North Carolina Tax Law Update

Presented by The NC Department of Revenue
2013
Tax Simplification and Reduction Act

House Bill 998 (S.L. 2013-316) reduces individual income and business tax rates. To help offset the revenue loss from rate reductions applicable to all taxpayers, the bill eliminates some deductions and tax credits and expands the sales tax base.

The bill makes the following changes to the State's tax structure:
Individual Income Tax
Individual Income Tax  (Sections 1.1.(d) & 1.2.(a))

Previously, there were three income tax rates – 6%, 7%, and 7.75%.

Under the bill, there will be a flat North Carolina tax rate:
5.8% effective 2014
5.75% effective 2015
Effective for tax years beginning on or after January 1, 2014

- Eliminates all personal exemptions, some deductions and some credits

Some of the remaining deductions include:

- Social security income
- Interest on certain bond obligations
- Bailey retirement benefits
- State tax refunds
Effective for tax years beginning on or after January 1, 2014

- Increases the standard deduction amount to:
  - $15,000 for married filing jointly
  - $12,000 for head of household
  - $7,500 for single or married filing separate
Individual Income Tax Continued  (Section 1.1.(d))

Effective for tax years beginning on or after January 1, 2014

- Limits itemized deductions to the amounts claimed by the taxpayer under the Code for charitable contributions, mortgage interest and property taxes paid on real estate.

- Caps the amount of North Carolina itemized deductions a taxpayer may claim for mortgage interest and property taxes at $20,000. For married taxpayers, the $20,000 limitation applies to the combined total of mortgage interest and property taxes.

- There is no limitation under North Carolina law for charitable contributions other than the limitations set forth under the Code.
Individual Income Tax Continued  

Effective for tax years beginning on or after January 1, 2014

• Repeals the $50,000 business income deduction
  • The deduction had been in effect for two taxable years (2012 and 2013). It allowed an individual taxpayer to exclude the first $50,000 of net business income received during the taxable year; this limit is $100,000 for married filing jointly.

• Eliminates $4,000 deduction for most government retirement income and $2,000 deduction for private retirement income.

• Eliminates deduction for severance wages.
Individual Income Tax Continued (Section 1.1.(e))

Effective for tax years beginning on or after January 1, 2014

- Increases the child tax credit from $100 to $125 for taxpayers whose adjusted gross income is less than:
  - $40,000 (Married Filing Jointly); $32,000 (Head of Household); $20,000 (Single or Married Filing Separately)
- Credit remains $100 for taxpayers whose AGI exceeds the thresholds above but does not exceed:
  - $100,000 (Married Filing Jointly); $80,000 (Head of Household); $50,000 (Single or Married Filing Separately)
Individual Income Tax Continued  (Section 1.1.(b))

- Effective for tax years beginning on or after January 1, 2014
- Some of the eliminated credits include:
  - Child care
  - Permanent and total disability
  - Property taxes paid on farm machinery
  - Education expenses
  - Charitable contributions for those who do not itemize their deductions.
- Consolidates provisions related to bonus depreciation and section 179 expenses into a new, stand-alone statute, G.S. 105-153.6. (Section 1.1.(d))
Individual Income Tax Continued

Effective for tax years beginning on or after January 1, 2014

- Some credits that will sunset as scheduled include:
  - Premiums paid for long-term care insurance
  - Earned Income Tax Credit
  - Adoption expenses
Corporate Income Tax
Corporate Tax Law Changes (Section 2.1(a) and 2.2(a))

- Currently the corporate income tax rate is 6.9%.
  - Only C-corporations and entities that elect to be taxed as C-corporations are subject to the corporate income tax.

- HB 998 reduces the corporate income tax rate as follows:
  - Taxable year 2014 – 6%
  - Taxable year 2015 – 5%
Corporate Tax Law Changes (Section 2.2(b))

• Trigger for possible rate reductions in 2016 and 2017

• For taxable year 2016, if net general fund tax revenues for fiscal year 14-15 equal or exceed $20.2 billion, the rate will drop 1% to 4%. If target not reached, rate remains at 5%.

• For taxable year 2017, if net general fund tax revenues for fiscal year 15-16 equal or exceed $20.975 billion, the rate will drop 1%. If target reached both fiscal years, rate would be 3%. If target reached in only one fiscal year, then rate would be 4%. If target isn't reached in either fiscal year, then the rate remains at 5%.
Corporate Tax Law Changes  (Section 2.1(b))

- Credits repealed for tax years beginning after 2013:
  - Construction of dwelling units for handicapped
  - Certain real property donations
  - Conservation tillage equipment
  - Gleaned crop
  - Construction of poultry composting facility
  - Certain Telephone Subscriber Line Charges
  - Savings and Loan Supervisory Fees
Sales and Use tax
Eliminates the privilege tax on live entertainment (105-37.1) and movies (105-38.1).

- It also repeals the privilege license tax exemptions associated with entertainment (105-40); some exemptions are preserved for sales tax purposes in Section 4.2(c).

- Adds live entertainment, movies, and admission charges to attractions and guided tours to the State and local sales tax base.

Becomes effective January 1, 2014, and applies to certain admissions purchased on or after that date.
Sales and Use Tax  (Section 5(c))

- Specific exemptions to amusements from Sales and Use tax;
  - Elementary and secondary school events
  - Nonprofit events (limited to two a year)
  - Agricultural fairs
  - Youth sporting events
  - State attractions
  - Other statutory exemptions may apply
    - Cherokee Indian Reservation
    - Proceeds given to the state
    - Certain fundraising activities
Sales and Use Tax

For more detailed information regarding the sales and use tax on admission charges to entertainment activities, please review Directive SD-13-4, which is located on our website www.dornc.com

North Carolina Department of Revenue

DIRECTIVE

Subject: Admission Charges
Tax: Sales and Use Tax
Issued By: Sales and Use Tax Division
Date: December 18, 2013
Number: SD-13-4

Effective January 1, 2014, N.C. Gen. Stat. § 105-164.4(a)(10) imposes a privilege tax on the retailer’s net taxable sales or gross receipts to admission charges to an entertainment activity listed below at the 4.75% general State and applicable local and transit rates of sales and use tax.

1. A live performance or other live event of any kind.
Includes service contracts in the State and local sales tax base, effective January 1, 2014

- Defines a service contract as an agreement by which the provider agrees to maintain or repair tangible personal property
- Exempts from sales tax an item used to fulfill a service contract
- Exempts from sales tax a service contract for an item exempt from sales tax (except motor vehicles) and transmission, distribution or other network asset contained on utility-owned land, right-of-way, or easement
For more detailed information regarding the sales and use tax on service contracts, please review Directive SD-13-5, which is located on our website www.dornc.com.
Sales and Use Tax Continued

- Eliminates exemptions for meals sold at higher educational facilities, such as college cafeterias, effective January 1, 2014. (Section 3.2(a))

- Eliminates exemptions for sales of newspapers by newspaper street vendors, by newspaper carriers making door-to-door deliveries, and by means of vending machines, effective January 1, 2014. (Section 3.2(a))

- Eliminates sales tax exemption on certain bakery items effective July 1, 2014. (Section 3.1(c))
Sales and Use Tax

- For more detailed information regarding the sales and use tax on prepared food sold to a college student attending an institution of higher education, please review Directive SD-13-1, which is located on our website www.dorcnc.com

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Director of Finance
Director of Revenue Services
Director of Property Tax Services
Director of Audit Services
Director of Constituent Services

North Carolina Department of Revenue

DIRECTIVE

Subject: Prepared Food Sold to a College Student Attending an Institution of Higher Education
Tax: Sales and Use Tax
Issued By: Sales and Use Tax Division
Date: December 9, 2013
Number: SD-13-1

Effective January 1, 2014, prepared food sold to a college student in a dining room, cafeteria, or similar establishment regularly operated by or on behalf of an
Sales and Use Tax

• For more detailed information regarding sales and use tax on sales of newspapers, please review the Important Notice, which is located on our website www.dornc.com
Eliminates sales tax exemptions

- Eliminates the sales tax exemption for nutritional supplements sold by a chiropractic physician at a chiropractic office to a patient as part of the patient's plan of treatment. Effective January 1, 2014 (Section 3.2)

- Eliminates the sales tax holiday for Energy Star-rated products that applies to sales made during the first weekend in November. Effective July 1, 2014 (Section 3.4)

- Eliminates August Sales tax holiday. Effective July 1, 2014 (Section 3.4)
Imposes State sales tax on electricity and piped natural gas at the combined general rate.

- The combined general rate is the State's general rate of tax plus the sum of the rates of the local sales taxes authorized for all counties. The current combined general rate is 7%.

In effect July 1, 2014, and applies sales tax to sales of electricity and piped natural gas billed on or after that date.
Sales and Use Tax Continued  (Section 4)

(Effective July 1, 2014) Repeals the following taxes and discounts; electricity becomes subject to State sales tax at the combined general rate of 7%:

- Franchise taxes on electric power, water, and public sewerage companies (105-116).
- Distribution of electric power company franchise tax to cities (105-116.1).
- The 3% sales tax discount for municipalities that sell electricity (105-164.21A).
- Payments in lieu of franchise taxes required of electric cities and joint power agencies (159B-27(b) through (e)).
Repeals the following sales tax rates on electricity:

- 2.83% for electricity measured by a separate meter and sold to a commercial laundry (105-164.4(a)(1f))

- 3% for other sales of electricity (105-164.4(a)(4a))

The bill retains the current exemptions applicable to electricity sold to a farmer, an eligible Internet datacenter, and manufacturers.
Sales and Use Tax Continued  (Section 4)

- (Effective July 1, 2014) Repeals the excise tax on piped natural gas (Article 5E) and the sales tax exemption for piped natural gas (105-164.13(44)). The gross receipts derived from sales of piped natural gas are subject to the 7% combined general rate of sales and use tax.

  - Piped gas used in manufacturing or farming is exempt from sales tax under the exemption in 105-164.13(57) for fuel sold to a manufacturer and
  - 105-164.13(1)d. for fuel sold to a farmer.
Sales and Use Tax Continued  (Section 3.3(a))

(Effective July 1, 2014) The bill requires farmers to meet an annual gross income tax requirement of $10,000 from farming operations in the prior year calendar, to qualify for the sales tax exemptions for farmers.
Sales and Use Tax Continued

- Tax rate for modular homes, becomes the State general rate of 4.75%; not in local base - Beginning January 1, 2014
  - Previously 2.5%

- Tax rate for manufactured home, becomes the State general rate of 4.75%; not in local base - Beginning January 1, 2014
  - Previously 2% with $300.00 maximum
Sales and Use Tax

- For more detailed information regarding the sales and use tax on manufactured homes and modular homes, please review Directives SD-13-2 and SD-13-3, which are located on our website [www.dornc.com](http://www.dornc.com)

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<th>North Carolina Department of Revenue</th>
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<tbody>
<tr>
<td><strong>DIRECTIVE</strong></td>
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**Subject:** Manufactured Homes  
**Tax:** Sales and Use Tax  
**Law:** N.C. Gen. Stat. § 105-164.4(a)(1a)  
**Issued By:** Sales and Use Tax Division  
**Date:** December 13, 2013  
**Number:** SD-13-2

**Effective January 1, 2014,** Session Law 2013-316 amends N.C. Gen. Stat. § 105-164.4(a)(1a) and provides the 4.75% general State rate of sales and use tax applies to the sales price of each manufactured home sold at retail, including all accessories attached to the manufactured home when it is delivered to the purchaser. N.C. Gen. Stat. § 105-467(a) provides that the sale of a

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**Subject:** Modular Homes  
**Tax:** Sales and Use Tax  
**Law:** N.C. Gen. Stat. § 105-164.4(a)(8)  
**Issued By:** Sales and Use Tax Division  
**Date:** December 16, 2013  
**Number:** SD-13-3

**Effective January 1, 2014,** Session Law 2013-316 amends N.C. Gen. Stat. § 105-164.4(a)(8) and provides the 4.75% general State rate of sales and use tax applies to the sales price of each modular home sold at retail, including all accessories attached to the modular home when it is delivered to the purchaser. N.C. Gen. Stat. § 105-467(a) provides that the sale of a modular home is not subject to retail sales and use taxes. Prior to January 1, 2014,
Sales and Use Tax Continued  
(Section 3.4(b)&(c))

- Non-Profit Sales and Use claim for refund
- Cap refunds at $45 million (State and local)
- Local government refunds – No Change
Estate Tax  (Section 7. (a))

Repeal of Estate Tax

This tax is repealed effective for decedents dying on or after January 1, 2013.
Resources and Taxpayer Assistance
Taxpayer Assistance

- **Website**: [www.dornc.com](http://www.dornc.com)
- **Taxpayer Assistance and Collection Center**: 1-877-252-3052
- **Service Centers across the state**
  - Asheville
  - Charlotte
  - Durham
  - Elizabeth City
  - Fayetteville
  - Greensboro
  - Greenville
  - Hickory
  - Raleigh
  - Wilmington
  - Winston-Salem