedness to be issued or incurred and
30 the annual amount they intend to make available, and request the State Treasurer to issue or
31 incur the indebtedness. After special indebtedness has been issued or incurred for a natural
32 heritage project requested by the Trustees, the Trustees must direct the State Treasurer to credit
33 to the General Fund each year the actual aggregate principal and interest payments to be made
34 in that year on the special indebtedness, as identified by the State Treasurer.~~

35"

36 **SECTION 12.1(d)** This section becomes effective July 1, 2013, and applies to
37 transfers made on or after that date.

38 **SECTION 12.2(a)** G.S. 105-187.19(b) reads as rewritten:

39 "(b) Each quarter, the Secretary shall credit eight percent (8%) of the net tax proceeds to
40 the Solid Waste Management Trust Fund, seventeen percent (17%) of the net tax proceeds to
41 the Scrap Tire Disposal Account, two and one half percent (2.5%) of the net tax proceeds to the
42 Inactive Hazardous Sites Cleanup Fund, and two and one half percent (2.5%) of the net tax
43 proceeds to the Bernard Allen Memorial Emergency Drinking Water Fund. thirty percent (30%)
44 of the net tax proceeds to the General Fund. The Secretary shall distribute the remaining
45 seventy percent (70%) of the net tax proceeds among the counties on a per capita basis
46 according to the most recent annual population estimates certified to the Secretary by the State
47 Budget Officer."

48 **SECTION 12.2(b)** G.S. 130A-309.63 is repealed.

49 **SECTION 12.2(c)** Part 2B of Article 9 of Chapter 130A of the General Statutes is
50 amended by adding a new section to read:

1 "§ 130A-309.64. Scrap Tire Disposal Program; other Department activities related to
2 scrap tires.

3 (a) The Department may make grants to units of local government to assist them in
4 disposing of scrap tires. To administer the grants, the Department shall establish procedures for
5 applying for a grant and the criteria for selecting among grant applicants. The criteria shall
6 include the financial ability of a unit of local government to provide for scrap tire disposal, the
7 severity of a unit of local government's scrap tire disposal problem, the effort made by a unit of
8 local government to ensure that only tires generated in the normal course of business in this
9 State are provided free disposal, and the effort made by a unit of local government to provide
10 for scrap tire disposal within the resources available to it.

11 (b) A unit of local government is not eligible for a grant under subsection (a) of this
12 section unless its costs for disposing of scrap tires for the six-month period preceding the date
13 the unit of local government files an application for a grant exceeded the amount the unit of
14 local government received during that period from the proceeds of the scrap tire tax under
15 G.S. 105-187.19. A grant to a unit of local government for scrap tire disposal may not exceed
16 the unit of local government's unreimbursed cost for the six-month period.

17 (c) The Department may support a position to provide local governments with
18 assistance in developing and implementing scrap tire management programs designed to
19 complete the cleanup of nuisance tire collection sites and prevent scrap tires generated from
20 outside of the State from being presented for free disposal in the State.

21 (d) The Department may clean up scrap tire collection sites that the Department has
22 determined are a nuisance. The Department may use funds to clean up a nuisance tire collection
23 site only if no other funds are available for that purpose.

24 (e) The Department shall include in the report to be delivered to the Environmental
25 Review Commission on or before January 15 of each year pursuant to G.S. 130A-309.06(c) a
26 description of the implementation of the North Carolina Scrap Tire Disposal Act under this Part
27 for the fiscal year ending the preceding June 30. The description of the implementation of the
28 North Carolina Scrap Tire Disposal Act shall include a list of the recipients of grants under
29 subsection (a) of this section and the amount of each grant for the previous 12-month period.
30 The report also shall include the amount of funds used to clean up nuisance sites under
31 subsection (d) of this section.

32 (f) The Department may adopt any rules necessary to implement this section."

33 **SECTION 12.2.(d)** G.S. 130A-309.06(c) reads as rewritten:

34 "(c) The Department shall report to the Environmental Review Commission on or before
35 15 January of each year on the status of solid waste management efforts in the State. The report
36 shall include:

37 ...

38 (10) A description of the implementation of the North Carolina Scrap Tire
39 Disposal Act that includes ~~the beginning and ending balances in the Scrap~~
40 ~~Tire Disposal Account for the reporting period, the amount credited to the~~
41 ~~Scrap Tire Disposal Account during the reporting period, and the amount of~~
42 ~~revenue used for grants and to clean up nuisance tire collection sites, as~~
43 ~~required by G.S. 130A-309.63(e) under the provisions of G.S. 130A-309.64.~~

44"

45 **SECTION 12.2.(e)** G.S. 130A-309.09C(g) reads as rewritten:

46 "(g) In addition to any other penalties provided by law, a unit of local government that
47 does not comply with the requirements of G.S. 130A-309.09A(b) and G.S. 130A-309.09B(a)
48 shall not be eligible for grants from the Solid Waste Management Trust Fund, ~~the Scrap Tire~~
49 ~~Disposal Account, Fund~~ or the White Goods Management Account and shall not receive the
50 proceeds of the scrap tire disposal tax imposed by Article 5B of Chapter 105 of the General
51 Statutes or the proceeds of the white goods disposal tax imposed by Article 5C of Chapter 105

1 of the General Statutes to which the unit of local government would otherwise be entitled. The
2 Secretary shall notify the Secretary of Revenue to withhold payment of these funds to any unit
3 of local government that fails to comply with the requirements of G.S. 130A-309.09A(b) and
4 G.S. 130A-309.09B(a). Proceeds of the scrap tire disposal tax that are withheld pursuant to this
5 subsection shall be credited to the ~~Scrap Tire Disposal Account~~ General Fund and may be used
6 as provided in ~~G.S. 130A-309.63~~ G.S. 130A-309.64. Proceeds of the white goods disposal tax
7 that are withheld pursuant to this subsection shall be credited to the White Goods Management
8 Account and may be used as provided in G.S. 130A-309.83."

9 **SECTION 12.2.(f)** Any tax proceeds remaining in the Scrap Tire Disposal
10 Account, repealed under subsection (b) of this section, as of the effective date of this section
11 shall continue to be used for the same purposes and in the same manner as the Scrap Tire
12 Disposal Account, except the funds in the Scrap Tire Disposal Account shall not be used for
13 grants to encourage the use of processed scrap tire materials.

14 **SECTION 12.2.(g)** This section becomes effective July 1, 2013.

15 16 **PART XIII. REPEAL TOBACCO DISCOUNT**

17 **SECTION 13.(a)** G.S. 105-113.21 reads as rewritten:

18 "**§ 105-113.21. ~~Discount; refund.~~ Refund.**

19 ...
20 (a) ~~Discount.~~—A distributor who files a timely report under G.S. 105-113.18 and who
21 sends a timely payment may deduct from the amount due with the report a discount of two
22 percent (2%). ~~This discount covers expenses incurred in preparing the records and reports~~
23 ~~required by this Part, and the expense of furnishing a bond.~~

24 (b) **Refund.**—A distributor in possession of packages of stale or otherwise unsalable
25 cigarettes upon which the tax has been paid may return the cigarettes to the manufacturer as
26 provided in this subsection and apply to the Secretary for refund of the tax. The application
27 ~~shall must~~ be in the form prescribed by the Secretary and ~~shall must~~ be accompanied by an
28 affidavit from the manufacturer stating the number of cigarettes returned to the manufacturer
29 by the applicant. The Secretary ~~shall must~~ refund the tax ~~paid, less the discount allowed, paid~~
30 on the unsalable cigarettes. The distributor must return the cigarettes to the manufacturer of the
31 cigarettes or to the affiliated manufacturer who is contracted by the manufacturer of the
32 cigarettes to serve as the manufacturer's agent for the purposes of validating quantities and
33 disposing of unsalable cigarettes."

34 **SECTION 13.(b)** G.S. 105-113.39 reads as rewritten:

35 "**§ 105-113.39. ~~Discount; refund.~~ Refund.**

36 (a) ~~Discount.~~—A wholesale dealer or a retail dealer who is primarily liable under
37 G.S. 105-113.35(b) for the excise taxes imposed by this Part, who files a timely report under
38 G.S. 105-113.37, and who sends a timely payment may deduct from the amount due with the
39 report a discount of two percent (2%). ~~This discount covers expenses incurred in preparing the~~
40 ~~records and reports required by this Part and the expense of furnishing a bond.~~

41 (b) **Refund.**—A wholesale dealer or retail dealer who is primarily liable under
42 G.S. 105-113.35(b) for the excise taxes imposed by this Part and is in possession of stale or
43 otherwise unsalable tobacco products upon which the tax has been paid may return the tobacco
44 products to the manufacturer and apply to the Secretary for refund of the tax. The application
45 ~~shall must~~ be in the form prescribed by the Secretary and ~~shall must~~ be accompanied by an
46 affidavit from the manufacturer listing the tobacco products returned to the manufacturer by the
47 applicant. The Secretary ~~shall must~~ refund the tax ~~paid, less the discount allowed, paid~~
48 on the listed products."

49 **SECTION 13.(c)** This section becomes effective July 1, 2014, and applies to
50 returns filed for periods beginning on or after that date.

PART XIV. CAP EXCISE TAX ON MOTOR FUEL

SECTION 14.(a) Notwithstanding G.S. 105-449.80(a), for the period September 1, 2013, through June 30, 2015, the motor fuel excise tax rate may not exceed thirty-seven and one-half cents (37 1/2¢) a gallon.

SECTION 14.(b) This section is effective when it becomes law.

PART XV. STUDY AND EFFECTIVE DATE

SECTION 15.(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 15.(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), 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 15.(c) The Revenue Laws Study Committee is directed to study the tax issues listed in this subsection. The Committee may report its findings, together with any recommended legislation, to the 2014 Regular Session of the 2013 General Assembly upon its convening.

- (1) The scope and application of the privilege tax at the rate of one percent (1%) with a cap of eighty dollars (\$80.00) that applies to mill machinery and on other machinery and equipment purchased by certain industries and companies.
- (2) The feasibility of a preferential tax rate on diesel fuel sold to railroads, fuel sold to passenger air carriers, and fuel sold to motorsports.
- (3) The authority of cities and counties to impose a privilege tax on businesses and the various State privilege license taxes.
- (4) The impact of the elimination of the State and local sales and use tax refund on nonprofit entities and their ability to fulfill their stated mission.
- (5) The benefits and fiscal impact of allowing corporations to deduct net operating losses as opposed to net economic losses.
- (6) The simplification of the franchise tax base calculation and the elimination of the franchise tax.
- (7) The feasibility of expanding the sales tax base to include additional services.

SECTION 15.(d) Except as otherwise provided, this act is effective when it becomes law.