

North Carolina

**Biennial Tax
Expenditure Report**

2015



NCDOR

**Financial Services Division,
Revenue Research Section**

**North Carolina
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Expenditure Report**

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**Financial Services Division, Revenue Research Section
North Carolina Department of Revenue
December 2015**

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North Carolina Biennial Tax Expenditure Report

2015

Introduction

In compliance with the requirements of Section 105-256 of the General Statutes of North Carolina, the Department of Revenue has prepared this report of tax expenditures contained in the Revenue Laws of North Carolina (except Subchapter II) as amended through 2015. The listing of expenditures and measurements of their respective costs will allow legislative review of their impact on the State's economy and on government revenues.

As in past publications, tax expenditures for each State-level tax are presented in a chapter of this report. At the beginning of each chapter, some basic information of the tax base and normal State tax rates for relevant fiscal years is presented. Each tax expenditure provision includes a General Statutes citation, a short description of the tax expenditure, and a "Data Source" that notes the source of the data used for the estimate. Also, many of the tax expenditures have a "Note" that details some additional information pertinent to the estimation of that particular tax expenditure. The additional information in this report is to provide context for the estimates, and is not intended to represent the official interpretation of the Department of Revenue.

The report includes information on the "enacting legislation" related to each tax expenditure, as available. These notes attempt to provide the session laws that first incorporated each of the tax expenditures into statute. In some cases, additional notes are given referring to prior treatment of a provision or substantive changes that have occurred subsequent to the initial enactment. However, it was not in the scope of this report to provide a comprehensive history of every provision. (Many of the older provisions are only followed back to the major re-codification of the tax laws in S.L. 1939-158.)

Many of the tax expenditure provisions have sunset dates. Notes related to the current sunset dates of each provision, when applicable, are included in the report. This report includes any tax expenditures that have a current sunset date after December 2015.

Estimates of the cost of tax expenditures are provided for Fiscal Year 2015-16 and Fiscal Year 2016-17.

Defining Tax Expenditures for this Study

A tax expenditure is defined as an exemption, exclusion, deduction, allowance, credit, refund, preferential tax rate or other device that reduces the amount of tax revenue which otherwise would be collected.

Tax expenditures are created to give economic assistance to certain groups of producers or consumers in the economy or to promote other policy goals. This report does not purport to evaluate the various expenditures as to equity or desirability from a public policy standpoint.

Some tax expenditures are necessary. For instance, Constitutional restrictions forbid taxing the federal government's purchases, as well as certain transactions involving interstate trade and

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commerce on Indian Reservations. Also, there are specific exemptions or exclusions that are made in order to avoid duplicate taxation of an activity. For example, S-corporations are not taxed on profits that are transferred to shareholders, who subsequently pay income taxes on these dividends. Also, some exemptions and exclusions that are necessary to define the appropriate tax base are not considered in the main body of this report. These types of tax expenditures are listed in Appendix B. No cost estimates are provided for these.

The sales tax presents the most ambiguous cases of when exemptions should be included as tax expenditures for this report. The sales tax is generally considered to be a tax on “final” purchases. Transactions involving the purchase of intermediate goods that will be further processed into a final good are properly exempted from the sales tax. It is arguable whether purchases of machinery, fuel or similar inputs used in production of final goods should be taxed. Since there is no consensus on this point, we include estimates of tax exemptions on inputs that are not used up in the production process. Sales tax exemptions that are excluded from estimation are included in Appendix B.

The term “preferential tax rate” has been interpreted to mean any rate that is less than the basic rate that applies to the largest number of taxpayers. In some instances higher rates are used on a relatively small number of taxpayers. In such cases, the lower general rates are not listed as preferential. Also, no preferential status is acknowledged when distinctly different bases are taxed at different rates under the same tax category. For example, under the alcoholic beverage taxes, different rates and bases are used to tax beer, wine, and spirituous liquor.

Measuring the Fiscal Effects of Tax Expenditures

It should be noted at the outset of this report that the fiscal effects of tax expenditures are sometimes difficult to quantify. Several methods for estimating the costs of expenditures are used.

The most accurate source of information comes from actual tax returns that provide direct evidence of when certain expenditures are taken and the amounts of those expenditures. For example, we are able to use personal income tax and corporate income tax returns from 2013 and 2012 respectively to measure the use of certain tax deductions and tax credits.

Sometimes, needed data are more timely and extensive at the national level than at the state level. When this occurs, the state-level data are estimated by determining North Carolina’s share of national activity. In these cases, several assumptions must be made to derive the final estimates. Therefore, these estimates are less reliable than those that can be measured directly.

For most national economic data, the share of North Carolina’s activities will consistently be in the range of 2.8% to 3.1%, which corresponds to North Carolina’s share of gross domestic product (GDP) and population. Therefore, national statistics are often multiplied by one of these percentages to estimate North Carolina’s value. However, when it is apparent that North Carolina’s data are not typical of national activity, such as textile or pharmaceutical manufacturing, attempts are made to use more representative proportions.

In some cases, sufficient data were not available to allow estimation of the value of an expenditure. In these cases, the expenditure estimate is designated as “unavailable.”

Table 1**Summary of Tax Expenditure Estimates for FY 2016-17 by Tax Category**

Tax	Number of Tax Expenditures	Sum of Estimates of \$100,000 and Over (Millions of Dollars)	Number Estimated to Be Less than \$100,000	Number with Unavailable Estimate
Privilege Tax	3	0.0	3	0
Tobacco Products Tax	5	5.9	1	1
Alcoholic Beverage Tax	5	3.1	1	3
Franchise Tax	17	399.7	0	6
Corporation Income Tax	29	273.1	6	10
Various Tax Incentives (Articles 3B through 3K)	12	138.3	2	1
Individual Income Tax [†]	12	2,365.1	2	1
Sales and Use Tax	113	3,733.9	5	37
Highway Use Tax	15	147.7	0	10
Scrap Tire Disposal Tax	2	0.6	0	1
White Goods Disposal Tax	1	0.0	1	0
Severance Tax	2	0.0	0	2
Taxes on Insurance Companies	7	191.0	0	2
Excise Stamp Tax on Conveyances	8	0	0	8
Excise Taxes on Motor Fuels	18	61.6	3	1
Totals	249	7,320.0^{††}	24	83

[†] This summary does not include the “Government retirement income under Bailey decision” provision.

^{††} The sum of the estimates is provided for comparative purposes only. It should not be interpreted as the total gain to state revenue from eliminating all tax expenditures listed in this report. The total impact may be larger or smaller than this amount, depending on the interactions of the various tax expenditures.

The fiscal year 2016-17 Federal income tax expenditures that flow through to North Carolina income taxes are estimated in Appendix A. The individual income tax provisions total \$5,073.9 million; the estimates for the corporate income tax provisions (excluding accelerated depreciation of equipment) total \$121.9 million.

Table 2**Forty Largest Tax Expenditures in North Carolina in FY 2016-17**

Rank	Tax	Item	Citation (G.S. § 105)	Short Title	FY16-17 estimate (\$ millions)
1	Individual Income Tax	2	153.5(a)(1)	Standard Deduction in Excess of Base Amounts	992.5
2	Sales and Use Tax	89	164.13B	Food for Home Consumption	805.1
3	Sales and Use Tax	36	164.13(13)	Prescription Drugs and Insulin for Human Use	596.8
4	Sales and Use Tax	51	164.13(32)	Motor Vehicle Exemption Less Highway Use Tax	566.6
5	Individual Income Tax	9	153.5(b)(3)	Social Security Benefits in Excess of Federal Limit	489.1
6	Individual Income Tax	10	153.5(b)(5)	Government Retirement Income under Bailey Decision	383.7
7	Individual Income Tax	3	153.5(a)(2)a	Charitable Contributions Itemized Deduction	297.1
8	Sales and Use Tax	102	164.14(b)	Refunds to Nonprofits	236.4
9	Franchise Tax	2	125(a)(1)	Charitable Nonprofits	235.2
10	Sales and Use Tax	23	164.13(5a)	Items Taxed by Article 5F	213.2
11	Sales and Use Tax	96	164.13E(6)a	Feeds, Litter and Medications for Farming	190.6
12	Individual Income Tax	4	153.5(a)(2)b	Qualified Mortgage Interest Itemized Deduction	187.3
13	Individual Income Tax	13	153.10(a)	Credit for Children	177.5
14	Corporation Income Tax	13	130.5(b)(4) &(4a)	Net Economic Loss Carryforward	149.8
15	Taxes on Insurance Premiums	2	228.5(c)(2)	Premiums Received from Annuities	142.2

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Rank	Tax	Item	Citation (G.S. § 105)	Short Title	FY16-17 estimate (\$ millions)
16	Sales and Use Tax	81	164.13(57)	Piped Natural Gas Used by Manufacturers	134.8
17	Franchise Tax	17	120.2(b)(1)	Cap for Holding Companies	118.5
18	Highway Use Tax	3	187.3(b)	Trade-In Allowance on Sales of Motor Vehicles	116.7
19	Sales and Use Tax	70	164.13(51)	Water Delivered Through Main Pipes	103.9
20	Sales and Use Tax	80	164.13(57)	Electricity Used by Manufacturers	98.7
21	Business and Energy Tax Credit	1	129.16A	Credit for Investing in Renewable Energy Property	97.6
22	Individual Income Tax	5	153.5(a)(2)b	Property Tax Itemized Deduction	95.3
23	Sales and Use Tax	104	164.14(c)	Refunds to Certain Local Government Entities	82.2
24	Individual Income Tax	6	153.5(a)(2)c	Medical and Dental Expenses Itemized Deduction	81.4
25	Sales and Use Tax	35	164.13(12)	Durable Medical Equipment	80.1
26	Sales and Use Tax	24	164.13(5b)	Telephone Equipment	78.2
27	Sales and Use Tax	4	164.4G(e)(1)	Right to Participate in Sporting Activities	63.2
28	Sales and Use Tax	44	164.13(23)a	Packaging Items for Manufacturers	57.6
29	Individual Income Tax	7	153.5(b)(1)	N.C. and Nonprofit Education Institution Interest	44.9
30	Corporation Income Tax	1	130.4(i)	Double-Weighting of Sales Factor in Apportionment Formula	44.5
31	Sales and Use Tax	92	164.13E(2)	Fertilizers, Seeds and Related Items Sold to a Farmer	41.2

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Rank	Tax	Item	Citation (G.S. § 105)	Short Title	FY16-17 estimate (\$ millions)
32	Sales and Use Tax	12	164.4I(b)(1)	Service Contract on Exempt Items	31.1
33	Excise Taxes on Motor Fuels	5	449.88(8)	Sales to County or Municipal Corporation	29.6
34	Corporation Income Tax	11	130.5(b)(3a)	Dividends from Foreign Sources	24.8
35	Research and Development Credit	5	129.55(a)(3)	Other R&D Credit	24.8
36	Taxes on Insurance Premiums	3	228.5(c)(3)	Premiums Related to Funding Agreements	24.7
37	Sales and Use Tax	91	164.13E(1)	Fuel and Electricity for Farming	23.1
38	Sales and Use Tax	85	164.13(61a)	Repair, Maintenance, and Installation Services for Exempt Items	22.8
39	Sales and Use Tax	93	164.13E(3)	Farm Machinery and Related Parts and Lubricants	21.9
40	Highway Use Tax	1	187.3(a)	Maximum Tax of \$2,000 for Class A or Class B Commercial Motor Vehicles	20.1

Updates to the Tax Expenditure Report Since 2013

This section highlights changes to tax expenditures since the last publication in December 2013.

These changes are listed in the following categories:

1. tax expenditures that have been substantively altered
2. tax expenditures that have had their sunset dates extended
3. new tax expenditures that are replacing similar expiring ones
4. new tax expenditures enacted
5. tax expenditures that have expired or been repealed

In several of the entries below, a brief description of the changes to the tax expenditure is provided. For a more complete description, see the annual “Tax Law Changes” publication located on the North Carolina Department of Revenue website.

Tax Expenditures That Have Been Substantively Altered

1. Discount for filing timely OTP return
Tax Category: Tobacco Products Tax
Citation: G.S. 105-113.39(a)
Description of Changes: For periods beginning June 1, 2015, the discount available to taxpayers for filing timely “other tobacco products” returns is not applicable to the new vapor tax.
2. Higher maximum tax on holding companies
Tax Category: Franchise Tax
Citation: G.S. 105-120.2(b)(1)
Description of Changes: For taxes due on or after Jan. 1, 2017, the franchise tax based on a holding company's net worth component may not exceed \$150,000. The maximum tax on a similar component had previously been \$75,000.
3. Standard deduction increased
Tax Category: Individual Income Tax
Citation: G.S. 105-153.5(a)(1)
Description of Changes: For tax years beginning on or after Jan. 1, 2016, the standard deduction amounts are increased: by \$500 for married filers filing jointly; by \$400 for head of household filers; by \$250 for single filers or married filers filing separately. (S.L. 2015-241)
4. Mortgage interest deduction excludes mortgage insurance premiums
Tax Category: Individual Income Tax
Citation: G.S. 105-153.5(a)(2) b
Description of Changes: For tax year 2014, mortgage insurance premiums treated as qualified residence interest under Section 163(h) of the IRS Code cannot be included in the State itemized deduction for mortgage interest. (S.L. 2015-2)
5. Short-period return exemption disallowed for rentals through brokers
Tax Category: Sales & Use Tax
Citation: G.S. 105-164.4F(e)(1)
Description of Changes: For rentals on or after June 1, 2014, an accommodation does not receive the exemption if rented fewer than 15 days in a calendar year if the rental is listed by a real estate broker or an agent. (S.L. 2014-3)

Report Updates

6. Amenities exempt from admission charges
Tax Category: Sales & Use Tax
Citation: G.S. 105-164.4G(f)(3)
Description of Changes: For admissions sold on or after May 29, 2014, this provision replaced the condition used to establish the share of the amenity included in the ticket price when it was not separately stated. (S.L. 2014-3)
7. Events sponsored by primary and secondary schools
Tax Category: Sales & Use Tax
Citation: G.S. 105-164.4G(f)(4)
Description of Changes: For admissions sold on or after May 29, 2014, this provision removed the condition that the event must be held at the school. (S.L. 2014-3)
8. Service charge exemptions
Tax Category: Sales & Use Tax
Citation: G.S. 105-164.4I(b)
Description of Changes: Former provisions in 164.13(60) were moved to this new provision. The Article 5F exemption was explicitly added. (S.L. 2014-3)
9. Exempt motor vehicle service contracts
Tax Category: Sales & Use Tax
Citation: G.S. 105-164.4I(b)(1)
Description of Changes: Service contracts on motor vehicles were previously subject to the sales tax (coincides with taxation of repair, maintenance and installation services for motor vehicles). Effective March 1, 2016. (S.L. 2015-259)
10. Motorsports engine service contract
Tax Category: Sales & Use Tax
Citation: G.S. 105-164.4I(b)(3)
Description of Changes: Sales tax does not apply to the sales price or gross receipts from a service contract applicable to a transmission, an engine, rear-end gears or any other item purchased by a professional motorsports racing team or a related member of a team for which the team may receive a sales tax refund under G.S. 105-164.14A(a)(5). Effective Jan. 1, 2014. This subdivision expires Jan. 1, 2020. (S.L. 2015-259)
11. Service contract exemptions for items affixed to real property
Tax Category: Sales & Use Tax
Citation: G.S. 105-164.4I(c)
Description of Changes: Removed from the exemption sales of service contracts made after the purchase of the property and renewal of service contracts. Effective March 1, 2016. (S.L. 2015-241)
12. Sales by nonprofits whose proceeds go to the State
Tax Category: Sales & Use Tax
Citation: G.S. 105-164.13(34)
Description of Changes: Removed from the exemption sales of admission charges to an entertainment activity. Effective for admissions sold on or after May 29, 2014. (S.L. 2014-3)

13. Sales by nonprofits conducted annually
Tax Category: Sales & Use Tax
Citation: G.S. 105-164.13(35)
Description of Changes: Added a condition that the products sold are delivered to the purchaser within 60 days after the first solicitation of any sale made during the annual sales period. Effective for admissions sold on or after May 29, 2014. (S.L. 2014-3)
14. Goods sold through vending machines
Tax Category: Sales & Use Tax
Citation: G.S. 105-164.13(50)
Description of Changes: Newspapers were removed from this exemption. Effective Oct. 1, 2014. (S.L. 2014-3)
15. Nonprofit refunds exclusions
Tax Category: Sales & Use Tax
Citation: G.S. 105-164.14(b)
Description of Changes: The refund to nonprofits does not include taxes paid on piped natural gas, video programming or a prepaid meal plan. Effective for purchases on or after July 1, 2014. (S.L. 2014-3)
16. Refunds to certain local government entities
Tax Category: Sales & Use Tax
Citation: G.S. 105-164.14(b)
Description of Changes: Two types of entities were added to the list of eligible entities: (1) a soil and water conservation district and (2) a district confinement facility. Effective for sales made on or after July 1, 2015. (S.L. 2014-20)
17. Maximum tax on commercial and recreational vehicles increased
Tax Category: Highway Use Tax
Citation: G.S. 105-187.3(a1)
Description of Changes: The maximum tax was increased from \$1000 to \$2000 for each certificate of title issued for a Class A or Class B motor vehicle that is a commercial vehicle; maximum tax increased from \$1500 to \$2000 for each certificate of title issued for a recreational vehicle. Effective Jan. 1, 2016. (S.L. 2015-241)
18. Maximum tax on certain out-of-state vehicles increased
Tax Category: Highway Use Tax
Citation: G.S. 105-187.6(c)
Description of Changes: The maximum tax was increased from \$150 to \$250 for an out-of-state vehicle registered in another state for at least 90 days. Effective Jan. 1, 2016. (S.L. 2015-241)

Report Updates

Extended Sunset Dates

19. Renewable energy credit safe harbor
Tax Category: Business and Energy Tax Credit
Citation: G.S. 105-129.16A
Description of Changes: The sunset is extended for energy property placed in service on or after Jan. 1, 2017 if a taxpayer makes a timely application for the extension, pays the application fee, and meets both of the following conditions on or before Jan. 1, 2016: (1) incurred at least the minimum percentage of costs of the project and (2) completed at least the minimum percentage of the physical construction of the project. For a project with a total size of less than 65 megawatts of direct current capacity, the minimum percentage is 80%; for a larger project, the minimum percentage is 50%. (S.L. 2015-11)
20. Extend sunset of motorsports aviation fuel refund
Tax Category: Sales & Use Tax
Citation: G.S. 105-164.14A(a)(4)
Description of Changes: The sunset is extended to tax years beginning before January 1, 2020. Previously, the sunset date was January 1, 2016. (S.L. 2015-259)
21. Extend sunset of motorsports items refund
Tax Category: Sales & Use Tax
Citation: G.S. 105-164.14A(a)(4)
Description of Changes: The sunset is extended to tax years beginning before January 1, 2020. Previously, the sunset date was January 1, 2016. (S.L. 2015-259)

New Tax Expenditure, Replacing Similar Provision

22. Deduct depreciation, depletion and amortization from net worth
Tax Category: Franchise Tax
Citation: G.S. 105-122(b)(1)
Effective Date: Jan. 1, 2017. (S.L. 2015-241)
Effectively replaces a similar provision related to the capital stock, surplus, and undivided profits base.
23. Deduct treasury stock from net worth
Tax Category: Franchise Tax
Citation: G.S. 105-122(b)(3)
Effective Date: Jan. 1, 2017. (S.L. 2015-241)
Effectively replaces a similar provision related to the capital stock, surplus, and undivided profits base.
24. State net loss carryforward
Tax Category: Franchise Tax
Citation: G.S. 105-130.5(b)(4a)
Effective Date: taxable years beginning on or after Jan. 1, 2015. (S.L. 2014-3)
The net economic loss becomes a static amount. Any unused portion of a net economic loss carried forward will not have to be first offset by nontaxable income in the future tax year.

25. Aircraft purchases
Tax Category: Sales & Use Tax
Citation: G.S. 105-164.4(a)(1a)c
Effective Date: Oct. 1, 2015 (S.L. 2015-259)
Aircraft are taxed at the rate of 4.75%, with a maximum tax of \$2,500. Previously, aircraft had been taxed at 3%, with a maximum tax of \$1,500.
26. Qualified jet engine reduced rate
Tax Category: Sales & Use Tax
Citation: G.S. 105-164.4(a)(1a)d
Effective Date: Oct. 1, 2015 (S.L. 2015-259)
A qualified jet engine is taxed at the rate of 4.75%, with a maximum tax of \$2,500. A qualified jet engine is an engine certified pursuant to Part 33 of Title 14 of the Code of Federal Regulations.
27. Events sponsored solely by a nonprofit
Tax Category: Sales & Use Tax
Citation: G.S. 105-164.4G(f)(5)
Effective Date: Jan. 1, 2015 (S.L. 2014-3)
Replaces more generous exemptions related to admissions under G.S. 105-164.13(60).
28. Fuel purchases by an interstate air business
Tax Category: Sales & Use Tax
Citation: G.S. 105-164.13(11b)
Effective Date: Jan. 1, 2016 (S.L. 2015-259)
Sales of aviation gasoline and jet fuel to an interstate air business for use in a commercial aircraft. An interstate passenger air carrier is allowed a refund of the sales and use tax paid by it on fuel in excess of \$1,250,000 for the period beginning July 1, 2015 and ending December 31, 2015. The subdivision expires Jan. 1, 2020.
29. Purchases by qualifying datacenters
Tax Category: Sales & Use Tax
Citation: G.S. 105-164.13(55a)
Effective Date: Jan. 1, 2016 (S.L. 2015-259)
Provides an exemption to certain datacenters that paid a 1% tax with an \$80 maximum per item on purchases of datacenter support equipment prior to July 1, 2015. The new provision also exempts electricity purchases.

New Tax Expenditure Provisions

30. Historic rehabilitation tax credit for income-producing property
Tax Category: Historic Rehabilitation Tax Credit
Citation: G.S. 105-129.100
Effective Date: Jan. 1, 2016 (S.L. 2015-241)
Replaces more generous historic rehabilitation and mill rehabilitation tax credits that expired Jan. 1, 2015.

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31. Historic rehabilitation expenses in 2014 and 2015
Tax Category: Historic Rehabilitation Tax Credit
Citation: G.S. 105-129.100(e)
Effective Date: Oct. 1, 2015 (S.L. 2015-264)
Allows certain historic rehabilitation expenses incurred in 2014 and 2015 to receive the new historic rehabilitation tax credit.
32. Historic rehabilitation tax credit for nonincome-producing property
Tax Category: Historic Rehabilitation Tax Credit
Citation: G.S. 105-129.101
Effective Date: Jan. 1, 2016 (S.L. 2015-241)
Replaces more generous historic rehabilitation and mill rehabilitation tax credits that expired Jan. 1, 2015.
33. Phase-in of single sales factor apportionment
Tax Category: Corporation Income Tax
Citation: G.S. 105-103.4(i)
Effective Date: tax years beginning on or after Jan. 1, 2016 (S.L. 2015-241)
34. Medical and dental expense itemized deduction
Tax Category: Individual Income Tax
Citation: G.S. 105-153.5(a)(2)c
Effective Date: tax years beginning on or after Jan. 1, 2015 (S.L. 2015-241)
35. Exemption for real property contractor
Tax Category: Sales & Use Tax
Citation: G.S. 105-164.3(33d)d
Effective Date: March 1, 2016 (S.L. 2015-241)
36. Exemption for certain repair, maintenance and installation
Tax Category: Sales & Use Tax
Citation: G.S. 105-164.3(35)(b)2
Effective Date: March 1, 2016 (S.L. 2015-241)
37. Exemption for right to participate in sporting activities
Tax Category: Sales & Use Tax
Citation: G.S. 105-164.4G(e)(1)
Effective Date: admissions sold on or after May 29, 2014 (S.L. 2014-3)
38. Exemption for instructional seminars and workshops
Tax Category: Sales & Use Tax
Citation: G.S. 105-164.4G(e)(2)
Effective Date: admissions sold on or after May 29, 2014 (S.L. 2014-3)
[added to Appendix B]
39. Exemption for political contributions related to an amusement
Tax Category: Sales & Use Tax
Citation: G.S. 105-164.4G(e)(2)
Effective Date: admissions sold on or after May 29, 2014 (S.L. 2014-3)
[added to Appendix B]

40. Exemption for lifetime seat rights & box seat rentals
 Tax Category: Sales & Use Tax
 Citation: G.S. 105-164.4G(e)(4)
 Effective Date: admissions sold on or after May 29, 2014 (S.L. 2014-3)
41. Exemption for transportation related to an amusement
 Tax Category: Sales & Use Tax
 Citation: G.S. 105-164.4G(e)(5)
 Effective Date: admissions sold on or after May 29, 2014 (S.L. 2014-3)
 [added to Appendix B]
42. Exemption for membership charges deductible as a charitable contribution
 Tax Category: Sales & Use Tax
 Citation: G.S. 105-164.4G(f)(1)
 Effective Date: admissions sold on or after May 29, 2014 (S.L. 2014-3)
43. Exemption for donated admission charges
 Tax Category: Sales & Use Tax
 Citation: G.S. 105-164.4G(f)(2)
 Effective Date: admissions sold on or after May 29, 2014 (S.L. 2014-3)
44. Retailer-Contractor provision for real property contracts
 Tax Category: Sales & Use Tax
 Citation: G.S. 105-164.4H(b)
 Effective Date: Jan. 1, 2015 (S.L. 2014-3)
45. Service contract on qualified aircraft or a qualified jet engine
 Tax Category: Sales & Use Tax
 Citation: G.S. 105-164.4I(b)(5)
 Effective Date: Oct. 1, 2015 (S.L. 2015-259)
46. Service contract on items used in real property
 Tax Category: Sales & Use Tax
 Citation: G.S. 105-164.4I(c)
 Effective Date: Oct. 1, 2014 (S.L. 2014-3)
47. Parts and accessories for qualified aircraft or qualified jet engine
 Tax Category: Sales & Use Tax
 Citation: G.S. 105-164.13(45d)
 Effective Date: Oct. 1, 2015 (S.L. 2015-259)
48. Repair, maintenance and installation services for exempt items
 Tax Category: Sales & Use Tax
 Citation: G.S. 105-164.13(61a)
 Effective Date: March 1, 2016 (S.L. 2015-259 / S.L. 2015-241)
49. Repair, maintenance and installation services purchased for resale
 Tax Category: Sales & Use Tax
 Citation: G.S. 105-164.13(61b)
 Effective Date: March 1, 2016 (S.L. 2015-241)
 [Added to Appendix B]

Report Updates

50. Item or service related to a service contract on a motor vehicle
Tax Category: Sales & Use Tax
Citation: G.S. 105-164.13(62)
Effective Date: March 1, 2016 (S.L. 2015-259)
51. Exempt repair items pursuant to a warranty
Tax Category: Sales & Use Tax
Citation: G.S. 105-164.13(62a)
Effective Date: March 1, 2016 (S.L. 2015-259)
52. Exempt portion of sales of modular & manufactured homes
Tax Category: Sales & Use Tax
Citation: G.S. 105-164.13(64)
Effective Date: Sept. 1, 2014 (S.L. 2014-100)
53. Exempt motorsports engine
Tax Category: Sales & Use Tax
Citation: G.S. 105-164.13(65)
Effective Date: Sept. 30, 2015 (S.L. 2015-259)
54. Delivered-to-market adjustment
Tax Category: Severance Tax
Citation: G.S. 105-187.73(a)
Effective Date: July 1, 2015 (S.L. 2014-4)
55. On-site use exemption
Tax Category: Severance Tax
Citation: G.S. 105-187.74
Effective Date: July 1, 2015 (S.L. 2014-4)

Repealed and Expired Tax Expenditures

56. Savings Banks and Savings & Loan Associations
Tax Category: Privilege Tax
Citation: G.S. 102-3
Repeal Effective Date: June 30, 2015.
Description: This provision allowed an exemption from the bank privilege tax for savings institutions created under General Statute Chapter 54B, 54C or Home Owners' Loan Act of 1933. The bank privilege tax has been repealed. (S.L. 2015-241)
57. Credit for newsprint recycling program
Tax Category: Privilege Tax
Citation: G.S. 105-102.6(c)
Repeal Effective Date: Oct. 22, 2015
Description: This provision allowed a publisher who has developed and operates or contracts for the operation of a newspaper or magazine recycling program to receive 1 ton of credit toward its recycled content goal for each ton of recycling. The privilege tax on newsprint has been repealed. (S.L. 2015-286)

58. Unavailability of recycled newsprint
Tax Category: Privilege Tax
Citation: G.S. 105-102.6(c)
Repeal Effective Date: Oct. 22, 2015
Description: This provision allowed an exemption for un-recycled paper if recycled newsprint is unavailable due to (1) high price, (2) comparable quality or (3) time constraints. The privilege tax on newsprint has been repealed. (S.L. 2015-286)
59. Deduction from capital stock for legal liabilities
Tax Category: Franchise Tax
Citation: G.S. 105-122(b)(1)
Repeal Effective Date: Taxes due on or after Jan. 1, 2017
Description: This provision allowed a deduction from the capital stock base for definite and accrued legal liabilities. (S.L. 2015-241)
60. Deduction from capital stock for billings in excess of costs
Tax Category: Franchise Tax
Citation: G.S. 105-122(b)(1a)
Repeal Effective Date: Taxes due on or after Jan. 1, 2017
Description: This provision allowed a deduction from the capital stock base for billings in excess of costs that are considered a deferred liability under the percentage of completion method of revenue. (S.L. 2015-241)
61. Deduction from capital stock for taxes, dividends, and depreciation
Tax Category: Franchise Tax
Citation: G.S. 105-122(b)(2)
Repeal Effective Date: Taxes due on or after Jan. 1, 2017
Description: This provision allowed a deduction from the capital stock base for taxes accrued, dividends declared, and reserves for depreciation of tangible assets and for amortization of intangible assets as permitted for income tax purposes. (S.L. 2015-241)
62. Deduction from capital stock for deferred tax assets
Tax Category: Franchise Tax
Citation: G.S. 105-122(b)(3)
Repeal Effective Date: Taxes due on or after Jan. 1, 2017
Description: This provision allowed a corporation to reduce the amount of deferred tax liabilities included in its base by netting against that amount deferred tax assets. The reduction could not decrease deferred tax liabilities below zero. (S.L. 2015-241)
63. Deduction from capital stock for investments in pollution abatement
Tax Category: Franchise Tax
Citation: G.S. 105-122(b)(4)
Repeal Effective Date: Taxes due on or after Jan. 1, 2017
Description: This provision allowed a deduction for cost of air-cleaning device or sewage or waste treatment plant and pollution abatement equipment. (S.L. 2015-241)

Report Updates

64. Deduction from capital stock for investments in hazardous waste abatement
Tax Category: Franchise Tax
Citation: G.S. 105-122(b)(5)
Repeal Effective Date: Taxes due on or after Jan. 1, 2017
Description: This provision allowed a deduction for cost of purchasing equipment or constructing facilities for the purpose of recycling or reducing hazardous wastes. (S.L. 2015-241)
65. Deduction from capital stock for facilities used for residential sewer services
Tax Category: Franchise Tax
Citation: G.S. 105-122(b)(6)
Repeal Effective Date: Taxes due on or after Jan. 1, 2017
Description: This provision allowed a deduction for the cost of constructing facilities used to provide sewer services to residential and outlying areas. (S.L. 2015-241)
66. International banking facility capital stock deduction
Tax Category: Franchise Tax
Citation: G.S. 105-122(b)(8)
Repeal Effective Date: Taxes due on or after Jan. 1, 2017
Description: The capital base of an international banking facility could be reduced by the excess of the amount of all assets employed outside the U.S. over liabilities owed to foreign persons. (S.L. 2015-241)
67. Piped natural gas credit
Tax Category: Franchise Tax
Citation: G.S. 105-122(d1)
Repeal Effective Date: Taxes due on or after Jan. 1, 2017
Description: This provision allowed a tax credit of one-half the amount of piped natural gas tax. The credit allowed could not exceed the tax amount reduced by all credits. (S.L. 2015-241)
68. Credit for renewable fuel dispensing facilities
Tax Category: Business and Energy Tax Credit
Citation: G.S. 105-129.16D(a)
Repeal Effective Date: expired for facilities placed into service on or after Jan. 1, 2014.
Description: This provision allowed a tax credit of 15% of the cost of constructing and installing a dispensing facility that is directly and exclusively used for dispensing or storing renewable fuel.
69. Credit for constructing renewable fuel processing facilities
Tax Category: Business and Energy Tax Credit
Citation: G.S. 105-129.16D(b)
Repeal Effective Date: expired for facilities placed into service on or after Jan. 1, 2014.
Description: This provision allowed a tax credit of 25% of the cost of constructing and equipping a commercial facility for processing renewable fuel. An alternative credit of 35% was available if a taxpayer invested at least \$400 million in three or more commercial facilities.

70. Tax credit to refund motor fuel excise tax for biodiesel
 Tax Category: Business and Energy Tax Credit
 Citation: G.S. 105-129.16F
 Repeal Effective Date: expired Jan. 1, 2014
 Description: This provision allowed biodiesel provider that produces at least 100,000 gallons of biodiesel per year a credit equal to the per gallon excise tax paid under Article 36C of Chapter 105 of the General Statutes. The maximum credit was \$500,000.

71. Work opportunity tax credit
 Tax Category: Business and Energy Tax Credit
 Citation: G.S. 105-129.16G
 Repeal Effective Date: expired Jan. 1, 2014
 Description: This provision allowed a tax credit of 6% of the amount of credit allowed under Part IV, Subpart F of the Code for the taxable year.

72. Credit for a renewable energy property facility
 Tax Category: Business and Energy Tax Credit
 Citation: G.S. 105-129.16I
 Repeal Effective Date: expired Jan. 1, 2014
 Description: This provision allowed a tax credit of 25% of the cost to construct or convert and equip a facility used for the manufacture or renewable energy property or a major component subassembly for a solar array or wind turbine.

73. Credit for low-income housing awarded a federal credit allocation before Jan. 1, 2003
 Tax Category: Low-Income Housing Tax Credits
 Citation: G.S. 105-129.41
 Repeal Effective Date: expired Jan. 1, 2015
 Description: This provision allowed a tax credit to a taxpayer that was allowed a federal credit for low-income housing under Section 42 of the Code with respect to a qualified North Carolina low-income building. The credit was a percentage of the federal credit.

74. Credit for low-income housing awarded a federal credit allocation on or after Jan. 1, 2003
 Tax Category: Low-Income Housing Tax Credits
 Citation: G.S. 105-129.42
 Repeal Effective Date: expired Jan. 1, 2015
 Description: This provision allowed a tax credit to a taxpayer that was allowed a federal credit for low-income housing under Section 42 of the Code with respect to a qualified North Carolina low-income building. The credit was a percentage of the development's qualified basis. The credit was not limited to the amount of tax liability.

75. Interactive digital media credit
 Tax Category: Research and Development Credits
 Citation: G.S. 105-129.56
 Repeal Effective Date: Tax years beginning on or after Jan. 1, 2014.
 Description: This provision allowed a credit of 15% of eligible expenses over \$50,000 used to develop interactive digital media or a digital platform or engine for use in interactive digital media. The credit was 20% for allowable expenses paid to a community college or research university. The credit was limited to \$7.5 million per taxpayer.

Report Updates

76. Credit for creating jobs
Tax Category: Tax Credits for Growing Businesses
Citation: G.S. 105-129.87
Repeal Effective Date: Tax years beginning on or after Jan. 1, 2014.
Description: This provision allowed a credit for creating jobs in North Carolina. The amount of the credit was dependent on the development tier of the county in which the jobs were located. Additional credits were available for companies that created jobs in an urban progress zone, port enhancement zone or agrarian growth zone, as well as for new hires who resided in one of the zones or who were unemployed for at least 26 weeks before the date of hire.
77. Credit for investing in business property
Tax Category: Tax Credits for Growing Businesses
Citation: G.S. 105-129.88
Repeal Effective Date: Tax years beginning on or after Jan. 1, 2014.
Description: This provision allowed a credit for placing business property in North Carolina. The amount of the credit was dependent on the development tier of the county in which the property was located. Additional credits were available for companies that placed business property in an urban progress zone, port enhancement zone or agrarian growth zone.
78. Credit for investing in real property
Tax Category: Tax Credits for Growing Businesses
Citation: G.S. 105-129.89
Repeal Effective Date: Tax years beginning on or after Jan. 1, 2014.
Description: This provision allowed a credit of 30% of the eligible investment for a taxpayer that purchased or leased real property in a development tier 1 area.
79. Waste treatment, recycling and disposal deduction
Tax Category: Corporation Income Tax
Citation: G.S. 105-130.5(b)(6)
Repeal Effective Date: Tax years beginning on or after Jan. 1, 2016.
Description: This provision allowed a deduction for amortization in excess of depreciation allowed under the Code on the cost of property used in certain waste treatment, recycling or reduction in hazardous waste . (S.L. 2015-241)
80. Depreciation of certain emergency facilities
Tax Category: Corporation Income Tax
Citation: G.S. 105-130.5(b)(7)
Repeal Effective Date: Tax years beginning on or after Jan. 1, 2016.
Description: This provision allowed a deduction for depreciation of emergency facilities acquired prior to Jan. 1, 1955. (S.L. 2015-241)
81. Reforestation and cultivation of trees
Tax Category: Corporation Income Tax
Citation: G.S. 105-130.5(b)(12)
Repeal Effective Date: Tax years beginning on or after Jan. 1, 2016.
Description: This provision allowed a deduction for reasonable expenses, in excess of deductions allowed under the Code, paid for reforestation and cultivation of commercially grown trees. (S.L. 2015-241)

82. Income from international banking facility
 Tax Category: Corporation Income Tax
 Citation: G.S. 105-130.5(b)(13)
 Repeal Effective Date: Tax years beginning on or after Jan. 1, 2016.
 Description: This provision allowed a deduction of the eligible income of an international banking facility to the extent included in determining federal taxable income. (S.L. 2015-241)

83. Marketing assessments on tobacco
 Tax Category: Corporation Income Tax
 Citation: G.S. 105-130.5(b)(15)
 Repeal Effective Date: Tax years beginning on or after Jan. 1, 2016.
 Description: This provision allowed a deduction for the amount paid, pursuant to 7 U.S.C. 1445-2, as marketing assessments on tobacco grown by a corporation in North Carolina. (S.L. 2015-241)

84. Earnings of certain trusts
 Tax Category: Corporation Income Tax
 Citation: G.S. 105-130.5(b)(18)
 Repeal Effective Date: Tax years beginning on or after Jan. 1, 2016.
 Description: This provision allowed a deduction of earnings on a trust for settlement of an agreement by two or more manufacturers with the State for potential claims against the manufacturers. (S.L. 2015-241)

85. Income from Hurricane Floyd Reserve Fund
 Tax Category: Corporation Income Tax
 Citation: G.S. 105-130.5(b)(19)
 Repeal Effective Date: Tax years beginning on or after Jan. 1, 2016.
 Description: This provision allowed a deduction for the amount paid to taxpayers from the Hurricane Floyd Reserve Fund. (S.L. 2015-241)

86. Disaster Relief Reserve payments
 Tax Category: Corporation Income Tax
 Citation: G.S. 105-130.5(b)(22)
 Repeal Effective Date: Tax years beginning on or after Jan. 1, 2016.
 Description: This provision allowed a deduction for amounts paid to taxpayers for hurricane relief from the Disaster Relief Reserve Fund, not to include amounts paid for goods and services provided. (S.L. 2015-241)

87. Deduction for sale of a manufactured home community to manufactured home owners
 Tax Category: Corporation Income Tax
 Citation: G.S. 105-130.5(b)(24)
 Repeal Effective Date: Expired for tax years beginning on or after Jan. 1, 2015
 Description: This provision allowed a deduction of 5% of the gross purchase price of a qualified sale of a manufactured home community.

88. Savings & Loan Association interest
 Tax Category: Corporation Income Tax
 Citation: G.S. 105-130.5(c)(5)
 Repeal Effective Date: Tax years beginning on or after Jan. 1, 2016
 Description: This provision allowed a savings and loan association to deduct interest earned on deposits at the Federal Home Loan Bank of Atlanta or its successor. (S.L. 2015-241)

Report Updates

89. Expenses related to untaxed dividends for bank holding company
Tax Category: Corporation Income Tax
Citation: G.S. 105-130.6A(e)
Repeal Effective Date: Tax years beginning on or after Jan. 1, 2016
Description: If the attribution of expenses related to nontaxed dividends resulted in additional tax of more than \$11 million to a bank holding company group, the group may reduce the attributed expenses so that the additional tax effect was \$11 million. (S.L. 2015-241)
90. Credit for bank holding companies related to expenses on nontaxed earnings
Tax Category: Corporation Income Tax
Citation: G.S. 105-130.6A(f)
Repeal Effective Date: Tax years beginning on or after Jan. 1, 2016
Description: A bank holding company was allowed a \$2 million credit if it was eligible for the cap in G.S. 105-130.6A(e). (S.L. 2015-241)
91. Credit for electric power holding companies related to expenses on nontaxed earnings
Tax Category: Corporation Income Tax
Citation: G.S. 105-130.6A(g)
Repeal Effective Date: Tax years beginning on or after Jan. 1, 2016
Description: An electric power holding company was allowed a credit of one-half the additional tax due to the adjustment for expenses related to dividends required by G.S. 105-130.5(c)(3). (S.L. 2015-241)
92. Amortization of pollution abatement facilities and equipment
Tax Category: Corporation Income Tax
Citation: G.S. 105-130.10
Repeal Effective Date: Tax years beginning on or after Jan. 1, 2016
Description: In lieu of any depreciation allowance, a corporation may opt to deduct amortization of air-cleaning devices, waste treatment facilities, recycling facilities, equipment or plant used to provide sewer service to residential and outlying areas. (S.L. 2015-241)
93. Credit for costs at NC ports
Tax Category: Corporation Income Tax & Individual Income Tax
Citation: G.S. 105-130.41 & G.S. 105-151.22
Repeal Effective Date: Expired for tax years beginning on or after Jan. 1, 2014
Description: This provision allowed a credit for loading or unloading cargo at a State-owned port terminal. The credit was equal to the excess of the wharfage, handling, and throughput charges for the current taxable year over the average amount for the current year and the two preceding years. The maximum cumulative credit for a corporation was \$2 million.
94. Credit for film industry production expenses
Tax Category: Corporation Income Tax & Individual Income Tax
Citation: G.S. 105-130.47 & G.S. 105-151.29
Repeal Effective Date: Repealed for qualifying expenses occurring on or after Jan. 1, 2015.
Description: This provision allowed a credit of 25% of qualifying expenses for a film or television production company that spent at least \$250,000 in North Carolina on productions during the tax year.

95. Credit for recycling oyster shells
 Tax Category: Corporation Income Tax & Individual Income Tax
 Citation: G.S. 105-130.48 & G.S. 105-151.30
 Repeal Effective Date: Expired for tax years beginning on or after Jan. 1, 2014
 Description: This provision allowed a credit of \$1 per bushel of oyster shells donated to the Division of Marine Fisheries of the NC Department of Environmental and Natural Resources.

96. Long-term care credit
 Tax Category: Individual Income Tax
 Citation: G.S. 105-151.28
 Repeal Effective Date: Tax years beginning on or after Jan. 1, 2014.
 Description: This provision allowed a taxpayer a credit equal to 15% of the premiums paid on a long-term care insurance contract for themselves, a spouse, or a qualified dependent. The credit per contract could not exceed \$350. Only taxpayers whose adjusted gross income were below certain levels were eligible for the credit.

97. Earned income tax credit
 Tax Category: Individual Income Tax
 Citation: G.S. 105-151.31
 Repeal Effective Date: Tax years beginning on or after Jan. 1, 2014.
 Description: This provision allowed a taxpayer a credit equal to a percentage of a taxpayer's Federal earned income credit (EIC). The credit taken by the taxpayer in a given year could exceed the taxpayer's tax liability.

98. Credit for adoption expenses
 Tax Category: Individual Income Tax
 Citation: G.S. 105-151.32
 Repeal Effective Date: Tax years beginning on or after Jan. 1, 2014.
 Description: This provision allowed a credit equal to a percentage of a taxpayer's Federal credit for adoption expenses For tax years beginning prior to Jan. 1, 2013, the percentage was 50%; for tax years beginning on or after Jan. 1, 2013, the percentage was 30%.

99. Credit for qualified business investments
 Tax Category: Individual Income Tax
 Citation: G.S. 105-163.011
 Repeal Effective Date: Expired for investments made on or after Jan. 1, 2014.
 Description: This provision allowed a credit to individuals investing in the equity securities or subordinated debt of a qualified business venture, a qualified grantee business, or a qualified licensee business. The credit was equal to 25% of the amount invested or \$50,000, whichever is less. The total tax credits available to all taxpayers in a given year could not exceed a certain amount.

100. Vending machine one-cent sales
 Tax Category: Sales & Use Tax
 Citation: G.S. 105-164.13(30)
 Repeal Effective Date: Oct. 1, 2014
 Description: This provision exempted sales from vending machines when sold by the owner or lessee of said machines at a price of \$0.01 per sale. (S.L. 2014-3)

Report Updates

101. Installation charges
Tax Category: Sales & Use Tax
Citation: G.S. 105-164.13(49)
Repeal Effective Date: March 1, 2016
Description: This provision exempted installation charges when the charges were separately stated. (S.L. 2015-241)
102. Agricultural fairs
Tax Category: Sales & Use Tax
Citation: G.S. 105-164.13(60)b
Repeal Effective Date: Jan. 1, 2015
Description: This provision exempted admission charges to a commercial agricultural fair that met the requirements of G.S. 106-520.1. (S.L. 2014-3)
103. Arts and community festivals
Tax Category: Sales & Use Tax
Citation: G.S. 105-164.13(60)c
Repeal Effective Date: Jan. 1, 2015
Description: This provision exempted admission charges to a festival or other recreational or entertainment activity that lasted no more than 7 consecutive days and was sponsored by a nonprofit entity that used the entire proceeds of the activity exclusively for the entity's nonprofit purposes. The exemption applied to the first two activities sponsored by the entity during the calendar year. (S.L. 2014-3)
104. Youth athletic contests
Tax Category: Sales & Use Tax
Citation: G.S. 105-164.13(60)d
Repeal Effective Date: Jan. 1, 2015
Description: This provision exempted admission charges to a youth athletic contest sponsored by a nonprofit entity that was exempt from income tax. (S.L. 2014-3)
105. State attractions
Tax Category: Sales & Use Tax
Citation: G.S. 105-164.13(60)e
Repeal Effective Date: Jan. 1, 2015
Description: This provision exempted admission charges to a State attraction. (S.L. 2014-3)
106. Refund for businesses in low-tier area
Tax Category: Sales & Use Tax
Citation: G.S. 105-164.14A(a)(3)
Repeal Effective Date: Jan. 1, 2014
Description: This provision allowed a refund of sales and use tax paid on machinery and equipment to a taxpayer engaged in certain businesses in a development tier 1 area.
107. Refund for analytical service companies
Tax Category: Sales & Use Tax
Citation: G.S. 105-164.14A(a)(6)
Repeal Effective Date: Jan. 1, 2014
Description: This provision allowed a refund of 50% of the eligible amount of sales and use tax paid by a business on tangible personal property that is consumed or transformed in analytical service activities.

108. Refund for certain industrial facilities
Tax Category: Sales & Use Tax
Citation: G.S. 105-164.14B
Repeal Effective Date: Jan. 1, 2014
Description: This provision allowed a refund of sales and use tax paid for building materials, building supplies, fixtures, and equipment that became a part of the real property of an eligible facility. Only certain industries were eligible. A minimum investment of \$50 million in a development tier 1 area or \$100 million in another area was required.

109. Temporary cap on motor fuels tax rate
Tax Category: Excise Tax on Motor Fuels
Citation: G.S. 105-449.80(a)
Repeal Effective Date: June 30, 2015
Description: This provision placed a cap on the motor fuel excise tax rate of 37.5¢. The calculation of the tax rate based on the wholesale price of gasoline has since been repealed. (S.L. 2015-2)

110. Refunds for taxicabs & local transit
Tax Category: Excise Tax on Motor Fuels
Citation: G.S. 105-449.80(a)
Repeal Effective Date: Jan. 1, 2015
Description: This provision allowed a refund of tax less 1¢ per gallon for taxicabs and local city transit systems. (S.L. 2014-100)

Privilege Taxes

Privilege Taxes (Article 2)

Tax Base Information

Privilege taxes are imposed for the privilege of carrying on business or doing a remunerative act within the State. Privilege taxes on corporations are discussed under the “franchise tax” article.

Privilege tax bases are as follows:

- a license fee of \$50 for attorneys-at-law and other professionals
- a tax of 0.277% of the face value of installment paper
- a fee of \$250 per location at which business is conducted by loan agencies, including check cashing businesses and pawn brokers.

A privilege tax on banks was repealed effective July 1, 2016 and a tax on publishers of newsprint publications was repealed effective Oct. 26, 2015. Tax expenditures related to these taxes have been removed from this publication.

In Fiscal Year 2014-15, approximately \$41.6 million was collected from this tax.

Exemptions from license fee of \$50 for attorneys-at-law and other professionals

1. Professionals over 75 Years Old

Citation: G.S. 105-41(b)(1)

Description: Exemption from license fee for attorneys or other professionals who are over 75 years old.

Enacting Legislation: S.L. 1939-158

Estimate (in millions): less than \$0.1

Data Source: Relevant privilege tax collections for FY14-15 and share of affected group in workforce

2. Individuals Practicing Art of Healing

Citation: G.S. 105-41(b)(2)

Description: Exemption from license fee for individuals who practice the art of healing for a fee, if the person is an adherent of an established church or religious organization and confines the healing practice to prayer or spiritual means.

Enacting Legislation: S.L. 1957-1064

Estimate (in millions): less than \$0.1

Data Source: Derived from Department of Revenue list of licenses

3. Blind Individuals

Citation: G.S. 105-41(b)(3)

Description: Exemption from license fee for blind individuals.

Enacting Legislation: S.L. 1998-95 - effective July 1, 1999

Estimate (in millions): less than \$0.1

Data Source: Relevant privilege tax collections for FY14-15 and share of affected group in workforce

Tobacco Tax

Tobacco Products Tax (Article 2A)

Tax Base Information

A cigarette tax is levied on the sale or possession for sale in this State, by a distributor, of all cigarettes. Other tobacco products are taxed when a wholesale dealer or retail dealer first acquires or otherwise handles the products subject to the tax.

As of Sept. 1, 2009, the tax rate on a 20-pack of cigarettes is 45¢ and the tax rate on other tobacco products is 12.8% of the cost price.

A tax on vapor products at a rate of 5¢ per fluid milliliter of consumable product became effective June 1, 2015.

During Fiscal Year 2014-15, approximately \$276.5 million was collected from this tax.

Tax Expenditures

1. Discount for Timely Reports -- Cigarettes

Citation: G.S. 105-113.21(a1)

Description: A distributor who files a timely report and sends a timely payment may deduct from the amount due a discount of 2%. The current statute states that "(t)his discount covers expenses incurred in preparing the records and reports required by this Part, and the expense of furnishing a bond."

Enacting Legislation: S.L. 2004-84 - effective for reporting periods beginning on or after August 1, 2004; there was a 4% discount prior to August 1, 2003 (S.L. 1969-1075).

Estimate (in millions): FY15-16.....\$5.0 FY16-17 \$5.0

Data Source: Department of Revenue tax data

Note: This provision was effective beginning August 1, 2004. There was a 4% discount prior to August 1, 2003

2. Refund for Unsalable Cigarettes

Citation: G.S. 105-113.21(b)

Description: Refund for unsalable cigarettes upon which the tax has been paid.

Enacting Legislation: S.L. 1993-442

Estimate (in millions): FY15-16.....\$0.1 FY16-17 \$0.1

Data Source: Department of Revenue tax data

3. Sample Tobacco Products

Citation: G.S. 105-113.35(a)(3)

Description: The tax does not apply to a sample tobacco product distributed without charge.

Enacting Legislation: S.L. 1991-689 – effective Jan. 1, 1992 (this act created the tax on other tobacco products)

Estimate (in millions): Unavailable

Data Source: Department of Revenue tax data

4. Discount for Timely Reports -- Other Tobacco Products

Citation: G.S. 105-113.39(a)

Description: A wholesale dealer or retail dealer who files a timely report and sends a timely payment may deduct from the amount due a discount of 2%. This discount does not apply to taxes paid on vapor products.

Enacting Legislation: S.L. 2004-84 - effective for reporting periods beginning on or after August 1, 2004; there was a 4% discount prior to August 1, 2003.

Estimate (in millions): FY15-16.....\$0.8 FY16-17 \$0.8

Data Source: Department of Revenue tax data

5. Refund for Unsalable Tobacco Products

Citation: G.S. 105-113.39(b)

Description: A wholesale dealer or retail dealer in possession of stale or otherwise unsalable tobacco products upon which the tax has been paid may return the tobacco products to the manufacturer and apply to the Secretary for refund of the tax.

Enacting Legislation: S.L. 2005-406 - effective Sept. 1, 2005

Estimate (in millions): less than \$0.1

Data Source: Department of Revenue tax data

Alcoholic Beverage License and Excise Taxes (Article 2C)

Tax Base Information

Excise taxes are levied on beer and wine based on volume; excise taxes are levied on liquor sold by ABC stores based on price. These excise taxes are in addition to sales & use tax, as well as other charges on sales of liquor.

As of Sept. 1, 2009, the tax on beer is 61.71¢ per gallon; the tax on unfortified wine is 26.34¢ per liter; the tax on fortified wine is 29.34¢ per liter; the tax on liquor is 30% of the sum of the distiller's price, the State ABC warehouse freight and bailment charges, and a markup for local ABC boards.

During Fiscal Year 2014-15, \$358.4 million was collected from this tax. Of this amount, \$39.5 million was distributed to local governments.

Tax Expenditures

1. Beer and Wine Destroyed by a Major Disaster

Citation: G.S. 105- 113.81(a)

Description: Excise taxes are not required to be paid on malt beverages or wine rendered unsalable by a major disaster.

Enacting Legislation: S.L. 1967-759 - effective Jan. 1, 1968; this provision was enacted as G.S. 18.81(i)

Estimate (in millions): Unavailable

2. Beer and Wine for Oceangoing Vessels

Citation: G.S. 105- 113.81(b)

Description: Excise taxes are not required to be paid on malt beverages or wine sold and delivered for use on oceangoing vessels. Sales made to officers, agents, crewmen, or passengers for their personal use are not exempt.

Enacting Legislation: S.L. 1963-992

Estimate (in millions): Unavailable

3. Brewery and Winery Tastings

Citation: G.S. 105- 113.81(e)

Description: Resident breweries and wineries are not required to remit excise taxes on malt beverages and wine given free of charge to customers, visitors, and employees on the manufacturer's licensed premises for consumption on those premises.

Enacting Legislation: S.L. 1985-114 - effective April 23, 1985

Estimate (in millions): Unavailable

4. Discount for Timely Reports

Citation: G.S. 105-113.85

Description: A wholesaler or importer who files a timely report and sends a timely payment may deduct from the amount due a discount of 2%. The current statute states that "(t)his discount covers losses due to spoilage and breakage, expenses incurred in preparing the records and reports required by this Article, and the expense of furnishing a bond."

Enacting Legislation: S.L. 2004-84 - effective for reporting periods beginning on or after August 1, 2004; there was a 4% discount prior to August 1, 2003 (S.L. 1969-1239)

Estimate (in millions): FY15-16.....\$3.0 FY16-17 \$3.1

Data Source: Department of Revenue tax data

5. Sacramental Wine

Citation: G.S. 105-113.87(a)

Description: Refund for wine used for sacramental purposes.

Enacting Legislation: S.L. 1945-708 - this provision was enacted as G.S. 18-88.1

Estimate (in millions): less than \$0.1

Data Source: Department of Revenue tax data

Franchise Tax

Franchise Tax (Article 3)

Brief Description and Tax Base Information

The general business franchise tax is a privilege tax on corporations operating in North Carolina. The tax is currently \$1.50 for every \$1,000 of the largest of the following three measures:

1. the total amount of capital stock, surplus and undivided profits
2. the net accounting value of real and tangible property in the State
3. 55% of the appraised value of real and tangible property in the State

For corporations doing business both in and outside North Carolina, the share of capital stock apportioned to North Carolina is calculated by the same method used for the corporation income tax: the average of the corporation's shares of property, payroll and sales, with the sales factor double-weighted.

Effective for taxes due on or after Jan. 1, 2017, the capital stock, surplus and undivided profits base was replaced by a "net worth" base, which is derived by a different calculation. For multistate entities, net worth is also apportioned to North Carolina using the corporation income tax apportionment factor.

Effective for taxes due on or after Jan. 1, 2017, the minimum franchise tax is \$200. Prior to that period, the minimum franchise tax is \$35.

In Fiscal Year 2014-15, North Carolina collected approximately \$565.2 million in general business franchise taxes.

Exemptions

1. Double-Weighting of Sales Factor in Apportionment of Capital Stock/Net Worth

Citation: G.S. 105-122(c1)(1)

Description: The capital stock, surplus and undivided profits of a corporation are apportioned using the formula in G.S. 105-130.4, which doubles the relative importance of the company's sales in the State.

Enacting Legislation: S.L. 1988-994 - effective for tax years beginning on or after Jan. 1, 1989

Estimate (in millions): FY15-16.....\$16.1 FY16-17 \$16.8

Data Source: Department of Revenue tax data

Note: There are several types of companies that do not use the double-weighted sales factor to calculate their apportionment percentage. These include building or construction contractors, several types of financial companies, motor carriers, public utilities, railroad companies, and corporations that receive more than 50% of their income from intangible property.

- 2. Charitable Nonprofits**
Citation: G.S. 105-125(a)(1)
Description: Charitable, religious, fraternal, benevolent, scientific or educational nonprofit.
Enacting Legislation: S.L. 1939-158

Estimate (in millions): FY15-16.....\$224.0 FY16-17 \$235.2

Data Source: Based on IRS data compiled by the National Center for Charitable Statistics (NCCS)

- 3. Local Mutual Nonprofits**
Citation: G.S. 105-125(a)(3)
Description: Mutual ditch or irrigation association, mutual or cooperative telephone association, mutual canning association, cooperative breeding association or similar corporation of a purely local character deriving receipts solely from assessments, dues, or fees collected from members for the sole purpose of meeting expenses.
Enacting Legislation: S.L. 1955-1313

Estimate (in millions): FY15-16.....\$9.6 FY16-17 \$10.0

Data Source: Based on IRS data compiled by the National Center for Charitable Statistics (NCCS)

- 4. Cooperative Marketing Associations**
Citation: G.S. 105-125(a)(4)
Description: Cooperative marketing associations that operate solely for the purpose of marketing the products of members or other farmers and returns proceeds of sales to members and farmers, less operating costs.
Enacting Legislation: S.L. 1955-1313

Estimate (in millions): FY15-16.....\$0.9 FY16-17 \$0.9

Data Source: Based on IRS data compiled by the National Center for Charitable Statistics (NCCS)

- 5. Production Credit Association**
Citation: G.S. 105-125(a)(5)
Description: Nonprofit production credit association organized under federal Farm Credit Act of 1933.
Enacting Legislation: S.L. 1963-601

Estimate (in millions): FY15-16.....\$1.2 FY16-17 \$1.3

Data Source: Based on capital stock and retained earnings of the three farm credit associations in North Carolina

Franchise Tax

6. Nonprofit Clubs

Citation: G.S. 105-125(a)(6)

Description: Clubs organized and operated exclusively for pleasure, recreation, or other nonprofit purposes, a civic league operated solely for the promotion of social welfare, a business league, or a board of trade.

Enacting Legislation: S.L. 1939-158

Estimate (in millions): FY15-16.....\$6.4 FY16-17 \$6.8

Data Source: Based on IRS data compiled by the National Center for Charitable Statistics (NCCS)

7. Chambers of Commerce

Citation: G.S. 105-125(a)(7)

Description: Chamber of commerce or merchants' association, not organized for profit.

Enacting Legislation: S.L. 1939-158

Estimate (in millions): FY15-16.....\$2.8 FY16-17 \$3.0

Data Source: Based on IRS data compiled by the National Center for Charitable Statistics (NCCS)

8. Homeowners' Associations

Citation: G.S. 105-125(a)(8)

Description: Condominium association, homeowners' association, or cooperative housing corporation not organized for profit.

Enacting Legislation: S.L. 1975-591 - effective for taxable years beginning on or after Jan. 1, 1975

Estimate (in millions): FY15-16.....\$1.9 FY16-17 \$2.0

Data Source: Based on IRS data compiled by the National Center for Charitable Statistics (NCCS).

9. Miscellaneous Nonprofits

Citation: G.S. 105-125(a)(9)

Description: Other organizations exempt from federal income tax under the Code.

Enacting Legislation: S.L. 1983-713 - effective for taxable years beginning on or after Jan. 1, 1983

Estimate (in millions): FY15-16.....\$4.4 FY16-17 \$4.7

Data Source: Estimate for credit unions from NC Department of Commerce, Credit Union Division Annual Report (2014).

10. Real Estate Mortgage Investment Conduits**Citation:** G.S. 105-125(a)**Description:** An entity that qualifies as a real estate mortgage investment conduit, as defined in section 860D of the Code, is exempt from franchise taxes.**Enacting Legislation:** S.L. 1993-494 - effective for taxable years beginning on or after Jan. 1, 1993**Estimate (in millions):** Unavailable**Deductions****11. Deduction from Net Worth for Depreciation, Depletion and Amortization****Citation:** G.S. 105-122(b)(1)**Description:** A deduction for accumulated depreciation, depletion, and amortization as determined in accordance with the method used for federal tax purposes.**Enacting Legislation:** S.L. 2015-241 – effective Jan. 1, 2017; a similar provision had existed under the “capital stock, surplus, and undivided profits” base (S.L. 1939-158)**Estimate (in millions):** Unavailable**12. Deduction from Property Investment for Expenses Related to Purchases of Real Estate****Citation:** G.S. 105-122(d)**Description:** Deduction from tangible property investments of reserves for depreciation and any indebtedness incurred by virtue of the purchase of any real estate and any improvements.**Enacting Legislation:** S.L. 1947-501**Estimate (in millions):** Unavailable**13. Deduction from Property Investment for Waste Abatement****Citation:** G.S. 105-122(d)**Description:** Deduction from tangible property investments of cost of air-cleaning device or sewerage or waste treatment plant.**Enacting Legislation:** S.L. 1955-1100; S.L. 1967-892 added air-cleaning device and air pollution abatement equipment**Estimate (in millions):** Unavailable**14. Deduction from Property Investment for Investments in Rural Sewer Services****Citation:** G.S. 105-122(d)**Description:** Deduction from tangible property investments for the cost of constructing facilities built to provide sewer service to residential and outlying areas.**Enacting Legislation:** S.L. 1967-892**Estimate (in millions):** Unavailable

Franchise Tax

15. Real Estate Investment Trusts and Regulated Investment Corporations

Citation: G.S. 105-125(b)

Description: A regulated investment company or a non-captive REIT may deduct the aggregate market value of its investments in the stocks, bonds, debentures, or other securities or evidences of debt of other corporations, partnerships, individuals, municipalities, governmental agencies, or governments.

Enacting Legislation: S.L. 1951-937 - for regulated investment companies; S.L. 1971-820 - added REITs

Estimate (in millions): Unavailable

Tax Credits

16. Tax Credit for LLCs Subject to Franchise Tax

Citation: G.S. 105-122.1

Description: Limited liability companies that are subject to the franchise tax are allowed a credit for the difference between the annual reporting fee for LLCs (\$200) and the annual reporting fee for other corporations (\$18 for electronic copy, \$25 for paper copy). The amount of the credit cannot exceed the LLC's franchise tax liability for the year.

Enacting Legislation: S.L. 2006-66 – effective Jan. 1, 2007 (tax year 2006 returns). Prior to this, all LLCs were exempt from the franchise tax, but paid the higher reporting fee.

Estimate (in millions): FY15-16.....\$0.4 FY16-17\$0.5

Data Source: Department of Revenue C-corporation and S-corporation databases

Caps

17. Cap for Holding Companies

Citation: G.S. 105-120.2(b)(1)

Description: Maximum tax of \$150,000 for holding companies. A holding company is any corporation which receives during its taxable year more than 80% of its gross income from corporations in which it owns directly or indirectly more than 50% of the outstanding voting stock.

Enacting Legislation: S.L. 1975-130 - effective Jan. 1, 1976; S.L. 2015-241 increased the maximum from \$75,000, effective for taxes due on or after Jan. 1, 2017.

Estimate (in millions): FY15-16.....\$120.6 FY16-17\$118.5

Data Source: Department of Revenue C-corporation and S-corporation databases

Note: Approximately 83 companies were subject to this cap in tax year 2013.

Corporation Income Tax (Article 4, Part 1)

Brief Description and Tax Base Information

The corporation income tax is a tax on the net income of every domestic C corporation and of every foreign C corporation doing business in North Carolina.

Exclusions and exemptions under federal law are generally passed through to North Carolina in order to determine taxable income. There are, however, a number of additions to federal taxable income; significant among these additions are (1) taxes paid on net income, (2) interest from obligations of other states and their political subdivisions, (3) net operating loss carryforwards, (4) domestic production activities deduction, (5) expenses related to non-taxed income, and (6) royalty payments paid to related entities.

A dividends-received deduction is considered necessary for determining the corporate income tax base, as it avoids multiple layers of taxation on dividends that are passed between related corporate entities. The state dividends-received deduction conforms to the federal provision, with the exception that expenses related to the exempt dividends must be added to North Carolina taxable income.

For certain nonprofit organizations, such as charities, exemption from the corporate income tax is not considered a tax expenditure because promoting public welfare is central to their operations, and these entities are still taxed on their unrelated business activities. Also, certain nonprofit cooperative business organizations, such as trade associations, are excluded because their profits are distributed to members. These exemptions from the tax base are similar to those used by the Joint Committee on Taxation in preparing their list of federal tax expenditures.

The following chart shows the tax rates in effect during the relevant period covered by this report (the tax rate for 2017 is based on the likely assumption that it will decrease due to G.S. 105-130.3C):

Taxable year beginning in	Tax Rate
2014	6.0%
2015	5.0%
2016	4.0%
2017	3.0%

G.S. 105-130.5(a)(10) requires corporations to add the amount of most credits taken to their taxable income. The estimates of tax credits in this section were adjusted for this provision.

In Fiscal Year 2014-15, North Carolina collected approximately \$1.3 billion in corporate income taxes.

Corporation Income Tax

Exemptions

1. Double-Weighting of Sales Factor in Apportionment Formula

Citation: G.S. 105-130.4

Description: For most corporations, business income is apportioned to North Carolina based on the share of (1) payroll, (2) property, & (3) sales in North Carolina. However, the sales factor is double-weighted.

Enacting Legislation: S.L. 1988-994 - effective for tax years beginning on or after January 1, 1989

Estimate (in millions): FY15-16.....\$51.7 FY16-17 \$44.5

Data Source: Department of Revenue tax data

Note: There are several types of companies that do not use the double-weighted sales factor to calculate their apportionment percentage. These include building or construction contractors, several types of financial companies, motor carriers, public utilities, railroad companies, and corporations that receive more than 50% of their income from intangible property.

2. Phase-In of Sales-Only Apportionment Formula

Citation: G.S. 105-130.4(s1)

Description: For tax years beginning in 2016, the sales factor is weighted three times; for tax years beginning in 2017, the sales factor is weighted four times; for tax years beginning on or after 2018, the apportionment factor is equal to the sales factor only.

Enacting Legislation: S.L. 2015-241

Estimate (in millions): FY15-16.....\$7.5 FY16-17 \$19.0

Data Source: Legislative fiscal note for HB 117 (2015)

Note: The estimate includes the impact on the franchise tax and on pass-through entities that are required to apportion.

3. Sales-Only Apportionment for Capital-Intensive Corporations

Citation: G.S. 105-130.4(s1)

Description: All apportionable income of a qualified capital intensive corporation shall be apportioned by multiplying the income by the sales factor only. A capital-intensive corporation is one where the property factor exceeds 75% of the combined factors, with the sales factor double-weighted. The corporation must also invest at least \$1 billion over 9 years in constructing a facility. The corporation is not eligible for tax credits under Article 3J [G.S. 105-129.83(m)].

Enacting Legislation: S.L. 2009-54 - effective for taxable years beginning on or after January 1, 2010

Sunset Date: Expires for taxable years beginning on or after Jan. 1, 2018

Estimate (in millions): FY15-16.....\$15.7 FY16-17 \$8.3

Data Source: Department of Revenue tax data

Note: The estimate includes the effect of the the phase-in of sales-only apportionment.

4. Fraternal Beneficiary Societies

Citation: G.S. 105-130.11(a)(1)

Description: Exemption for fraternal beneficiary societies, orders or associations (a) operating under the lodge system or providing benefits to members of a lodge system and (b) providing for the payment of life, sick, accident, or other benefits of the organization or their dependents.

Enacting Legislation: S.L. 1939-158

Estimate (in millions): less than \$0.1

Data Source: National Center for Charitable Statistics; "Charities and Other Tax-Exempt Organizations, 2010," Statistics on Income, IRS

Note: Based on data for IRC 501(c)(8) organizations

5. Certain Cooperative Companies

Citation: G.S. 105-130.11(a)(2)

Description: Exemption for nonprofit cooperative banks without capital stock and electric and telephone membership corporations organized under Chapter 117 of the General Statutes.

Enacting Legislation: S.L. 1939-158

Estimate (in millions): FY15-16.....\$3.1 FY16-17 \$2.3

Data Source: National Center for Charitable Statistics; "Charities and Other Tax-Exempt Organizations, 2010," Statistics of Income, IRS

Note: Based on data for IRC 501(c)(14) organizations

6. Nonprofit Clubs

Citation: G.S. 105-130.11(a)(6)

Description: Exemption for nonprofit clubs organized and operated exclusively for pleasure, recreation, and other non-profitable purposes.

Enacting Legislation: S.L. 1939-158

Estimate (in millions): FY15-16.....\$0.4 FY16-17 \$0.4

Data Source: National Center for Charitable Statistics; "Charities and Other Tax-Exempt Organizations, 2010," Statistics of Income, IRS

Note: Based on data for IRC 501(c)(7) organizations

Corporation Income Tax

7. Local Mutual Nonprofits

Citation: G.S. 105-130.11(a)(7)

Description: Exemption for farmers' or other mutual hail, cyclone, or fire insurance companies, mutual ditch or irrigation companies, mutual or cooperative telephone companies, or like organizations of a purely local nature.

Enacting Legislation: S.L. 1939-158

Estimate (in millions): less than \$0.1

Data Source: Data on county farm mutual insurance companies, NC Department of Insurance; Department of Revenue tax data

8. Insurance Companies Taxed on Gross Premiums

Citation: G.S. 105-130.11(a)(11)

Description: Exemption for insurance companies paying the tax on gross premiums as specified in G.S. 105-228.5.

Estimate (in millions): FY15-16.....\$0.0 FY16-17 \$0.0

Data Source: IRS Statistics of Income; Department of Revenue tax data

Note: The estimate is the amount of income tax that is estimated to be collected in excess of the amount of collections under the insurance gross premiums tax.

9. Homeowners' Associations

Citation: G.S. 105-130.11(a)(11)

Description: Exemption for nonprofit condominium associations, homeowners' associations, or cooperative housing corporation, although they are subject to tax on any unrelated business income.

Enacting Legislation: S.L. 1975-591 - effective for taxable years beginning on or after Jan. 1, 1975

Estimate (in millions): FY15-16.....\$0.6 FY16-17 \$0.6

Data Source: National Center for Charitable Statistics; "Charities and Other Tax-Exempt Organizations, 2010," Statistics of Income, IRS

10. Nonprofit Unrelated Business Income from Research Activities

Citation: G.S. 105-130.11(b)

Description: Entities that are exempt in G.S. 105-130.11(a) are taxable on their unrelated business income, except if their net income is derived from certain research activities.

Enacting Legislation: S.L. 1963-1169 - effective for taxable years beginning on or after Jan. 1, 1963

Estimate (in millions): Unavailable

Deductions**11. N.C. & Nonprofit Educational Institution Obligation Interest****Citation:** G.S. 105-130.5(b)(1a)**Description:** Deductions for interest on the obligations of 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, or a nonprofit educational institution.**Enacting Legislation:** S.L. 1997-439 - effective for taxable years beginning on or after January 1, 1997. However, this was not a substantive change since interest has been exempt from income taxation under other long-standing statutes, e.g. G.S. 142.12.**Estimate (in millions):** FY15-16.....\$1.0 FY16-17 \$1.0**Data Source:** IRS Statistics of Income; Department of Revenue tax data**12. Dividends from Foreign Sources****Citation:** G.S. 105-130.5(b)(3a)**Description:** Deduction for dividends treated as received from sources outside the United States as determined under Section 862 of the Code, net of related expenses, to the extent included in federal taxable income.**Enacting Legislation:** S.L. 2001-327**Estimate (in millions):** FY15-16.....\$31.6 FY16-17 \$24.8**Data Source:** “Estimates of Federal Tax Expenditures for Fiscal Years 2014-18,” Joint Committee on Taxation**Note:** The estimate is based on the expense addback that is foregone due to U.S. corporations delaying repatriation of dividends from controlled foreign subsidiaries.**13. Subpart F and Section 78 Gross-Up Dividends****Citation:** G.S. 105-130.5(b)(3b)**Description:** Deduction for any amount included in federal taxable income under section 78 or section 951 of the Code, net of related expenses.**Enacting Legislation:** S.L. 2001-327**Estimate (in millions):** Unavailable**14. Net Economic Loss Carryforward****Citation:** G.S. 105-130.5(b)(4)**Description:** Deduction for net economic losses in any or all of the 15 preceding income years, pursuant to the provisions of G.S. 105-130.8A. For new losses in taxable years starting on or after Jan. 1, 2015, the net economic loss is redefined as State net loss and becomes a static amount. Any unused portion of a State net loss carried forward will not have to be first offset by nontaxable income in the future tax year.**Enacting Legislation:** S.L. 1939-158; S.L. 2014-3 includes the change to State net loss**Estimate (in millions):** FY15-16.....\$157.5 FY16-17 \$149.8**Data Source:** Department of Revenue tax data; Legislative fiscal note for HB 1050 (2014)

Corporation Income Tax

15. Net Capital Losses Not Deductible from Federal Taxable Income

Citation: G.S. 105-130.5(b)(8)

Description: Deduction for the amount of losses realized on the sale or disposition of assets not allowed under section 1211(a) of the Code. (For federal taxes, certain capital losses can only be used to offset capital gains; however, they can be carried back 3 years and forward 5 years.)

Enacting Legislation: S.L. 1939-158

Estimate (in millions): Unavailable

16. Shareholders of a Regulated Investment Company

Citation: G.S. 105-130.5(b)(9)

Description: Deduction of the portion of undistributed capital gains of a regulated investment company for which a shareholder in the company takes a federal credit or deduction under Section 852 of the Code.

Enacting Legislation: S.L. 1971-820 - effective for taxable years beginning on or after Jan. 1, 1971

Estimate (in millions): Unavailable

17. Basis Adjustment for Federal Tax Credit

Citation: G.S. 105-130.5(b)(14)

Description: Deduction for the amount that the basis of a depreciable asset is reduced due to a Federal tax credit or because of a grant allowed under section 1603 of the American Recovery and Reinvestment Tax Act of 2009.

Enacting Legislation: S.L. 1983-61 - effective for taxable years beginning on or after Jan. 1, 1983

Estimate (in millions): Unavailable

18. Natural Gas Expansion Surcharges

Citation: G.S. 105-130.5(b)(16)

Description: Deduction for the amount of natural gas expansion surcharges collected by a natural gas local distribution company.

Enacting Legislation: S.L. 1991-598 - effective July 8, 1991

Estimate (in millions): less than \$0.1

Data Source: North Carolina Utilities Commission; Department of Revenue tax data

19. 911 Charges

Citation: G.S. 105-130.5(b)(17)

Description: To the extent included in federal taxable income, 911 charges imposed under G.S. 62A-43 and remitted to the 911 Fund under that section.

Enacting Legislation: S.L. 1998-158, as amended by S.L. 1999-337 - effective Sept. 25, 1998

Estimate (in millions): less than \$0.1

Data Source: Department of Revenue tax data

20. Dividends from Captive REIT

Citation: G.S. 105-130.5(b)(23)

Description: Deduction for a dividend received from a captive REIT, as defined in G.S. 105-130.12.

Enacting Legislation: S.L. 2007-323 - effective for taxable years beginning on or after Jan. 1, 2007

Estimate (in millions): no net negative impact; see note

Note: This deduction is offset by G.S. 105-130.5(a)(19). A captive REIT must add to its taxable income any dividends paid to shareholders. Therefore, this deduction is needed to avoid double taxation, and no revenue is lost to the State.

21. Deferred Cancellation of Indebtedness

Citation: G.S. 105-130.5(b)(25)

Description: Deduction for the amount added to federal taxable income as deferred income under section 108(i)(1) of the Code. This deduction applies to taxable years beginning on or after Jan. 1, 2014.

Enacting Legislation: S.L. 2009-451

Estimate (in millions): no net negative impact; see note

Note: This deduction is offset by G.S. 105-130.5(a)(21), which requires the addition to taxable income for the amount deferred under section 108(i) of the Code, effective for taxable years beginning on or after Jan. 1, 2009.

22. Bonus Depreciation and Expensing Adjustment

Citation: G.S. 105-130.5(b)(27)

Description: The Code has allowed bonus depreciation allowances and expanded Section 179 expensing for certain years between 2002 and 2014. North Carolina has decoupled from these provisions by having taxpayers add back a percentage of the federal deduction in each year and allowing taxpayers to deduct the addback over a period of 5 years in the future.

Enacting Legislation: S.L. 2002-126 was the first provision related to bonus depreciation addbacks; S.L. 2011-5 added the provision related to the addback for section 179 expensing

Estimate (in millions): no net negative impact; see note

Note: This deduction is offset by the required addition to taxable income in G.S. 105-130.5(a)(24). The net impact is to shift the lost revenue into future years. Thus, there is likely to be a positive impact on the present value of State revenues.

23. Percentage Depletion over Cost Depletion

Citation: G.S. 105-130.5(a)(11)

Description: Allowance for percentage depletion over cost depletion for solid minerals or rare earths extracted from the soil or waters of this State.

Enacting Legislation: S.L. 1983-713 - effective for taxable years beginning on or after Jan. 1, 1983.

Estimate (in millions): FY15-16.....\$10.7 FY16-17\$8.8

Data Source: Department of Revenue tax data

24. Charitable Contributions Outside N.C.

Citation: G.S. 105-130.9(1)

Description: Deduction for charitable contributions. The amount of deduction for this item may not exceed 5% of the taxpayer's net income. Contributions made to out-of-state donees are multiplied by the taxpayer's apportionment factor.

Enacting Legislation: S.L. 1939-158

Estimate (in millions): FY15-16.....\$6.4 FY16-17\$5.2

Data Source: Department of Revenue tax data

Note: This estimate includes only contributions made to donees outside NC; see next item for deduction for donees in NC.

25. Charitable Contributions Within N.C.

Citation: G.S. 105-130.9(1)-(3)

Description: Most deductions are limited to 5% of the taxpayer's net income.

Contributions to the State of North Carolina, its counties and municipalities and any agency or instrumentality of these institutions, in addition to contributions made to educational institutions located in North Carolina are fully deductible. For companies with income allocable outside North Carolina, charitable contributions to donees inside NC are not reduced by multiplying by the taxpayer's apportionment factor.

Enacting Legislation: S.L. 1939-158

Estimate (in millions): FY15-16.....\$3.1 FY16-17 \$2.6

Data Source: Department of Revenue tax data

26. Amortization of Equipment Mandated by OSHA

Citation: G.S. 105-130.10A

Description: In lieu of any depreciation allowance, a corporation may opt to deduct amortization of equipment mandated by the Occupational Safety and Health Act (OSHA), including the cost of planning, acquiring, constructing, modifying, and installing said equipment.

Enacting Legislation: S.L. 1979-776

Estimate (in millions): Unavailable

Tax Credits

27. Equipment for Cogenerating Power Plant

Citation: G.S. 105-130.25

Description: Credit of 10% of the costs to purchase and install electrical or mechanical equipment for a cogenerating power plant. A cogenerating power plant uses natural gas as its primary energy source. The total amount of tax credits for all taxpayers for qualifying payments in a calendar year may not exceed \$5,000,000. A public utility, as defined in GS 62-3(23) is not eligible for this credit.

Enacting Legislation: S.L. 1979-801; S.L. 1993-674 limited the primary source of fuel to natural gas, effective Jan. 1, 1998.

Estimate (in millions): Unavailable

Corporation Income Tax

28. Credit for Manufacturing Cigarettes for Exportation

Citation: G.S. 105-130.45

Description: Credit of up to \$6,000,000 is allowed a company that exports cigarettes to a foreign country through the North Carolina State Ports. The amount of the credit depends on the volume of cigarettes exported compared to the volume in a base year. The amount of credit taken in a given tax year may not exceed 50% of the taxpayer's tax liability, less other credits. Unused credits may be carried forward for 10 years.

Enacting Legislation: S.L. 1999-333 - effective for taxable years beginning on or after Jan. 1, 1999

Sunset Date: Expires effective for cigarettes exported on or after Jan. 1, 2018

Estimate (in millions): FY15-16.....\$5.7 FY16-17 \$5.8

Data Source: Department of Revenue "Economic Incentive Reports"

29. Alternative Cigarette Export Credit

Citation: G.S. 105-130.46

Description: Credit of up to \$10,000,000 is allowed a company that exports cigarettes to a foreign country through the North Carolina State Ports. The amount of the credit depends on the employment level at the company compared to the employment level in 2004. The amount of credit taken in a given tax year may not exceed 50% of the taxpayer's tax liability, less other credits. Unused credits may be carried forward for 10 years.

Enacting Legislation: S.L. 2003-435 - effective for taxable years beginning on or after Jan. 1, 2006

Sunset Date: Expires effective for cigarettes exported on or after Jan. 1, 2018

Estimate (in millions): FY15-16.....\$0 FY16-17 \$0

Data Source: Department of Revenue "Economic Incentive Reports"

Business and Energy Tax Credits (Article 3B)

1. Credit for Investing in Renewable Energy Property

Citation: G.S. 105-129.16A

Description: If a taxpayer that has constructed, purchased, or leased renewable energy property places it in service in this State, the taxpayer is allowed a credit equal to 35% of the cost of the property. The credits may not exceed (1) \$2,500,000 for property that serves a business purpose, (2) \$5,000,000 for business-related property in an Eco-Industrial Park, (3) \$1,400 for solar energy equipment for residential water heating, (4) \$3,500 for residential space heating, (5) \$8,400 per installation of a geothermal heat pump or geothermal equipment, (6) \$10,500 per installation of all other non-business renewable energy property. If the renewable property is placed in a non-business structure, the credit is taken in the year of installation. For other types of property, the credit must be taken in 5 annual installments, beginning in the year of installation.

Enacting Legislation: S.L. 1999-342; replaced various tax credits for renewable energy that were enacted in the 1970s and 1980s

Sunset Date: Expires for renewable energy property placed into service on or after Jan. 1, 2016. However, S.L. 2015-11 allowed an extension of the credit for property placed into service in 2016 for certain projects in which a substantial percentage of the costs were incurred prior to Jan. 1, 2016.

Estimate (in millions): FY15-16.....\$113.6 FY16-17 \$97.6

Data Source: Department of Revenue "Economic Incentive Reports"

2. Credit for Donations to a Nonprofit to Acquire Renewable Energy Property

Citation: G.S. 105-129.16H

Description: A taxpayer who donates money to a nonprofit organization or a unit of State or local government is allowed a credit if the funds are used by the donee to construct, purchase, or lease renewable energy property. The taxpayer may claim a tax credit equivalent to that given under G.S. 105-129.16A. The donation cannot be deducted as a charitable donation from the taxable income of the taxpayer.

Enacting Legislation: S.L. 2007-397 - effective for taxable years beginning on or after Jan. 1, 2008

Sunset Date: Expires Jan. 1, 2016

Estimate (in millions): less than \$0.1

Data Source: Department of Revenue "Economic Incentive Reports"

Tax Incentives for Recycling Facilities (Article 3C)

1. Credit for Investing in Major Recycling Facility

Citation: G.S. 105-129.27

Description: An owner that purchases or leases machinery and equipment for a major recycling facility in this State is allowed a credit equal to 50% of the amount payable by the owner during the taxable year to purchase or lease the machinery and equipment. Unused credits may be carried forward 25 years.

Enacting Legislation: S.L. 1998-55 - effective for taxable years beginning on or after Jan. 1, 1998

Estimate (in millions): FY15-16.....\$3.5 FY16-17 \$3.7

Data Source: Department of Revenue "Economic Incentive Reports"

Research and Development Credits (Article 3F)

1. Small Business R&D Credit

Citation: G.S. 105-129.55(a)(1)

Description: A small business that has qualified North Carolina research expenses for the taxable year is allowed a credit equal to 3.25% of the expenses. A small business is defined as a business whose annual receipts did not exceed \$1 million. The amount of credit taken in any tax year cannot exceed 50% of the taxpayer's tax liability after other credits taken. Unused credits can be carried forward 15 years.

Enacting Legislation: S.L. 2004-124 - effective for business activities occurring on or after May 1, 2005

Sunset Date: Expires Jan. 1, 2016

Estimate (in millions): FY15-16.....\$0.3 FY16-17 \$0.2

Data Source: Department of Revenue "Economic Incentive Reports"

2. Low-Tier R&D Credit

Citation: G.S. 105-129.55(a)(2)

Description: A taxpayer that performs research in a development tier one area is allowed a 3.25% credit for eligible expenses. The amount of credit taken in any tax year cannot exceed 50% of the taxpayer's tax liability after other credits taken. Unused credits can be carried forward 15 years.

Enacting Legislation: S.L. 2004-124 - effective for business activities occurring on or after May 1, 2005

Sunset Date: Expires Jan. 1, 2016

Estimate (in millions): FY15-16.....\$4.0 FY16-17 \$2.2

Data Source: Department of Revenue "Economic Incentive Reports"

3. University Research Credit

Citation: G.S. 105-129.55(a)(2a)

Description: A taxpayer that has NC university research expenses for the taxable year is allowed a credit equal to 20% of the expenses. The amount of credit taken in any tax year cannot exceed 50% of the taxpayer's tax liability after other credits taken. Unused credits can be carried forward 15 years.

Enacting Legislation: S.L. 2004-124 - effective for business activities occurring on or after May 1, 2005

Sunset Date: Expires Jan. 1, 2016

Estimate (in millions): FY15-16.....\$0.5 FY16-17 \$0.3

Data Source: Department of Revenue "Economic Incentive Reports"

Research & Development Credits

4. **Eco-Industrial Park R&D Credit**

Citation: G.S. 105-129.55(a)(2b)

Description: A taxpayer that performs research in an Eco-Industrial Park certified under G.S. 143B-437.08 is allowed a 35% credit for eligible expenses. The amount of credit taken in any tax year cannot exceed 50% of the taxpayer's tax liability after other credits taken. Unused credits can be carried forward 15 years.

Enacting Legislation: S.L. 2010-147 - effective for taxable years beginning on or after Jan. 1, 2011

Sunset Date: Expires Jan. 1, 2016

Estimate (in millions): Unavailable

Data Source: Department of Revenue "Economic Incentive Reports"

Note: No credits have been taken through tax year 2012.

5. **Other R&D Credit**

Citation: G.S. 105-129.55(a)(3)

Description: A taxpayer that has qualified North Carolina research expenses not covered under another subdivision of this section is eligible for 1.25% credit on expenses up to \$50 million; 2.25% of expenses between \$50 million and \$200 million; and 3.25% of expenses over \$200 million. The amount of credit taken in any tax year cannot exceed 50% of the taxpayer's tax liability after other credits taken. Unused credits can be carried forward 15 years.

Enacting Legislation: S.L. 2004-124 - effective for business activities occurring on or after May 1, 2005

Sunset Date: Expires Jan. 1, 2016

Estimate (in millions): FY15-16.....\$44.0 FY16-17 \$24.8

Data Source: Department of Revenue "Economic Incentive Reports"

Tax Incentives for Railroad Intermodal Facilities (Article 3K)

1. Credit for Constructing a Railroad Intermodal Facility

Citation: G.S. 105-129.96

Description: A taxpayer that constructs or leases an eligible railroad intermodal facility in this State and places it in service during the taxable year is allowed a tax credit equal to fifty percent (50%) of all amounts payable by the taxpayer towards the costs of construction or under the lease. In order to be eligible, the cost of construction must exceed \$30 million. The credit may not exceed fifty percent (50%) of the tax against which it is applied. Any unused portion of a credit may be carried forward for the succeeding 10 years.

Enacting Legislation: S.L. 2007-323 - effective for eligible facilities placed into service on or after Jan. 1, 2007

Sunset Date: Expires Jan. 1, 2038

Estimate (in millions): FY15-16.....\$1.5 FY16-17\$1.5

Data Source: Department of Revenue tax records

Historic Rehabilitation Tax Credit (Article 3L)

1. Credit for Income-Producing Rehabilitated Historic Property

Citation: G.S. 105-129.100

Description: A taxpayer may receive a tax credit for qualified rehabilitation expenditures. The base amount of credit is 15% of the first \$10 million of expenses and 10% of expenses over \$10 million, but not exceeding \$20 million. An additional 5% credit is allowed for a project located in a development tier 1 or 2 area or if the project is located on an eligible targeted investment site, or 10% for both. The credit for an income-producing project cannot exceed \$4,500,000. Any unused credits may be carried forward for the succeeding 9 years.

Enacting Legislation: S.L. 2015-241 - effective for eligible expenses incurred on or after Jan. 1, 2016; tax credits for historic rehabilitation were previously enacted by S.L. 1993-527 (expired on Jan. 1, 2015); a specific credit for mill rehabilitation was added by S.L. 2006-40 (expired for applications for certification submitted on or after Jan. 1, 2015)

Sunset Date: Expires for qualified rehabilitation expenditures and rehabilitation expenses incurred on or after Jan. 1, 2020

Estimate (in millions): FY15-16.....\$3.2 FY16-17 \$6.0

Data Source: Department of Revenue "Economic Incentive Reports"; Legislative fiscal note for House Bill 152 (2015)

2. Eligible Historic Rehabilitation Expenses in 2014 and 2015

Citation: G.S. 105-129.100(e)

Description: Certain historic rehabilitation expenses incurred in 2014 and 2015 may be eligible for the historic rehabilitation credit in 2016 if all the following conditions are met: (1) the certified historic structure is located in a Tier 1 or Tier 2 county; (2) the structure is owned by a city; (3) the qualifying activity commenced in 2014; (4) a certificate of occupancy is issued on or before December 31, 2015; (5) the taxpayer meets other conditions in the section.

Enacting Legislation: S.L. 2015-264

Estimate (in millions): Unavailable

3. Credit for Nonincome-Producing Rehabilitated Historic Property

Citation: G.S. 105-129.101

Description: A taxpayer may receive a tax credit for qualified rehabilitation expenditures. The credit is 15% of expenses. At least \$10,000 must be spent on the project and the tax credit cannot exceed \$22,500 per discrete property parcel. Any unused credits may be carried forward for the succeeding 9 years.

Enacting Legislation: S.L. 2015-241 - effective for eligible expenses incurred on or after Jan. 1, 2016; tax credits for nonincome-producing historic rehabilitation were previously enacted by S.L. 1997-139 (expired on Jan. 1, 2015, with some exceptions)

Sunset Date: Expires for qualified rehabilitation expenditures and rehabilitation expenses incurred on or after Jan. 1, 2020

Estimate (in millions): FY15-16.....\$0.8 FY16-17 \$2.0

Data Source: Department of Revenue "Economic Incentive Reports"; Legislative fiscal note for House Bill 152 (2015)

Individual Income Tax (Article 4, Part 2)

Brief Description and Tax Base Information

The individual income tax is a tax on the taxable income of every resident of the State and nonresidents deriving income from North Carolina sources.

The base of the individual income tax is federal adjusted gross income (AGI). This is a fairly broad definition of income, although it does not include certain exemptions and deductions from income, such as some Social Security payments, certain capital gains, interest on student loans, etc. AGI also does not include deductions for expenses necessary to produce income.

The North Carolina tax base does not include some components of AGI, including interest on obligations of other states and their political subdivisions.

The taxable income base is further decreased by allowing for a base standard deduction. The standard deduction is considered an allowance for necessary expenses associated with maintaining a household. The amounts used for the base standard deduction are \$5,000 for single and married-filing-separately individuals; \$7,300 for heads of households; and \$10,000 for married individuals filing a joint return. These amounts are approximately 80% of current federal standard deduction amounts.

Each shareholder's pro rata share of an S Corporation's income is subject to the adjustments provided under the individual income tax.

For taxable years beginning prior to Jan. 1, 2014, there were three marginal tax rates: 6%, 7%, and 7.75%. The cutoff level of taxable income for the tax brackets varied by marital status and by whether an individual is the head of a household. For taxable years beginning on or after Jan. 1, 2014, there is only one tax bracket: the tax rate is 5.8% in 2014; 5.75% in 2015 and 2016; and 5.499% in later years.

The individual income tax is the largest component of the State's General Fund revenues. In fiscal year 2014-15, the State's net collections from this tax were over \$11.2 billion.

Exemptions

1. Certain Individuals Upon Death

Citation: G.S. 105-158

Description: An individual is not subject to tax if the individual is not subject to federal income tax under Code section 692, which exempts members of the Armed Forces and astronauts who have died in the line of duty, and persons killed as a result of certain terrorist attacks.

Enacting Legislation: S.L. 1969-1116 – effective Jan. 1, 1964

Estimate (in millions): less than \$0.1

Data Source: Number of military deaths from Department of Defense

Deductions

2. Standard Deduction in Excess of Base Amounts

Citation: G.S. 105-153.5(a)(1)

Description: Taxpayers may take either the standard deduction or itemized deductions. For taxable years beginning on or after Jan. 1, 2016, the standard deduction amount is \$15,500 for married filing jointly; \$12,400 for head of household; and \$7,250 for single or married filing separately. For tax years 2014 and 2015, the standard deduction amount is \$15,000 for married filing jointly; \$12,000 for head of household; and \$7,500 for single or married filing separately. Prior to 2014, the standard deduction amount was \$6,000 for married filing jointly; \$4,400 for head of household; and \$3,000 for single or married filing separately.

Enacting Legislation: S.L. 1939-158 allowed a \$1,000 deduction for an individual (approximately \$17,000 in 2014 dollars); \$2,000 for a married man or head of household; \$1,000 for a married woman having a separate and independent income; plus \$200 for each dependent child or dependent incapable of self-support. S.L. 1953-1302 created a standard deduction in lieu of itemizing deductions; the deduction was the larger of \$500 or 10% of gross income.

Estimate (in millions): FY15-16.....\$911.0 FY16-17 \$992.5

Data Source: Department of Revenue tax data

Note: The estimate includes (1) taxpayers taking the standard deduction and (2) taxpayers taking itemized deductions, whose deductions were changed to the standard deduction amount.

Individual Income Tax

3. Charitable Contributions Itemized Deduction

Citation: G.S. 105-153.5(a)(2)a

Description: If itemizing deductions, a taxpayer may deduct an amount allowed as a deduction for charitable contributions under section 170 of the Code for that taxable year. The amount may be increased for any 401K contributions under section *** deducted from federal income and added back to State income.

Enacting Legislation: S.L. 1939-158 allowed deductions for interest paid, charitable contributions and property taxes.

Estimate (in millions): FY15-16.....\$266.4 FY16-17 \$297.1

Data Source: Department of Revenue tax data

4. Qualified Mortgage Interest Itemized Deduction

Citation: G.S. 105-153.5(a)(2)b

Description: If itemizing deductions, a taxpayer may deduct the amount allowed 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. The amount of this deduction is limited to \$20,000 minus the amount of the property tax itemized deduction.

Enacting Legislation: S.L. 2013-316 – effective Jan. 1, 2014; S.L. 1939-158 allowed deductions for interest paid, charitable contributions and property taxes.

Estimate (in millions): FY15-16.....\$172.1 FY16-17 \$187.3

Data Source: Department of Revenue tax data

5. Property Tax Itemized Deduction

Citation: G.S. 105-153.5(a)(2)b

Description: If itemizing deductions, a taxpayer may deduct the amount claimed as a deduction for property taxes paid or accrued on real estate under section 164 of the Code for that taxable year. The amount of this deduction is limited to \$20,000 minus the amount of the mortgage interest itemized deduction.

Enacting Legislation: S.L. 2013-316 – effective Jan. 1, 2014; S.L. 1939-158 allowed deductions for interest paid, charitable contributions and property taxes.

Estimate (in millions): FY15-16.....\$87.5 FY16-17 \$95.3

Data Source: Department of Revenue tax data

6. Medical and Dental Expenses Itemized Deduction

Citation: G.S. 105-153.5(a)(2)c

Description: Effective January 1, 2015: If itemizing deductions, a taxpayer may deduct the amount allowed as a deduction for medical and dental expenses under section 213 of the Code for that taxable year.

Enacting Legislation: SL 2015-241; the deduction was previously included as an itemized deduction for tax years prior to 2014

Estimate (in millions): FY15-16.....\$78.6 FY16-17 \$81.4

Data Source: Legislative fiscal note for House Bill 46 (2015)

7. N.C. and Nonprofit Education Institution Interest

Citation: G.S. 105-153.5(b)(1)

Description: Deduction from adjusted gross income for interest upon the obligations of any of the following: (a) 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; (b) a nonprofit educational institution organized or chartered under the laws of this State.

Enacting Legislation: S.L. 1939-158; S.L. 1965-833 added the exemption for nonprofit educational institutions

Estimate (in millions): FY15-16.....\$44.7 FY16-17 \$44.9

Data Source: Department of Revenue tax data; Statistics of Income, Internal Revenue Service; Joint Committee on Taxation

8. Disposition of Certain Obligations

Citation: G.S. 105-153.5(b)(2)

Description: Deduction for gain from disposition of obligations issued before July 1, 1995, to the extent exempt from tax.

Enacting Legislation: S.L. 1995-46 repealed the tax-exempt status of the gain earned on the sale of certain North Carolina bonds.

Estimate (in millions): Unavailable

Individual Income Tax

9. Social Security Benefits in Excess of Federal Limit

Citation: G.S. 105-153.5(b)(3)

Description: Deduction for benefits received under Title II of the Social Security Act and amounts received from retirement annuities or pensions paid under the provisions of the Railroad Retirement Act of 1937.

Enacting Legislation: S.L. 1957-1340 - effective Jan. 1, 1957

Estimate (in millions): FY15-16.....\$469.2 FY16-17 \$489.1

Data Source: Department of Revenue tax data

Note: The Social Security Amendments of 1983 made OASDI benefits subject to federal income tax. Federal taxation of some Social Security benefits occurs when modified AGI exceeds \$25,000 for single filers or \$32,000 for married filing jointly. These limits are not increased each year for inflation and have not been adjusted since 1983.

10. Government Retirement Income under Bailey Decision

Citation: G.S. 105-153.5(b)(5)

Description: Deduction from adjusted gross income for certain retirement benefits received by eligible retirees of the State of North Carolina and its local governments or the federal government to the extent the amount is exempt pursuant to a court order in settlement of *Bailey v. State*, *Emory v. State*, or *Patton v. State*. Eligible retirees must have had 5 or more years of creditable service as of August 12, 1989. The exclusion also applies to retirement benefits received from the State's §401(k) and §457 plans if the retiree had contributed or contracted to contribute to the plan prior to August 12, 1989.

Enacting Legislation: S.L. 1941-25 established the State Retirement System and included an exemption from State taxation. This provision was repealed by S.L. 1989-792.

Estimate (in millions): FY15-16.....\$378.7 FY16-17 \$383.7

Data Source: Department of Revenue tax data

11. Bonus Depreciation and Expensing Adjustment

Citation: G.S. 105-153.5(b)(8)

Description: The Code has allowed bonus depreciation allowances and expanded Section 179 expensing for certain years between 2002 and 2014. North Carolina has decoupled from these provisions by having taxpayers add back a percentage of the federal deduction in each year and allowing taxpayers to deduct the addback over a period of 5 years in the future. (The expensing addback only applied to tax years 2010 through 2014 and only on amounts in excess of the 2009 amounts.)

Enacting Legislation: S.L. 2002-126 was the first provision related to bonus depreciation addbacks; S.L. 2011-5 added the provision related to the addback for section 179 expensing

Estimate (in millions): no net negative impact; see note

Note: This provision is offset by the required addition to taxable income in G.S. 105-153.5(c)(5). The net impact is to shift the lost revenue into future years.

12. Eugenics Sterilization Compensation Fund

Citation: G.S. 105-153.5(b)(9)

Description: Deduction for the amount paid to the taxpayers during the taxable year from the Eugenics Sterilization Compensation Fund.

Enacting Legislation: S.L. 2013-360 - effective on or after Jan. 1, 2015

Sunset Date: Expires Jan. 1, 2016

Estimate (in millions): FY15-16.....\$0.3 FY16-17 \$0

Data Source: S.L. 2013-360, Section 6.18

Tax Credits

13. Credit for Children

Citation: G.S. 105-153.10(a)

Description: An individual who is allowed a federal child tax credit under Section 24 of the Code (qualifying children must be under the age of 17 at the end of the calendar year) and whose adjusted gross income (AGI) is less than a specified amount (\$100,000 for married filers, filing jointly; \$80,000 for heads of households; \$50,000 for single filers or married filers, filing separately) is allowed a credit of \$100 for each dependent child. For tax years beginning on or after Jan. 1, 2014, an additional \$25 credit is allowed for taxpayers whose AGI does not exceed the following amounts by filing status: \$40,000 for married filers, filing jointly; \$32,000 for heads of households; \$20,000 for single filers or married filers, filing separately. The credit cannot exceed the individual's tax liability for the year reduced by all other credits.

Enacting Legislation: S.L. 1995-42 - effective Jan. 1, 1995

Estimate (in millions): FY15-16.....\$172.8 FY16-17 \$177.5

Data Source: Department of Revenue tax data

Note: The estimates do not include tax credits that were claimed but could not be taken due to nonrefundability constraints.

Sales and Use Tax

Sales and Use Tax (Article 5)

Tax Base Information

The sales tax in North Carolina is imposed on final sales (including the value of leases and rentals) of tangible personal property, digital property and certain services occurring in the State, and the use tax is imposed on purchases made outside the State if the taxable item purchased is used or stored in North Carolina.

For this report, services are not considered part of the sales tax base unless they are specifically listed as taxable items in the General Statutes.

Effective Jan. 1, 2010, the sales tax applies to certain digital property that is delivered or accessed electronically, is not considered tangible personal property, and would be taxable if sold in a tangible medium.

Effective Jan. 1, 2014, the sales tax applies to admission charges to certain entertainment activities and to service contracts.

Effective March 1, 2016, the sales tax applies to repair, maintenance and installation services.

The State sales tax rate has changed several times in the last few years. The changes were due to (1) the elimination of the 1% increase in the sales tax rate that was in effect from September 1, 2009 through June 30, 2011; and (2) the two-step transfer of a 0.5% tax rate from local governments to the State. The applicable rates during recent time periods are summarized in the following table:

General State sales tax rate	Time period of sales
4.50%	October 1, 2008 – August 31, 2009
5.50%	September 1, 2009 – September 30, 2009
5.75%	October 1, 2009 – June 30, 2011
4.75%	July 1, 2011 forward

Combined general rate: The State sales tax rate on telecommunications and ancillary services, video programming, and spirituous liquor is equal to the State combined general rate. This rate has been 7.0% since July 1, 2011. Effective July 1, 2014, the combined general rate also applies to sales of electricity and piped natural gas. Effective Jan. 1, 2016, aviation gasoline and jet fuel is taxed at the combined general rate.

For Fiscal Year 2014-15, sales and use tax collections net of refunds and reserves for sales taxes imposed by local governments were approximately \$6.8 billion. Various transfers from State sales & use taxes to local governments, in addition to the distribution to the State Public School Fund, were approximately \$566 million. (Sales tax revenues related to the 8% short-term lease of motor vehicles are not included.)

Table 3**Sales and Use Tax Expenditure Estimates for FY 2016-17**

Item	Citation: G.S. § 105	Short Title	FY16-17 estimate
1	164.3(33d)d	Exemption for real property contractor	Unavailable
2	164.4(a)(4)	Laundromat Self-Service Machines	3.2
3	164.4F(e)	Certain Accommodation Rentals	Unavailable
4	164.4G(e)(1)	Right to Participate in Sporting Activities	63.2
5	164.4G(e)(4)	Lifetime Seat Rights and Box Seat Rentals	Unavailable
6	164.4G(f)(1)	Membership Charges Deductible as Charitable Contribution	Unavailable
7	164.4G(f)(2)	Donated Admission Charges	Unavailable
8	164.4G(f)(3)	Amenities Exemption for Admission Charges	1.4
9	164.4G(f)(4)	Events Sponsored by Primary and Secondary Schools	14.9
10	164.4G(f)(5)	Events Sponsored Solely by a Nonprofit	Unavailable
11	164.4H(b)	Retailer-Contractor Provision for Real Property Contracts	Unavailable
12	164.4I(b)(1)	Service Contract on Exempt Items	31.1
13	164.4I(b)(2)	Service Contract on Various Utility Assets	Unavailable
14	164.4I(b)(3)	Service Contract on Tax-Refundable Motorsports Items	0.2
15	164.4I(b)(4)	Service Contract on Article 5F Items	8.5
16	164.4I(b)(5)	Service Contract on Qualified Aircraft or Jet Engine	Unavailable
17	164.4I(c)	Service Contract on Items Used in Real Property	Unavailable
18	164.12C	Items Given Away by Merchants	Unavailable
19	164.13(3)	Certain Products of Forests and Mines Sold by Producers	Unavailable
20	164.13(4b)	Farm Products Requiring Ice Preservation For Further Sale	Unavailable
21	164.13(4f)	Commercial Logging Machinery	14.2

Sales and Use Tax

Item	Citation: G.S. § 105	Short Title	FY16-17 estimate
22	164.13(4g)	Wood Chippers for Out-of-State Use	less than \$0.1
23	164.13(5a)	Items Taxed by Article 5F	213.2
24	164.13(5b)	Telephone Equipment	78.2
25	164.13(5c)	Radio and Television Broadcast Equipment	1.5
26	164.13(5d)	Cable Service Broadcast Equipment	3.9
27	164.13(7)	Aquacultural Products in Raw State	Unavailable
28	164.13(8a)	Fuel for Small Power Production Facility	Unavailable
29	164.13(9)	Tangible Property Purchased for Commercial Fishing	1.2
30	164.13(10)	Items Used by Laundries and Dry Cleaning Businesses	2.3
31	164.13(10a)	Lubricants, Materials and Electricity Used by Major Recycling Facility	4.1
32	164.13(11)	Motor Fuel or Alternative Fuel Taxed by Articles 36C or 36D	0.0
33	164.13(11a)	Diesel Fuel for Railroads	15.4
34	164.13(11b)	Fuel Purchases by an Interstate Air Business	15.0
35	164.13(12)	Durable Medical Equipment	80.1
36	164.13(13)	Prescription Drugs and Insulin for Human Use	596.8
37	164.13(13)	Drugs Prescribed by a Veterinarian	16.5
38	164.13(14)	Public School Books	1.4
39	164.13(15)	Accounts of Sales Charged Off for Income Purposes	Unavailable
40	164.13(20)	Sales by Blind Merchants	0.5
41	164.13(21)	Lease or Rental of Films for Exhibition	6.2
42	164.13(22)	Lease or Rental of Films, Transcriptions and Recordings to Broadcasters	Unavailable
43	164.13(22a)	Audiovisual Masters	0.5
44	164.13(23)a	Packaging Items for Manufacturers	57.6
45	164.13(23)a	Packaging Items for Retailers	19.1
46	164.13(23)b	Packaging Returned to Seller	Unavailable

Sales and Use Tax

Item	Citation: G.S. § 105	Short Title	FY16-17 estimate
47	164.13(26)	Food Sold in a School	15.1
48	105.164.13(26a)	Food Sold by a Public School Cafeteria to Certain Childcare Centers	0.3
49	164.13(31)	Meals for the Elderly	1.2
50	164.13(31a)	Food Sold by a Church or Religious Organization	Unavailable
51	164.13(32)	Motor Vehicle Exemption Less Highway Use Tax	566.6
52	164.13(34)	Sales by Nonprofits Whose Proceeds Go to the State	Unavailable
53	164.13(35)	Sales by Nonprofits Conducted Annually	1.6
54	164.13(36)	Advertising Supplements Sold with Newspapers	Unavailable
55	164.13(39)	Components of Free Distribution Periodicals	Unavailable
56	164.13(40)	Sales to the Department of Transportation	0.0
57	164.13(41)	Mobile Classrooms Purchased by Boards of Education or Community Colleges	0.5
58	164.13(42)	Articles Donated by Retailer or Wholesaler	Unavailable
59	164.13(43)	Custom Computer Software	8.0
60	164.13(43a)	Certain Computer Software	Unavailable
61	164.13(43b)	Certain Software or Digital Property	Unavailable
62	164.13(45)	Certain Items Purchased by Interstate Passenger Air Carriers	Unavailable
63	164.13(45a)	Lubricants and Parts Used in Maintenance of Commercial Aircraft	Unavailable
64	164.13(45b)	Certain Items Purchased by Interstate Air Couriers	Unavailable
65	164.13(45c)	Aircraft Simulators	Unavailable
66	164.13(45d)	Items related to qualified aircraft or jet engine	Unavailable
67	164.13(46)	Electricity to Municipalities Supplied by Federal Agency	0.8
68	164.13(49a)	Delivery Charges of Direct Mail	Unavailable
69	164.13(50)	Goods Sold Through Vending Machines	11.5
70	164.13(51)	Water Delivered Through Main Pipes	103.9

Sales and Use Tax

Item	Citation: G.S. § 105	Short Title	FY16-17 estimate
71	164.13(52)	Sales to State Agencies	0.0
72	164.13(53)	Aerial Survey Data	Unavailable
73	164.13(54)b	Pay Telephone Services	Unavailable
74	164.13(54)c	911 Charges	4.8
75	164.13(54)d	Telephone Charges Related to Occupancy of an Accommodation	0.1
76	164.13(54)e	Charges Related to N.C. Information Highway and Other Government Data Networks	Unavailable
77	164.13(55)	Electricity and Eligible Business Property for an Internet Datacenter	12.5
78	164.13(55a)	Electricity and Support Equipment for a Datacenter	4.0
79	164.13(56)	Locomotives, Cranes and Trucks for a Railroad Intermodal Facility	Unavailable
80	164.13(57)	Electricity Used by Manufacturers	98.7
81	164.13(57)	Piped Natural Gas Used by Manufacturers	134.8
82	164.13(57)	Other Fuel Used by Manufacturers	13.4
83	164.13(58)	Disaster Assistance Debit Card Purchases	0.3
84	164.13(59)	Interior Design Services	1.1
85	164.13(61a)	Repair, Maintenance, and Installation Services for Exempt Items	22.8
86	164.13(62)	Items Used in Service Contracts	Unavailable
87	164.13(64)	Modular & Manufactured Homes	8.6
88	164.13(65)	Motorsports engine	Unavailable
89	164.13A	Service Charges on Meals and Beverages	1.6
90	164.13B	Food for Home Consumption	805.1
91	164.13B(a)(4)	Certain Artisan Bakery Items	2.3
92	164.13E(1)	Fuel and Electricity for Farming	23.1
93	164.13E(2)	Fertilizers, Seeds and Related Items Sold to a Farmer	41.2
94	164.13E(3)	Farm Machinery and Related Parts and Lubricants	21.9

Sales and Use Tax

Item	Citation: G.S. § 105	Short Title	FY16-17 estimate
95	164.13E(4)	Certain Containers Sold to a Farmer	0.9
96	164.13E(5)	Certain Storage Facilities Sold to a Farmer	2.3
97	164.13E(6)a	Feeds, Litter and Medications for Farming	190.6
98	164.13E(6)b-e	Certain Substances Used on Animals or Plants for Commercial Purposes	14.9
99	164.13E(8)	Manufactured Facilities, Building Materials, and Related Equipment for Commercial Housing of Animals	8.8
100	164.13E(9)	Tobacco Farming Items	0.1
101	164.14(a)	Refund to Interstate Carrier	3.7
102	164.14(a2)	Partial Refund for Purchases of Railway Cars and Accessories by a Utility	less than \$0.1
103	164.14(b)	Refunds to Nonprofits	236.4
104	164.14(b)	Refunds of Tax on Medicine and Drug Purchases to Certain Hospitals	included in item #103
105	164.14(c)	Refunds to Certain Local Government Entities	82.2
106	164.14A(a)(1)	Refund for Passenger Air Carrier	2.5
107	164.14A(a)(2)	Refund for Major Recycling Facilities	0.3
108	164.14A(a)(4)	Refund of Aviation Fuel for Motorsports Events	0.2
109	164.14A(a)(5)	Refund on Professional Motor Racing Vehicle Parts	2.7
110	164.14A(a)(7)	Refund for Railroad Intermodal Facilities	0.2
111	164.4(a)(1b)	Preferential Rate and Cap for Aircraft	15.4
112	164.4(a)(1b)	Preferential Rate and Cap for Boats	16.7
113	164.4C(f)	Out-of-State Call Centers	Unavailable

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Exemptions

1. Exemption for Real Property Contractor

Citation: G.S. 105-164.3(33d)d

Description: The definition of repair, maintenance and installation services excludes installation of tangible personal property by a real property contractor pursuant to a real property contract.

Enacting Legislation: S.L. 2015-241 - effective March 1, 2016

Estimate (in millions): Unavailable

2. Laundromat Self-Service Machines

Citation: G.S. 105-164.4(a)(4)

Description: Taxation on the gross receipts of laundries does not apply to receipts derived from coin-, token-, or card-operated washing machines, extractors, and dryers.

Enacting Legislation: S.L. 1987-854 - effective July 1, 1988

Estimate (in millions): FY15-16.....\$3.2 FY16-17 \$3.2

Data Source: 2012 & 2007 Economic Census, County Business Patterns and Nonemployer Statistics, U.S. Census

3. Certain Accommodation Rentals

Citation: G.S. 105-164.4F(e)

Description: Taxation at the general rate on accommodation rentals does not apply to (1) a private residence or cottage that is rented for fewer than 15 days in a calendar year; (2) an accommodation rented to the same person for a period of 90 or more continuous days; or (3) an accommodation arranged or provided by a school, camp, or similar entity where a tuition or fee is charged for enrollment in such entity.

Enacting Legislation: S.L. 1955-1313

Estimate (in millions): Unavailable

4. Right to Participate in Sporting Activities

Citation: G.S. 105-164.4G(e)(1)

Description: Exemption from tax on admission charges for an amount paid for the right to participate in sporting activities. Examples of these types of charges include bowling fees, golf green fees, and gym memberships.

Enacting Legislation: S.L. 2014-3 – effective May 29, 2014. These fees were excluded from the privilege tax on admissions previously, but not explicitly stated.

Estimate (in millions): FY15-16.....\$60.9 FY16-17 \$63.2

Data Source: 2012 & 2007 U.S. Economic Census

5. Lifetime Seat Rights and Box Seat Rentals

Citation: G.S. 105-164.4G(e)(4)

Description: Exemption from tax on admission charges for a charge for lifetime seat rights, lease, or rental of a suite or box for an entertainment activity, provided the charge is separately stated on an invoice or similar billing document given to the purchaser at the time of sale.

Enacting Legislation: S.L. 2014-3 – effective May 29, 2014. These fees were excluded from the privilege tax on admissions previously, but not explicitly stated.

Estimate (in millions): Unavailable

6. Membership Charges Deductible as Charitable Contribution

Citation: G.S. 105-164.4G(f)(1)

Description: Exemption from tax on admission charges for the portion of a membership charge that is deductible as a charitable contribution under section 170 of the Code.

Enacting Legislation: S.L. 2014-3 – effective May 29, 2014

Estimate (in millions): Unavailable

7. Donated Admission Charges

Citation: G.S. 105-164.4G(f)(2)

Description: Exemption from tax on admission charges for a donation that is deductible as a charitable contribution under section 170 of the Code.

Enacting Legislation: S.L. 2014-3 – effective May 29, 2014

Estimate (in millions): Unavailable

8. Amenities Exemption for Admission Charges

Citation: G.S. 105-164.4G(f)(4)

Description: The value of amenities is excluded from the amount subject to tax. If charges for amenities are not separately stated on the face of an admission ticket, then the transaction is a bundled transaction and taxed in accordance with G.S. 105-164.4D except that subsection (a)(3) does not apply.

Enacting Legislation: S.L. 2013-316 - effective Jan. 1, 2014; formerly exempt under the privilege tax on amusements (S.L. 2010-31)

Estimate (in millions): FY15-16.....\$1.4 FY16-17\$1.4

Data Source: General Assembly fiscal impact estimate for S.L. 2010-31

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9. Events Sponsored by Primary and Secondary Schools

Citation: G.S. 105-164.4G(f)(5)

Description: Exemption for admission charges to an event that is sponsored by an elementary or secondary school.

Enacting Legislation: S.L. 2013-316 - effective Jan. 1, 2014; formerly exempt from privilege tax on amusements under GS 105-40 (S.L. 1945-708)

Estimate (in millions): FY15-16.....\$14.6 FY16-17 \$14.9

Data Source: National Center for Educational Statistics

10. Events Sponsored Solely by a Nonprofit

Citation: G.S. 105-164.4G(f)(5)

Description: Exemption for an event sponsored solely by a nonprofit entity that is exempt from tax under Article 4 of Chapter 105 if all the following conditions are met: (1) the entire proceeds are used exclusively for the entity's nonprofit purposes; (2) the entity does not declare dividends, receive profits, or pay salary or other compensation to any members or individuals; (3) the entity does not compensate any person for participating in the event or producing the event.

Enacting Legislation: S.L. 2014-3 - effective Jan. 1, 2015; formerly exempt from privilege tax on amusements under G.S. 105-40 and G.S. 106-507

Estimate (in millions): Unavailable

11. Retailer-Contractor Provision for Real Property Contracts

Citation: G.S. 105-164.4H(b)

Description: A retailer-contractor is allowed an exemption for purchase of tangible personal property that is to be installed and becomes part of real property. The retailer-contractor pays use tax on its purchase price of the tangible property when it is withdrawn from inventory. Effective March 1, 2016, a person or business primarily engaged in retail trade cannot be a real property contractor.

Enacting Legislation: S.L. 2014-3 - effective Jan. 1, 2015

Estimate (in millions): Unavailable

12. Service Contract on Exempt Items**Citation:** G.S. 105-164.4I(b)(1)**Description:** Exemption for a service contract for tangible personal property that is an item exempt from sales tax. Prior to March 1, 2016, a service contract for a motor vehicle exempt under G.S. 105-164.13(32) was taxable.**Enacting Legislation:** S.L. 2013-316 - effective Jan. 1, 2014**Estimate (in millions):** FY15-16.....\$13.9 FY16-17\$31.1**Data Source:** Based on this report's estimates of the following exempt items: (1) telecommunications equipment, (2) broadcasting equipment, (3) cable equipment, (4) durable medical equipment, (5) commercial logging machinery, and (6) farm machinery. The estimate of service contract rate is derived from the "service contract" product line for retailers in 2007 Economic Census, US Census Bureau**13. Service Contract on Various Utility Assets****Citation:** G.S. 105-164.4I(b)(2)**Description:** Exemption for a service contract for tangible personal property that is a transmission, distribution, or other network asset contained on utility-owned land, right-of-way, or easement.**Enacting Legislation:** S.L. 2013-316 - effective Jan. 1, 2014**Estimate (in millions):** Unavailable**14. Service Contract on Tax-Refundable Motorsports Items****Citation:** G.S. 105-164.4I(b)(3)**Description:** Exemption for a service contract for a transmission, an engine, rear-end gears, and any other item purchased by a professional motorsports racing team or a related member of a team for which the team may receive a sales tax refund under G.S. 105-164.14A(5).**Enacting Legislation:** S.L. 2013-414 - effective Jan. 1, 2014**Estimate (in millions):** FY15-16.....\$0.2 FY16-17\$0.2**Data Source:** Department of Revenue "Economic Incentive Reports"; 2007 Economic Census, US Census Bureau**15. Service Contract on Article 5F Items****Citation:** G.S. 105-164.4I(b)(4)**Description:** Exemption for a service contract for an item subject to tax under Article 5F of Chapter 105 of the General Statutes.**Enacting Legislation:** S.L. 2014-3, effective Oct. 1, 2014**Estimate (in millions):** FY15-16.....\$8.5 FY16-17\$8.5**Data Source:** Based on this report's estimates of items taxed by Article 5F. The estimate of service contract rate is derived from the "service contract" product line for retailers in 2007 Economic Census, US Census

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16. Service Contract on Qualified Aircraft or Jet Engine

Citation: G.S. 105-164.4I(b)(5)

Description: A qualified aircraft or qualified jet engine is exempt from service contract tax. A qualified aircraft has a maximum take-off weight of more than 9,000 pounds but not in excess of 15,000 pounds.

Enacting Legislation: S.L. 2015-259 - effective Oct. 1, 2015

Estimate (in millions): Unavailable

17. Service Contract on Items Used in Real Property

Citation: G.S. 105-164.4I(c)

Description: The tax on service contracts does not apply to a security contract or similar monitoring contract for real property.

Enacting Legislation: S.L. 2014-3, effective Oct. 1, 2014

Estimate (in millions): Unavailable

18. Items Given Away by Merchants

Citation: G.S. 105-164.12C

Description: A retailer engaged in the business of selling prepared food and drink for immediate or on-premises consumption, who gives prepared food or drink to its patrons or employees free of charge, does not have to pay use tax on the value of the property given away.

Enacting Legislation: S.L. 2012-79 - this provision was previously included in the definition of "sale or selling" that was adopted to comply with a decision by the North Carolina Court of Appeals (S.L. 1996-14)

Estimate (in millions): Unavailable

19. Certain Products of Forests and Mines Sold by Producers

Citation: G.S. 105-164.13(3)

Description: Exemption for sales of products of forests and mines in their original or non-manufactured state when such sales are made by the producer in the capacity of producer.

Enacting Legislation: S.L. 1933-445

Estimate (in millions): Unavailable

Note: Although a portion of sales of these products will undergo further processing or be sold for resale, a sizable amount of goods will be sold at retail by the producer, especially products of the mine such as gravel sold to road contractors and coal sold to power companies.

20. Farm Products Requiring Ice Preservation For Further Sale

Citation: G.S. 105-164.13(4b)

Description: Exemption for sales of products of a farm sold in their original state by the producer of the products if the producer is not primarily a retail merchant and ice is used to preserve agriculture, aquaculture and commercial fishery products until the products are sold at retail.

Estimate (in millions): Unavailable

Note: No information on direct retail sales by farmers for this category was available.

21. Commercial Logging Machinery

Citation: G.S. 105-164.13(4f)

Description: Sales to a person engaged in the commercial logging business of the following: (a) logging machinery; (b) attachments and repair parts for logging machinery; (c) lubricants applied to logging machinery; and (d) fuel used to operate logging machinery.

Enacting Legislation: S.L. 2006-19 - effective for sales on or after July 1, 2006; items were previously taxed at a preferential rate of 1% with an \$80 cap on each piece of machinery, attachments and parts.

Estimate (in millions): FY15-16.....\$13.4 FY16-17 \$14.2

Data Source: Department of Revenue tax data; Legislative Fiscal Note for House Bill 1938 (2006). The number of firms and trends in logging industry in North Carolina were derived from Bureau of Labor Statistics data

Note: Motor fuels used off-highway are not subject to motor fuels tax but are subject to the sales tax.

22. Wood Chippers for Out-of-State Use

Citation: G.S. 105-164.13(4g)

Description: Exemption for a purchase of a wood chipper by a person who purchases a motor vehicle (trailer) in this State that is to be registered in another state for use in towing the wood chipper.

Enacting Legislation: S.L. 2010-147 - effective for sales made on or after July 1, 2009

Estimate (in millions): less than \$0.1

Data Source: Legislative fiscal note for House Bill 1973 (2009)

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23. Items Taxed by Article 5F

Citation: G.S. 105-164.13(5a)

Description: The following items taxable under Article 5F are exempt from sales and use tax: mill machinery and mill machinery parts and accessories purchased by a manufacturing industry and certain machinery and equipment purchased by the following: major recycling facility, research and development company, software publishing company, industrial machine refurbisher, company located at a port facility, datacenter (repealed effective July 1, 2015), or large manufacturing and distribution facility. Article 5F imposes a 1% tax on eligible equipment, with a maximum tax of \$80 per item.

Enacting Legislation: S.L. 2001-347, s. 2.12 - effective January 1, 2006; mill machinery, attachments and parts had previously been taxed at a preferential rate of 1% with an \$80 cap per item under the sales tax statutes (S.L. 1961-826); exempt prior to 1961

Estimate (in millions): FY15-16.....\$211.5 FY16-17 \$213.2

Data Source: Department of Revenue tax data

Note: The estimate is the amount of tax that would have been collected at the State sales tax rate minus the amount collected under Article 5F. Effective July 1, 2013, a company at a port facility and a large manufacturer-distribution facility will become eligible for the Article 5F tax.

24. Telephone Equipment

Citation: G.S. 105-164.13(5b)

Description: Sales to a telephone company of central office equipment, private branch exchange equipment, terminal equipment (other than public pay telephone), switchboard equipment, and attached parts and accessories.

Enacting Legislation: S.L. 2005-276 - effective Oct. 1, 2005; these items were previously taxed at 1%, with an \$80 cap (S.L. 1961-826); exempt prior to 1961

Estimate (in millions): FY15-16.....\$73.8 FY16-17 \$78.2

Data Source: 2013 Service Annual Survey & 2015 Capital Spending Report, US Census Bureau

25. Radio and Television Broadcast Equipment

Citation: G.S. 105-164.13(5c)

Description: Sales of towers, broadcasting equipment, and attached parts and accessories to an FCC-licensed radio or television company.

Enacting Legislation: S.L. 2005-276 - effective Oct. 1, 2005; these items were previously taxed at 1%, with an \$80 cap (S.L. 1961-826); exempt prior to 1961

Estimate (in millions): FY15-16.....\$1.5 FY16-17 \$1.5

Data Source: 2013 Service Annual Survey & 2015 Capital Spending Report, US Census Bureau

26. Cable Service Broadcast Equipment**Citation:** G.S. 105-164.13(5d)**Description:** Sales of broadcasting equipment and attached parts and accessories, excluding cable, to a cable service provider.**Enacting Legislation:** S.L. 2005-276 - effective Oct. 1, 2005; these items were previously taxed at 1%, with an \$80 cap**Estimate (in millions):** FY15-16.....\$3.7 FY16-17 \$3.9**Data Source:** 2013 Service Annual Survey & 2015 Capital Spending Report, US Census Bureau**27. Aquacultural Products in Raw State****Citation:** G.S. 105-164.13(7)**Description:** Exemption for sales of products of waters in their original or non-manufactured state when such sales are made by the producer in the capacity of producer. Fish and seafoods are likewise exempt when sold by the fisherman in that capacity.**Enacting Legislation:** S.L. 1957-1340**Estimate (in millions):** Unavailable**Note:** No information on direct retail sales by producers for this category was available.**28. Fuel for Small Power Production Facility****Citation:** G.S. 105-164.13(8a)**Description:** Exemption for sales of fuel to a small power production facility used by the facility to generate electricity. A small power production facility is defined by 16 USC § 796(17)(A) as a facility that produces energy using primarily renewable resources and has a power production capacity of not more than 80 megawatts.**Enacting Legislation:** S.L. 1989-989 - effective July 1, 1991**Estimate (in millions):** Unavailable**29. Tangible Property Purchased for Commercial Fishing****Citation:** G.S. 105-164.13(9)**Description:** Sales of boats, fuel oil, lubricating oils, machinery, equipment, nets, rigging, paints, parts, accessories, and supplies used in commercial fishing.**Enacting Legislation:** S.L. 1957-1340**Estimate (in millions):** FY15-16.....\$1.2 FY16-17 \$1.2**Data Source:** NC Fisheries Association, NC Division of Marine Fisheries; Department of Revenue tax data

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30. Items Used by Laundries and Dry Cleaning Businesses

Citation: G.S. 105-164.13(10)

Description: Sales to commercial laundries or to pressing and dry cleaning establishments of articles or materials used for the identification of garments being laundered or dry cleaned, wrapping paper, bags, hangers, starch, soaps, detergents, cleaning fluids and other compounds or chemicals applied directly to the garments. As of January 1, 2006, this section also exempts laundry and dry-cleaning machinery, parts and accessories attached to the machinery, lubricants applied to the machinery, and fuel, other than electricity.

Enacting Legislation: S.L. 1957-1340; S.L. 2005-276 for laundering machinery, parts and accessories, and lubricants - these items were subject to a 1% tax with an \$80 maximum per article prior to January 1, 2006. Fuel was subject to a 1% tax prior to January 1, 2006.

Estimate (in millions): FY15-16.....\$2.3 FY16-17 \$2.3

Data Source: 2012 & 2007 Economic Census, US Census Bureau; Department of Revenue tax data

31. Lubricants, Materials and Electricity Used by Major Recycling Facility

Citation: G.S. 105-164.13(10a)

Description: Sales to major recycling facility of (a) lubricants and other additives for motor vehicles or machinery; (b) materials and supplies used or consumed in the facility; (c) electricity used at the facility.

Enacting Legislation: S.L. 1998-55 - effective for sales on or after July 1, 1998

Estimate (in millions): FY15-16.....\$4.1 FY16-17 \$4.1

Data Source: Department of Revenue tax data; 2007 Economic Census materials-consumed data for steel mills

Note: The electricity estimate for purchases prior to July 1, 2014 are based on the State general rate; estimates for purchases made on or after July 1, 2014 are based on the State combined rate

32. Motor Fuel or Alternative Fuel Taxed by Articles 36C or 36D

Citation: G.S. 105-164.13(11)

Description: Motor fuel, as defined in G.S. 105-449.60, except motor fuel for which a refund of the per gallon excise tax is allowed under G.S. 105-449.105A or G.S. 105-449.107; alternative fuel taxed under Article 36D of this Chapter, unless a refund of that tax is allowed under G.S. 105-449.107.

Enacting Legislation: S.L. 1947-501

Estimate (in millions): FY15-16.....\$0.0 FY16-17 \$0.0

Data Source: Department of Revenue tax records; Energy Information Administration

Note: The estimate is the amount of tax that would be collected at the State tax rate of 4.75% in excess of the amount collected by the excise tax on motor fuels

33. Diesel Fuel for Railroads

Citation: G.S. 105-164.13(11a)

Description: Diesel fuel for railroad companies for use in rolling stock other than motor vehicles.

Enacting Legislation: S.L. 1995-451 - effective September 1, 1995

Estimate (in millions): FY15-16.....\$15.1 FY16-17 \$15.4

Data Source: Association of American Railroads; Surface Transportation Board

34. Fuel Purchases by an Interstate Air Business

Citation: G.S. 105-164.13(11b)

Description: Sales of aviation gasoline and jet fuel to an interstate air business for use in a commercial aircraft.

Enacting Legislation: S.L. 2015-259 – effective Jan. 1, 2016

Sunset Date: Jan. 1, 2020

Estimate (in millions): FY15-16.....\$7.5 FY16-17 \$15.0

Data Source: Legislative fiscal note for House Bill 117 (2015)

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35. Durable Medical Equipment

Citation: G.S. 105-164.13(12)

Description: Sales of prosthetic devices, mobility-enhancing equipment sold on a prescription, durable medical equipment sold on prescription, durable medical supplies sold on prescription.

Enacting Legislation: S.L. 1943-400 - effective July 1, 1943

Estimate (in millions): FY15-16.....\$76.8 FY16-17 \$80.1

Data Source: Centers for Medicare & Medicaid Services (2013): National Health Expenditure Projections

Note: The estimate does not include sales to patients in hospitals, nursing homes, and other provider settings, although optical goods sold by optometrists are included.

36. Prescription Drugs and Insulin for Human Use

Citation: G.S. 105-164.13(13)

Description: Drugs required by federal law to be dispensed only on prescription, over-the-counter drugs sold on prescription, and insulin.

Enacting Legislation: S.L. 1937-406; the exemption for insulin was added by S.L. 1988-937, effective for sales on or after August 1, 1988.

Estimate (in millions): FY15-16.....\$566.6 FY16-17 \$596.8

Data Source: Centers for Medicare & Medicaid Services (2013): National Health Expenditure Projections

Note: The estimate does not include sales to patients in hospitals, nursing homes, and other provider settings.

37. Drugs Prescribed by a Veterinarian

Citation: G.S. 105-164.13(13)

Description: Drugs required by federal law to be dispensed only on prescription and over-the-counter drugs sold on prescription (by veterinarians).

Enacting Legislation: S.L. 1985-555, effective July 1, 1985, added veterinarians to the list of professionals whose prescriptions were exempt. S.L. 1953-983 had added veterinarians previously, but that statute was repealed by S.L. 1961-826.

Estimate (in millions): FY15-16.....\$16.0 FY16-17 \$16.5

Data Source: American Veterinary Medical Association; 2007 Economic Census

Note: The estimate does not include vaccines and medications for farm animals, which are mainly exempt under G.S. 105-164.13E(6)a.

38. Public School Books

Citation: G.S. 105-164.13(14)

Description: Sales of public school books on the adopted list, the selling price of which is set by State contract.

Enacting Legislation: S.L. 1933-445

Estimate (in millions): FY15-16.....\$1.3 FY16-17\$1.4

Data Source: N.C. Department of Public Instruction expenditures on textbooks from annual Statistical Report.

39. Accounts of Sales Charged Off for Income Purposes

Citation: G.S. 105-164.13(15)

Description: Accounts of purchasers, representing taxable sales, on which the sales and use tax has been paid, that are found to be worthless and actually charged off for income tax purposes may be deducted from gross sales. In the case of a municipality that sells electricity, the account may be deducted if it meets all the conditions for charge-off that would apply if the municipality were subject to income tax.

Enacting Legislation: S.L. 1933-445

Estimate (in millions): Unavailable

40. Sales by Blind Merchants

Citation: G.S. 105-164.13(20)

Description: Sales by blind merchants operating under supervision of the Department of Health and Human Services.

Enacting Legislation: S.L. 1957-1340

Estimate (in millions): FY15-16.....\$0.5 FY16-17\$0.5

Data Source: Business Enterprise Program statistics from the N.C. Department of Health and Human Services, Division of Services for the Blind

41. Lease or Rental of Films for Exhibition

Citation: G.S. 105-164.13(21)

Description: Lease or rental of motion picture films used for exhibition purposes where the lease or rental of such property is an established business or part of an established business.

Enacting Legislation: S.L. 1957-1340

Estimate (in millions): FY15-16.....\$6.0 FY16-17\$6.2

Data Source: Department of Revenue tax data; Service Annual Survey: 2013, US Census Bureau

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42. Lease or Rental of Films, Transcriptions and Recordings to Broadcasters

Citation: G.S. 105-164.13(22)

Description: Lease or rental of films, motion picture films, transcriptions and recordings to radio stations and television stations operating under a certificate from the Federal Communications Commission.

Enacting Legislation: S.L. 1957-1340

Estimate (in millions): Unavailable

43. Audiovisual Masters

Citation: G.S. 105-164.13(22a)

Description: Sales of audiovisual masters made or used by a production company in making images for first generation reproduction.

Enacting Legislation: S.L. 1997-521 - effective Oct. 1, 1997

Estimate (in millions): FY15-16.....\$0.5 FY16-17 \$0.5

Data Source: Service Annual Survey: 2013, US Census Bureau; Bureau of Labor Statistics

44. Packaging Items for Manufacturers

Citation: G.S. 105-164.13(23)a

Description: Sales of the following packaging items: wrapping paper, cloth, plastic bags, labels, wrapping twine, packages and containers, cartons, cores, cones or spools, wooden boxes, baskets, coops and barrels, and like articles sold to manufacturers, when such materials constitute a part of the sale of tangible personal property.

Enacting Legislation: S.L. 1957-1340

Estimate (in millions): FY15-16.....\$56.4 FY16-17 \$57.6

Data Source: 2007 Economic Census; Bureau of Labor Statistics

Note: Packaging costs related to glass, plastic and metal containers that are likely to be included in final products for resale were not included in the estimates.

45. Packaging Items for Retailers

Citation: G.S. 105-164.13(23)a

Description: Sales of the following packaging items: wrapping paper, cloth, plastic bags, labels, wrapping twine, packages and containers, cartons, including paper cups, napkins and drinking straws and like articles sold to retailers, when such materials constitute a part of the sale of tangible personal property.

Enacting Legislation: S.L. 1957-1340

Estimate (in millions): FY15-16.....\$18.3 FY16-17\$19.1

Data Source: Business Expenses Estimates from 2012 Economic Census; Bureau of Labor Statistics

Note: The estimate includes costs associated with retail trade, wholesale trade and food services. Due to possibility of resale, only 20% of wholesale packaging costs are included in the estimates.

46. Packaging Returned to Seller

Citation: G.S. 105-164.13(23)b

Description: Packaging that is required to be returned to seller.

Enacting Legislation: S.L. 1997-397 - effective Oct. 1, 1997

Estimate (in millions): Unavailable

Note: Prior to the enactment of this exemption, these items were being taxed as reusable containers. In practice, many of these containers contained ingredient materials that were exempt from taxation. The sellers of the products were taxed on the lease of the containers.

47. Food Sold in a School

Citation: G.S. 105-164.13(26)

Description: Food and prepared food sold in a school building during the regular school day.

Enacting Legislation: S.L. 1961-826 - effective July 1, 1961

Estimate (in millions): FY15-16.....\$14.4 FY16-17\$15.1

Data Source: Department of Public Instruction; Division of Non-Public Education, Department of Administration

Note: Meals paid by federal or state funds were excluded from the estimate.

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48. Food Sold by a Public School Cafeteria to Certain Childcare Centers

Citation: G.S. 105-105.164.13(26a)

Description: Sales of food sold not for profit by a public school cafeteria to a childcare center that participates in the Child and Adult Care Food Program.

Enacting Legislation: S.L. 1991-931 - effective Aug. 1, 1992

Estimate (in millions): FY15-16.....\$0.3 FY16-17 \$0.3

Data Source: Food and Nutrition Service, US Department of Agriculture

49. Meals for the Elderly

Citation: G.S. 105-164.13(31)

Description: Sales of meals not for profit to elderly and incapacitated persons by charitable or religious organizations not operated for profit which are entitled to the refunds provided by G.S. 105-164.14(b), when such meals are delivered to the purchasers at their places of abode.

Enacting Legislation: S.L. 1975-982 - effective July 1, 1976

Estimate (in millions): FY15-16.....\$1.1 FY16-17 \$1.2

Data Source: Meals on Wheels data from Wake, Mecklenburg, Cabarrus and Rowan Counties

50. Food Sold by a Church or Religious Organization

Citation: G.S. 105-164.13(31a)

Description: Food sold by a church or religious organization not operated for profit when proceeds are used for religious purposes.

Enacting Legislation: S.L. 1989-1060 - effective for sales on or after Oct. 1, 1990

Estimate (in millions): Unavailable

51. Motor Vehicle Exemption Less Highway Use Tax**Citation:** G.S. 105-164.13(32)**Description:** Sales of motor vehicles, the sale of a motor vehicle body to be mounted on a motor vehicle chassis when a certificate of title has not been issued for the chassis, and the sale of a motor vehicle body mounted on a motor vehicle chassis that temporarily enters the State so the manufacturer of the body can mount the body or chassis.**Enacting Legislation:** S.L. 1989-692 added the exemption for motor vehicles and created the Highway Use Tax. Motor vehicles had been taxed under the sales tax prior to this and were taxed at preferential rates with a cap.**Estimate (in millions):** FY15-16.....\$552.2 FY16-17 \$566.6**Data Source:** NC Department of Transportation; NC Department of Revenue**Note:** The estimate only includes the sales of vehicles. The estimate is the additional revenue that would be collected at the 4.75% sales tax rate above the 3% Highway Use Tax. It is assumed that there would be no trade-in allowance (see estimate for G.S. 105-187.3(b)).**52. Sales by Nonprofits Whose Proceeds Go to the State****Citation:** G.S. 105-164.13(34)**Description:** Sales of items by a nonprofit civic, charitable, educational, scientific or literary organization when the net proceeds of the sales will be given to the State of North Carolina or to one of its agencies or instrumentalities, or to one or more nonprofit charitable organizations, one of whose purposes is to serve as a conduit through which such net proceeds will flow to the State or to one or more of its agencies or instrumentalities.**Enacting Legislation:** S.L. 1979-801 - effective for sales on or after Jan. 1, 1974**Estimate (in millions):** Unavailable**53. Sales by Nonprofits Conducted Annually****Citation:** G.S. 105-164.13(35)**Description:** Sales by nonprofits conducted annually when the proceeds are used for the organization's activities. The products sold must be delivered to the purchaser within 60 days after the first solicitation of any sale made during the organization's annual sales period.**Enacting Legislation:** S.L. 1979-801 - effective for sales on or after July 1, 1979**Estimate (in millions):** FY15-16.....\$1.6 FY16-17 \$1.6**Data Source:** Girl Scout Council Annual Reports

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54. Advertising Supplements Sold with Newspapers

Citation: G.S. 105-164.13(36)

Description: Advertising supplements and any other printed matter ultimately to be distributed with or as part of a newspaper.

Enacting Legislation: S.L. 1983-873 – effective July 20, 1983

Estimate (in millions): Unavailable

55. Components of Free Distribution Periodicals

Citation: G.S. 105-164.13(39)

Description: Sales of paper, ink, and other tangible personal property to commercial printers and commercial publishers for use in free distribution periodicals and sales by printers of free distribution periodicals to the publishers of these periodicals.

Enacting Legislation: S.L. 1985-656 - effective Oct. 1, 1985; S.L. 1999-438 repealed this exemption, effective Oct. 1, 1999; S.L. 2004-124 reinstated this exemption, effective July 1, 2005

Estimate (in millions): Unavailable

Note: An estimate was provided by a legislative fiscal note for House Bill 1149 (2003-04 session)

56. Sales to the Department of Transportation

Citation: G.S. 105-164.13(40)

Description: Sales to the North Carolina Department of Transportation. This exemption does not apply to sales of tangible personal property to contractors for use in the performance of contracts with the Department of Transportation.

Enacting Legislation: S.L. 1985-973 - effective Aug. 1, 1986

Estimate (in millions): FY15-16.....\$0.0 FY16-17 \$0.0

Note: Additional sales tax revenue would be offset by additional State costs.

57. Mobile Classrooms Purchased by Boards of Education or Community Colleges

Citation: G.S. 105-164.13(41)

Description: Sales of mobile classrooms to local boards of education or to local boards of trustees of community colleges.

Enacting Legislation: S.L. 1993-484 - effective Oct. 1, 1993; this exemption was enacted when mobile offices and classrooms became taxable under the sales tax rather than the highway use tax.

Estimate (in millions): FY15-16.....\$0.5 FY16-17 \$0.5

Data Source: NC Public Schools; various LEA budgets

58. Articles Donated by Retailer or Wholesaler**Citation:** G.S. 105-164.13(42)**Description:** Tangible personal property that is purchased by a retailer for resale or is manufactured or purchased by a wholesale merchant for resale and then withdrawn from inventory and donated by the retailer or wholesale merchant.**Enacting Legislation:** S.L. 1996-14 - effective Aug. 1, 1996**Estimate (in millions):** Unavailable**59. Custom Computer Software****Citation:** G.S. 105-164.13(43)**Description:** Sales of custom computer software and the portion of prewritten computer software that is modified or enhanced.**Enacting Legislation:** S.L. 1983-713 excluded custom computer software from the definition of "tangible property"; S.L. 1997-370, effective for sales made on or after Oct. 1, 1997, changed the statutes to the current, more restrictive, exemption.**Estimate (in millions):** FY15-16.....\$7.7 FY16-17 \$8.0**Data Source:** Revenues of software publishers from "custom applications design and development," from 2013 Service Annual Survey, US Census Bureau**60. Certain Computer Software****Citation:** G.S. 105-164.13(43a)**Description:** Computer software that meets any of the following descriptions: (a) it is designed to run on an enterprise server operating system, (b) it is sold to a person who operates a datacenter and is used within the datacenter, (c) it is sold to a person who provides cable service; telecommunications service, or video programming and is used to provide ancillary service, cable service, Internet access service, telecommunications service, or video programming.**Enacting Legislation:** S.L. 2009-451 - effective Jan. 1, 2010. Prior to this legislation, digital downloads were not subject to the sales tax.**Estimate (in millions):** Unavailable**61. Certain Software or Digital Property****Citation:** G.S. 105-164.13(43b)**Description:** Effective January 1, 2010: Computer software or digital property that becomes a component part of other computer software or digital property that is offered for sale or of a service that is offered for sale.**Enacting Legislation:** S.L. 2009-451 - effective Jan. 1, 2010**Estimate (in millions):** Unavailable

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62. Certain Items Purchased by Interstate Passenger Air Carriers

Citation: G.S. 105-164.13(45)

Description: Sales of aircraft lubricants, repair parts and accessories to an interstate passenger air carrier for use at its hub.

Enacting Legislation: S.L. 1999-360 - effective Jan. 1, 2001

Estimate (in millions): Unavailable

63. Lubricants and Parts Used in Maintenance of Commercial Aircraft

Citation: G.S. 105-164.13(45a)

Description: Sales to an interstate air business of tangible personal property that becomes a component part of or is dispensed as a lubricant into commercial aircraft during its maintenance, repair, or overhaul.

Enacting Legislation: S.L. 2004-124 - effective Oct. 1, 2004

Estimate (in millions): Unavailable

64. Certain Items Purchased by Interstate Air Couriers

Citation: G.S. 105-164.13(45b)

Description: Sales to interstate air courier (a) aircraft lubricants, repair parts and accessories, (b) materials handling equipment, racking systems, and related parts and accessories for the storage or handling and movement of tangible personal property at an airport or in a warehouse or distribution facility.

Enacting Legislation: S.L. 1999-360 added part (a) of this exemption, effective Jan. 1, 2001; S.L. 2005-276, effective Oct. 1, 2005, added the remaining parts; these items were previously subject to a 1% tax, with a \$80 cap per item since Jan. 1, 2001 (S.L. 1998-55)

Estimate (in millions): Unavailable

65. Aircraft Simulators

Citation: G.S. 105-164.13(45c)

Description: Sales of aircraft simulators to a company for flight crew training and maintenance training.

Enacting Legislation: S.L. 2009-511, effective Oct. 1, 2009; S.L. 2005-276 had allowed an exemption only for interstate air carriers; purchases by interstate air carriers or interstate air couriers were previously taxed at 1%, with a \$80 cap, effective for purchases made on or after May 1, 1999 (S.L. 1999-360)

Estimate (in millions): Unavailable

66. Items Related to Qualified Aircraft or Qualified Jet Engine

Citation: G.S. 105-164.13(45d)

Description: Parts and accessories for use in the repair or maintenance of a qualified aircraft or a qualified jet engine.

Enacting Legislation: S.L. 2015-259 – effective Oct. 1, 2015

Estimate (in millions): Unavailable

67. Electricity to Municipalities Supplied by Federal Agency

Citation: G.S. 105-164.13(46)

Description: Sales of electricity by a municipality whose only wholesale provider is a federal agency and who is required by a contract with that federal agency to make payments in lieu of taxes.

Enacting Legislation: S.L. 1999-438 - prior to this, the exemption was included in the definition of "utility" in G.S. 105-164.3 when the sales tax was applied to electricity in 1985 - S.L. 1985-23.

Estimate (in millions): FY15-16.....\$0.8 FY16-17 \$0.8

Data Source: NC Treasurer Report on Municipal Electrical Systems

Note: The estimates are based on a 7% combined State rate. No deduction to the estimates is made to account for municipal distributions.

68. Delivery Charges of Direct Mail

Citation: G.S. 105-164.13(49a)

Description: Delivery charges for delivery of direct mail if the charges are separately stated on an invoice.

Enacting Legislation: S.L. 2004-124 - effective Oct. 1, 2004

Estimate (in millions): Unavailable

Note: An estimate was provided by a legislative fiscal note for HB 1414 (2003-04 session)

69. Goods Sold Through Vending Machines

Citation: G.S. 105-164.13(50)

Description: 50% of the sales price of goods sold through coin-operated vending machines, except tobacco and newspapers.

Enacting Legislation: S.L. 1987-854 - effective July 1, 1989; this exemption was originally included in G.S. 105-164.3 under the definition of "sales price"

Estimate (in millions): FY15-16.....\$11.7 FY16-17 \$11.5

Data Source: "2014 State of the Vending Industry Report," Automatic Merchandiser; 2012 Economic Census

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70. Water Delivered Through Main Pipes

Citation: G.S. 105-164.13(51)

Description: Water delivered through main lines for either commercial or domestic use or consumption.

Enacting Legislation: S.L. 2003-284 -- prior to this, water delivered through main lines or pipes was excluded from tax because it was excluded from the definition of tangible personal property.

Estimate (in millions): FY15-16.....\$103.5 FY16-17\$103.9

Data Source: NC Department of Energy and Natural Resources; "Statistical Information on Water and Sewer Operations," North Carolina Department of State Treasurer

Note: The estimate only considers a sales tax on the variable rates on water consumption. It does not include fixed charges or wastewater rates. Prior to July 1, 2014, there was a franchise tax on water companies subject to regulation by the North Carolina Utilities Commission; the tax is 4% of taxable gross receipts from the operation of a water system and 6% of gross receipts from the operation of a public sewer system; however, systems owned by counties and municipal corporations are exempt from the franchise tax.

71. Sales to State Agencies

Citation: G.S. 105-164.13(54)

Description: Items subject to sales and use tax under G.S. 105-164.4, other than electricity, telecommunications service, and ancillary service. The items must be purchased by a State agency for its own use and in accordance with G.S. 105-164.29A.

Enacting Legislation: S.L. 2003-431, effective for sales made on or after July 1, 2004

Estimate (in millions): FY15-16.....\$0.0 FY16-17\$0.0

72. Aerial Survey Data

Citation: G.S. 105-164.13(53)

Description: Sales to a professional land surveyor of tangible personal property on which custom aerial survey data is stored in digital form or is depicted in graphic form.

Enacting Legislation: S.L. 2004-124 - effective Oct. 1, 2004

Estimate (in millions): Unavailable

73. Pay Telephone Services

Citation: G.S. 105-164.13(54)b

Description: Receipts of a pay telephone provider from the sale of pay telephone services.

Enacting Legislation: S.L. 2001-430 - effective Jan. 1, 2002. Pay telephone calls that are paid for by coin were exempt by S.L. 1998-197, effective Jan. 1, 2000.

Estimate (in millions): Unavailable

74. 911 Charges

Citation: G.S. 105-164.13(54)c

Description: 911 charges imposed under G.S. 62A-43 and remitted to the 911 Fund under that section.

Enacting Legislation: S.L. 2001-430 - effective Jan. 1, 2002

Estimate (in millions): FY15-16.....\$4.8 FY16-17 \$4.9

Data Source: 2013 Biennial Legislative Report, NC 911 Board

Note: The estimate is based on the State tax rate on telecommunications, which is 7% for the relevant time periods.

75. Telephone Charges Related to Occupancy of an Accommodation

Citation: G.S. 105-164.13(54)d

Description: Charges for telephone service made by a hotel, motel, or another entity whose gross receipts are taxable under G.S. 105-164.4(a)(3) when the charges are incidental to the occupancy of the entity's accommodations.

Enacting Legislation: S.L. 2001-430 - effective Jan. 1, 2002

Estimate (in millions): FY15-16.....\$0.1 FY16-17 \$0.1

Data Source: 2012 Economic Census product-line data for accommodations

Note: The estimate is based on the State tax rate on telecommunications, which is 7% for the relevant time periods.

76. Charges Related to N.C. Information Highway and Other Government Data Networks

Citation: G.S. 105-164.13(54)e

Description: Charges to a State agency or to a local unit of government for the North Carolina Information Highway and other data networks owned or leased by the State or unit of local government.

Enacting Legislation: S.L. 2001-487 - effective Jan. 1, 2002

Estimate (in millions): Unavailable

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77. Electricity and Eligible Business Property for an Internet Datacenter

Citation: G.S. 105-164.13(55)

Description: Sales of electricity and certain business property to an eligible Internet datacenter. The datacenter must be located in a Tier 1 or Tier 2 county and at least \$250 million must be invested in real or eligible business property over 5 years. Eligible business property includes equipment cooling systems; equipment used in the generation, transformation, transmission, distribution, or management of electricity; and property used to provide related computer engineering or computer science research.

Enacting Legislation: S.L. 2006-66 - effective for sales on or after Oct. 1, 2006

Estimate (in millions): FY15-16.....\$12.8 FY16-17 \$12.5

Data Source: News articles related to eligible facilities

Note: Estimates for electricity purchases made on or after July 1, 2014 are based on the 7% State combined tax rate.

78. Electricity and Support Equipment for a Datacenter

Citation: G.S. 105-164.13(55)

Description: Sales of electricity and datacenter support equipment to an eligible datacenter. The datacenter must invest at least \$75 million in real or tangible property within a 5-year period, beginning on or after Jan. 1, 2012.

Enacting Legislation: S.L. 2015-259 - effective Jan. 1, 2016

Estimate (in millions): FY15-16.....\$4.0 FY16-17 \$4.0

Data Source: Legislative Fiscal Note for House Bill 117 (2015)

79. Locomotives, Cranes and Trucks for a Railroad Intermodal Facility

Citation: G.S. 105-164.13(56)

Description: Sales to the owner or lessee of an eligible railroad intermodal facility of intermodal cranes, intermodal hostler trucks, and railroad locomotives that reside on the premises of the facility and are used at the facility.

Enacting Legislation: S.L. 2007-323 - effective Jan. 1, 2007

Estimate (in millions): Unavailable

80. Electricity Used by Manufacturers**Citation:** G.S. 105-164.13(57)**Description:** Electricity sold to a manufacturer for use in connection with the operation of a manufacturing plant. The exemption does not apply to electricity used at a facility at which the primary activity is not manufacturing.**Enacting Legislation:** S.L. 2007-397 - effective July 1, 2010; prior to this, electricity for manufacturing had a preferential tax rate of 2.83% (S.L. 1996,2nd extra session-2013), which was phased out between Oct. 1, 2007 and June 30, 2010.**Estimate (in millions):** FY15-16.....\$97.2 FY16-17\$98.7**Data Source:** Department of Revenue tax data; Energy Information Administration**Note:** Estimates for electricity purchases made on or after July 1, 2014 are based on the 7% State combined tax rate. No deduction to the estimates is made to account for related distributions to municipalities of a share of tax revenues.**81. Piped Natural Gas Used by Manufacturers****Citation:** G.S. 105-164.13(57)**Description:** Piped natural gas sold to a manufacturer for use in connection with the operation of a manufacturing plant.**Enacting Legislation:** S.L. 2007-397 - effective July 1, 2010; prior to this, the piped natural gas tax implicitly gave manufacturers a tax break by having a tax schedule that gave reduced rates to large end-users; rates for manufacturers were further reduced between Oct. 1, 2007 and June 30, 2010.**Estimate (in millions):** FY15-16.....\$130.2 FY16-17\$134.8**Data Source:** Department of Revenue tax databases; Energy Information Administration**Note:** Estimates for piped natural gas purchases made on or after July 1, 2014 are based on the 7% State combined tax rate. The estimate includes purchases used by power plants to generate electricity. No deduction to the estimates is made to account for related distributions to municipalities of a share of tax revenues.**82. Other Fuel Used by Manufacturers****Citation:** G.S. 105-164.13(57)**Description:** Other fuel sold to a manufacturer for use in connection with the operation of a manufacturing plant.**Enacting Legislation:** S.L. 2007-397 - effective July 1, 2010; prior to this, fuel for manufacturing had a preferential tax rate of 1% (S.L. 1961-826), which was phased out between Oct. 1, 2007 and June 30, 2010; S.L. 1955-1313 exempted fuel for manufacturing**Estimate (in millions):** FY15-16.....\$13.2 FY16-17\$13.4**Data Source:** Department of Revenue tax databases; Energy Information Administration**Note:** Estimates are based on the 4.75% State sales and use tax rate.

83. Disaster Assistance Debit Card Purchases

Citation: G.S. 105-164.13(58)

Description: Tangible personal property purchased with a client assistance debit card issued for disaster assistance relief by a State agency or a federal agency or instrumentality.

Enacting Legislation: S.L. 2008-107 - effective Aug. 1, 2008

Estimate (in millions): FY15-16.....\$0.3 FY16-17\$0.3

Data Source: American Red Cross annual reports; NC General Assembly fiscal note for Senate Bill 1703 (2008)

84. Interior Design Services

Citation: G.S. 105-164.13(59)

Description: Interior design services provided in conjunction with the sale of tangible personal property.

Enacting Legislation: S.L. 2008-107 - effective Aug. 1, 2008

Estimate (in millions): FY15-16.....\$1.0 FY16-17\$1.1

Data Source: County Business Patterns and Nonemployer Statistics for the relevant industry subsector, 2013

Note: The estimate assumes 10% of estimated services would be taxable. The estimate does not factor in sales of decorator charges by other types of businesses, such as furniture stores. In general, charges by retailers for services necessary to complete a sale of tangible personal property are considered part of the sales price and are therefore taxable. The Department of Revenue issued a technical bulletin related to interior design services prior to this exemption setting out guidelines for taxpayers regarding when the services would be taxable.

85. Repair, Maintenance, and Installation Services for Exempt Items

Citation: G.S. 105-164.13(61a)

Description: Repair, maintenance, and installation services provided for an item, other than a motor vehicle, for which a service contract on the item is exempt from tax under G.S. 105-164.4I.

Enacting Legislation: S.L. 2015-241 - effective March 1, 2016 (modified by S.L. 2015-259)

Estimate (in millions): FY15-16.....\$5.6 FY16-17\$22.8

Data Source: 2012 Economic Census - receipts for N.C. repair and maintenance industries

86. Items Used in Service Contracts**Citation:** G.S. 105-164.13(62)**Description:** An item used to maintain or repair tangible personal property pursuant to a service contract if the purchaser of the contract is not charged the item or services. This exemption does not apply to purchases related to a motor vehicle pursuant to a service contract exempt from tax unless the purchaser of the contract is not charged for the item or services.**Enacting Legislation:** S.L. 2013-316 - effective Jan. 1, 2014**Estimate (in millions):** Unavailable**87. Modular & Manufactured Homes****Citation:** G.S. 105-164.13(64)**Description:** Fifty percent of the sales price of a modular or manufactured home, including all accessories attached when delivered to the purchaser.**Enacting Legislation:** S.L. 2014-100 - effective for sales made on or after Sept. 1, 2014; prior to Jan. 1, 2014, manufactured homes had a preferential tax rate of 2% with a maximum tax of \$300 (S.L. 1957-1340; S.L. 1989-692) and modular homes had a preferential tax rate of 2.5% (S.L. 2003-400)**Estimate (in millions):** FY15-16.....\$7.8 FY16-17 \$8.6**Data Source:** Department of Revenue tax data**88. Motorsports Engine****Citation:** G.S. 105-164.13(65)**Description:** The sale of an engine provided with an operator to a professional motorsports racing team or a related member of a team for use in competition in a sanctioned race series.**Enacting Legislation:** S.L. 2015-259 - effective Sept. 30, 2015**Sunset Date:** Jan. 1, 2020**Estimate (in millions):** Unavailable**89. Service Charges on Meals and Beverages****Citation:** G.S. 105-164.13A**Description:** Service charges, considered tips, imposed on food, beverages or prepared food that do not exceed 20% of the sale price. The charges must be stated on the menu or price list and also in the invoice or bill. The charges must be given to the personnel directly involved in providing the service.**Enacting Legislation:** S.L. 1979-801; S.L. 1998-438 expanded the exemption by increasing the tip percentage maximum from 15% to 20%.**Estimate (in millions):** FY15-16.....\$1.5 FY16-17 \$1.6**Data Source:** 2012 & 2007 Economic Census; Retail Trade Report, U.S. Census Bureau

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90. Food for Home Consumption

Citation: G.S. 105-164.13B

Description: Food is exempt from sales and use taxes unless the food is in one of the following categories: (1) dietary supplements, (2) food sold through a vending machine, (3) prepared food, other than bakery items sold by an artisan bakery, (4) soft drinks, (5) candy.

Enacting Legislation: S.L. 1998-212 - effective for sales made on or after May 1, 1999; food was subject to the State sales tax beginning in 1961; the State tax on food for home consumption was phased out between Jan. 1, 1997 and May 1, 1999

Estimate (in millions): FY15-16.....\$769.1 FY16-17 \$805.1

Data Source: Department of Revenue data on 2% Local Sales Tax on food through June 2015

Note: Food remains subject to a 2% local sales tax.

Distributional Note: According to the 2014 Consumer Expenditure Survey, a household with income between \$20,000 and \$29,999 on average spent 9.2% of annual expenditures on food at home; an average household with income between \$50,000 and \$69,999 spent 7.65% on this category.

91. Certain Artisan Bakery Items

Citation: G.S. 105-164.13B

Description: Exempts bakery items sold without eating utensils by an artisan bakery. An artisan bakery is a bakery that (a) derives over 80% of its receipts from bakery items, and (b) has annual gross receipts of no more than \$1.8 million.

Enacting Legislation: S.L. 2008-107 - effective for sales on or after Jan. 1, 2009

Estimate (in millions): FY15-16.....\$2.1 FY16-17 \$2.3

Data Source: receipts for retail bakeries with fewer than 20 employees were obtained from the 2012 & 2007 Economic Census. NC data on number of establishments through 2014 were obtained from US Bureau of Labor Statistics

92. Fuel and Electricity for Farming**Citation:** G.S. 105-164.13E(1)**Description:** Qualifying farmers are allowed an exemption for fuel and electricity that is measured by a separate meter or another device and used for a purpose other than preparing food, heating dwellings, and other household purposes. For periods on or after July 1, 2014, a qualifying farmer has gross annual income from farming of at least \$10,000 in the prior calendar year or an average of \$10,000 in the prior 3 years.**Enacting Legislation:** S.L. 2005-276 - effective Jan. 1, 2006; fuel had previously been exempt (S.L. 1949-392) before becoming subject to a 1% preferential tax rate (S.L. 1961-826); electricity was not exempt until July 1, 2010, although it was previously taxed at a preferential rate.**Estimate (in millions):** FY15-16.....\$23.0 FY16-17 \$23.1**Data Source:** Farm Production Expenditure report for North Carolina (through 2014), National Agricultural Statistics Service, United States Department of Agriculture; Energy Information Administration**93. Fertilizers, Seeds and Related Items Sold to a Farmer****Citation:** G.S. 105-164.13E(2)**Description:** Qualifying farmers are allowed an exemption for commercial fertilizer, lime, land plaster, plastic mulch, plant bed covers, potting soil, baler twine, and seeds. For periods on or after July 1, 2014, a qualifying farmer has gross annual income from farming of at least \$10,000 in the prior calendar year or an average of \$10,000 in the prior 3 years.**Enacting Legislation:** S.L. 1939-158 exempted fertilizers; S.L. 1945-708 exempted seeds; S.L. 2001-514 limited the exemption of fertilizers and seeds to farmers; S.L. 2004-124 and S.L. 2005-276, and S.L. 2007-500 added items to the list of exemptions.**Estimate (in millions):** FY15-16.....\$40.7 FY16-17 \$41.2**Data Source:** Farm Production Expenditure report for North Carolina (through 2014), National Agricultural Statistics Service, United States Department of Agriculture**94. Farm Machinery and Related Parts and Lubricants****Citation:** G.S. 105-164.13E(3)**Description:** Qualifying farmers are allowed an exemption for farm machinery, attachment and repair parts for farm machinery, and lubricants applied to farm machinery. For periods on or after July 1, 2014, a qualifying farmer has gross annual income from farming of at least \$10,000 in the prior calendar year or an average of \$10,000 in the prior 3 years**Enacting Legislation:** S.L. 2005-276 - effective Jan. 1, 2006; these items had been subject to a 1% preferential tax rate, with a \$80 cap per item (S.L. 1961-826); they were previously exempt (S.L. 1955-1313)**Estimate (in millions):** FY15-16.....\$20.6 FY16-17 \$21.9**Data Source:** Farm Production Expenditure report for North Carolina (through 2014), National Agricultural Statistics Service, United States Department of Agriculture

95. Certain Containers Sold to a Farmer

Citation: G.S. 105-164.13E(4)

Description: Qualifying farmers are allowed an exemption for containers 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. For periods on or after July 1, 2014, a qualifying farmer has gross annual income from farming of at least \$10,000 in the prior calendar year or an average of \$10,000 in the prior 3 years.

Enacting Legislation: S.L. 2005-276 - effective Jan. 1, 2006; these items were previously subject to a 1% preferential tax rate, with a \$80 cap, effective July 1, 1982 (S.L. 1981-1273)

Estimate (in millions): FY15-16.....\$0.9 FY16-17 \$0.9

Data Source: Farm Production Expenditure report for North Carolina (through 2014), National Agricultural Statistics Service, United States Department of Agriculture

96. Certain Storage Facilities Sold to a Farmer

Citation: G.S. 105-164.13E(5)

Description: Qualifying farmers are allowed an exemption for a grain, feed, or soybean storage facility and parts and accessories attached to the facility. For periods on or after July 1, 2014, a qualifying farmer has gross annual income from farming of at least \$10,000 in the prior calendar year or an average of \$10,000 in the prior 3 years.

Enacting Legislation: S.L. 2005-276 - effective Jan. 1, 2006; these items were previously subject to a 1% preferential tax rate, with a \$80 cap, effective July 1, 1979 (S.L. 1979-801)

Estimate (in millions): FY15-16.....\$2.3 FY16-17 \$2.3

Data Source: Farm Production Expenditure report for North Carolina (through 2014), National Agricultural Statistics Service, United States Department of Agriculture

97. Feeds, Litter and Medications for Farming

Citation: G.S. 105-164.13E(6)a

Description: Qualifying farmers are allowed an exemption for remedies, vaccines, medications, litter materials, and feeds for animals. For periods on or after July 1, 2014, a qualifying farmer has gross annual income from farming of at least \$10,000 in the prior calendar year or an average of \$10,000 in the prior 3 years.

Enacting Legislation: S.L. 1945-708 exempted seeds; S.L. 1977-1219 added the exemption for remedies, vaccines, and medications; S.L. 1995-477 restricted the exemptions to purchases for commercial use

Estimate (in millions): FY15-16.....\$190.4 FY16-17 \$190.6

Data Source: Farm Production Expenditure report for North Carolina (through 2014), National Agricultural Statistics Service, United States Department of Agriculture

98. Certain Substances Used on Animals or Plants for Commercial Purposes**Citation:** G.S. 105-164.13E(6)b-e**Description:** Qualifying farmers are allowed an exemption for (b) rodenticides, insecticides, herbicides, fungicides, and pesticides; (c) defoliant 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. For periods on or after July 1, 2014, a qualifying farmer has gross annual income from farming of at least \$10,000 in the prior calendar year or an average of \$10,000 in the prior 3 years.**Enacting Legislation:** S.L. 1945-708 exempted insecticides; S.L. 1949-1271, S.L. 1963-1169 and S.L. 1969-907 added items; S.L. 1995-477 restricted the exemptions to purchases for commercial use.**Estimate (in millions):** FY15-16.....\$14.2 FY16-17\$14.9**Data Source:** Farm Production Expenditure report for North Carolina (through 2014), National Agricultural Statistics Service, United States Department of Agriculture**99. Manufactured Facilities, Building Materials, and Related Equipment for Commercial Housing of Animals****Citation:** G.S. 105-164.13E(8)**Description:** Qualifying farmers are allowed an exemption for (a) commercially manufactured facility to be used for commercial purposes for housing, raising, or feeding animals or for housing equipment necessary for these commercial activities, as well as equipment, and parts and accessories for the equipment, used in the facility; (b) building materials, supplies, fixtures, and equipment that become a part of or are used in the construction, repair, or improvement of an enclosure or a structure used for housing, raising or feeding animals or for housing equipment necessary for one of these commercial activities. For periods on or after July 1, 2014, a qualifying farmer has gross annual income from farming of at least \$10,000 in the prior calendar year or an average of \$10,000 in the prior 3 years.**Enacting Legislation:** S.L. 1985-973 - effective Aug. 1, 1986 for construction and repair materials; other items added by S.L. 1987-800; these items had been taxed at a preferential rate of 1%, with a \$80 cap beginning July 1, 1979 (S.L. 1979-801) for swine facilities and July 1, 1983 (S.L. 1983-805) for livestock and poultry facilities.**Estimate (in millions):** FY15-16.....\$8.8 FY16-17\$8.8**Data Source:** Farm Production Expenditure report for North Carolina (through 2014), National Agricultural Statistics Service, United States Department of Agriculture

Sales and Use Tax

100. Tobacco Farming Items

Citation: G.S. 105-164.13E(9)

Description: Qualifying farmers are allowed an exemption for a bulk tobacco barn or rack, parts and accessories attached to the tobacco barn or rack, and any similar apparatus, part, or accessory used to cure or dry tobacco or another crop. For periods on or after July 1, 2014, a qualifying farmer has gross annual income from farming of at least \$10,000 in the prior calendar year.

Enacting Legislation: S.L. 2005-276 - effective Jan. 1, 2006; these items were previously subject to a 1% preferential tax rate, with a \$80 cap per item (S.L. 1971-887)

Estimate (in millions): FY15-16.....\$0.1 FY16-17 \$0.1

Data Source: Farm Production Expenditure report for North Carolina (through 2014), National Agricultural Statistics Service, United States Department of Agriculture

Refunds

101. Refund to Interstate Carrier

Citation: G.S. 105-164.14(a)

Description: An interstate carrier is allowed a refund of part of the sales and use taxes paid on the purchase in this State of railway cars and locomotives, and fuel, lubricants, repair parts, and accessories for a motor vehicle, railroad car, locomotive, or airplane the carrier operates.

Enacting Legislation: S.L. 1957-1340

Estimate (in millions): FY15-16.....\$12.8 FY16-17 \$3.7

Data Source: Department of Revenue tax data

Note: Refund requests are made quarterly. Therefore, refunds lag taxes paid by up to 3 months.

102. Partial Refund for Purchases of Railway Cars and Accessories by a Utility

Citation: G.S. 105-164.14(a2)

Description: A utility company may receive a semiannual refund of part of the sales and use taxes it pays on the purchase in this State of railway cars and locomotives and accessories. The refund is based on the percentage of miles that the utility company operated its locomotives and railway cars in North Carolina during the refund period.

Enacting Legislation: S.L. 2006-06 - effective July 1, 2006

Estimate (in millions): less than \$0.1

Data Source: Department of Revenue tax data

103. Refund of Sales Taxes to Nonprofits**Citation:** G.S. 105-164.14(b)

Description: Refunds for sales taxes paid on purchases, other than electricity, telecommunications piped natural gas, video programming and prepaid meal plans, for use in carrying on the work of the nonprofit and indirect purchases of building materials and related equipment. The refund is only for nonprofits in the following categories: (1) hospitals, (2) an entity exempt from income tax under Section 501(c)(3) of the Code, except if they are in the following areas: community improvement and capacity building; public and societal benefit; mutual and membership benefit, (4) qualified retirement facilities, (5) volunteer fire departments and volunteer emergency medical service squads. Tax paid on sales by the nonprofits are not refundable.

Enacting Legislation: S.L. 1961-826 – effective July 1, 1961; this refund provision replaced an existing exemption (S.L. 1943-400)

Estimate (in millions): FY15-16.....\$233.5 FY16-17 \$236.4

Data Source: Department of Revenue tax data

Note: Effective for purchases made on or after July 1, 2014: the total annual State-related refund allowed an entity for a fiscal year may not exceed \$31,700,000.

104. Refunds of Tax on Medicine and Drug Purchases to Certain Hospitals**Citation:** G.S. 105-164.14(b)

Description: Hospitals not eligible for the refund of taxes on all tangible property purchases may receive a refund of tax on purchases of medicines and drugs for use in carrying out the work of such hospitals.

Enacting Legislation: SL 1977-895 - effective for taxes paid on or after July 1, 1977

Estimate (in millions): included in Item #103

Data Source: Department of Revenue tax data

105. Refunds to Certain Local Government Entities**Citation:** G.S. 105-164.14(c)

Description: Refunds for sales taxes paid on purchases, other than electricity and telecommunications, by certain governmental entities and indirect purchases of building materials for use by those entities.

Enacting Legislation: S.L. 1961-826 - this refund provision replaced an existing exemption

Estimate (in millions): FY15-16.....\$80.6 FY16-17 \$82.2

Data Source: Department of Revenue tax data

Note: The estimate does not include refunds to the University of North Carolina Health Care System or a constituent institution of the University of North Carolina that were eligible under this provision.

Sales and Use Tax

106. Refund for Passenger Air Carrier

Citation: G.S. 105-164.14A(a)(1)

Description: An interstate passenger air carrier is allowed a refund of the sales and use tax paid by it on fuel in excess of \$2.5 million. The amount of sales and use tax paid does not include a refund allowed to the interstate passenger air carrier under G.S. 105-164.14(a). For sales tax paid July 1, 2015 through Dec. 31, 2015, the refund is the amount paid in excess of \$1.25 million.

Enacting Legislation: S.L. 2005-435 - effective for purchases on or after Jan. 1, 2005; this provision was formerly G.S. 105-164.14(a1)

Sunset Date: Expires for purchases made on or after Jan. 1, 2016

Estimate (in millions): FY15-16.....\$7.1 FY16-17 \$2.5

Data Source: Department of Revenue "Economic Incentive Reports"

107. Refund for Major Recycling Facilities

Citation: G.S. 105-164.14A(a)(2)

Description: The owner of a major recycling facility is allowed an annual refund of sales and use taxes paid by it on building materials, building supplies, fixtures, and equipment that became a part of the real property of the recycling facility.

Enacting Legislation: S.L. 1998-55 - effective July 1, 1998; this provision was formerly G.S. 105-164.14(g)

Estimate (in millions): FY15-16.....\$0.3 FY16-17 \$0.3

Data Source: Department of Revenue "Economic Incentive Reports"

108. Refund of Aviation Fuel for Motorsports Events

Citation: G.S. 105-164.14A(a)(4)

Description: A professional motorsports racing team or a motorsports sanctioning body is allowed a refund of the sales and use tax paid by it in this State on aviation fuel that is used to travel to or from a motorsports event in this State, to travel to a motorsports event in another state from a location in this State, or to travel to this State from a motorsports event in another state.

Enacting Legislation: S.L. 2005-435 - effective for purchases made on or after Jan. 1, 2005; this provision was formerly G.S. 105-164.14(l)

Sunset Date: Expires for purchases made on or after Jan. 1, 2020

Estimate (in millions): FY15-16.....\$0.2 FY16-17 \$0.2

Data Source: Department of Revenue "Economic Incentive Reports"

109. Refund on Professional Motor Racing Vehicle Parts**Citation:** G.S. 105-164.14A(a)(5)**Description:** A professional motorsports racing team may receive a refund of 50% of the sales tax paid on certain tangible personal property that comprises any part of a professional motor racing vehicle, except tires, instrumentation, telemetry, consumables and paint.**Enacting Legislation:** S.L. 2006-66 - effective for purchases made on or after July 1, 2007; this provision was formerly G.S. 105-164.14(m)**Sunset Date:** Expires for purchases made on or after Jan. 1, 2020**Estimate (in millions):** FY15-16.....\$2.6 FY16-17 \$2.7**Data Source:** Department of Revenue "Economic Incentive Reports"**110. Refund for Railroad Intermodal Facilities****Citation:** G.S. 105-164.14A(a)(7)**Description:** The owner or lessee of an eligible railroad intermodal facility is allowed an annual refund of sales and use taxes paid by it under this Article on building materials, building supplies, fixtures, and equipment that become a part of the real property of the facility.**Enacting Legislation:** S.L. 2007-323 - effective Jan. 1, 2007; this provision was formerly G.S. 105-164.14(o)**Sunset Date:** Expires for purchases made on or after Jan. 1, 2038**Estimate (in millions):** FY15-16.....\$0.1 FY16-17 \$0.2**Data Source:** Department of Revenue "Economic Incentive Reports".**Preferential tax rates****111. Preferential Rate and Cap for Aircraft****Citation:** G.S. 105-164.4(a)(1b)**Description:** Effective October 1, 2015: Tax rate of 4.75% on the retail sale of each aircraft, including all accessories attached to the item at the time of purchase. The maximum tax is \$2,500 per article. Prior to Oct. 1, 2015, the tax rate was 3% on the retail sale of each aircraft or boat, with a maximum tax of \$1,500 per article.**Enacting Legislation:** S.L. 1957-1340 - imposed a tax of 1% with an \$80 cap on airplanes; tax rate and cap were increased at various time intervals; S.L. 1967-1116 added boats, effective July 1, 1967; in 1989, the maximum tax on boats and aircraft was increased from \$300 to \$1,500 (S.L. 1989-692); tax rate was increased from 3.0% to 4.75% with \$2,500 cap, effective October 1, 2015 (S.L. 2015-259)**Estimate (in millions):** FY15-16.....\$14.8 FY16-17 \$15.4**Data Source:** Department of Revenue tax data**Note:** For the estimates, a price elasticity of demand of -4 was used to reflect a lower demand at a higher rate of tax.

Sales and Use Tax

112. Preferential Rate and Cap for Boats

Citation: G.S. 105-164.4(a)(1b)

Description: Tax rate of 3% on the retail sale of each aircraft or boat. The maximum tax is \$1,500 per article.

Enacting Legislation: S.L. 1957-1340 - imposed a tax of 1% with an \$80 cap on airplanes; tax rate and cap were increased at various time intervals; S.L. 1967-1116 added boats, effective July 1, 1967; in 1989, the maximum tax on boats and aircraft was increased from \$300 to \$1,500 (S.L. 1989-692).

Estimate (in millions): FY15-16.....\$15.9 FY16-17 \$16.7

Data Source: Department of Revenue tax data; National Marine Manufacturers Association

Note: For the estimates, a price elasticity of demand of -2 was used to reflect a lower demand at a higher rate of tax.

Caps

113. Out-of-State Call Centers

Citation: G.S. 105-164.4C(f)

Description: The gross receipts tax on telecommunications service that originates outside this State, terminates in this State, and is provided by a call center that has a direct pay permit may not exceed \$50,000. (S.L. 2001-430)

Enacting Legislation: S.L. 2001-430 - effective Jan. 1, 2002. This is also when the exemption from sales tax for interstate calls was removed.

Estimate (in millions): Unavailable

Note: There are four or five eligible call centers. Not enough information was available to determine cost.

Highway Use Tax (Article 5A)

Tax Base Information

The highway use tax is imposed on the privilege of using the highways of this State. It is imposed on the sale or lease of motor vehicles for which a certificate of title is issued. Trailers pulled by automobiles are included in this tax if they are required to have a title.

Prior to the creation of this tax in 1989, the purchase of motor vehicles was taxed under the sales & use tax at a rate of 2%, with a \$300 maximum. S.L. 1995-390 removed the \$40 minimum tax, effective July 1, 1996. S.L. 2001-424 removed the cap from non-commercial vehicles, effective Oct. 1, 2001. (S.L. 2001-497 restored the cap for recreational vehicles.)

The base rate is 3% on the sales of motor vehicles and on long-term leases and rentals; short-term leases are taxed at 8%.

In Fiscal Year 2014-15, approximately \$742.1 million was collected under this tax. (The amount includes collections from the 8% short term lease, which are collected under the sales and use tax.)

Tax Expenditures

1. Maximum Tax of \$2,000 for Class A or Class B Commercial Motor Vehicles

Citation: G.S. 105-187.3(a)

Description: Effective Jan. 1, 2016, the tax on each title issued for a Class A or Class B commercial motor vehicles is capped at \$2,000. Prior to Jan. 1, 2016, the maximum tax was \$1,000.

Enacting Legislation: S.L. 1989-692, effective Oct. 1, 1989; see prior cap under the sales tax in description of the Highway Use Tax.

Estimate (in millions): FY15-16.....\$23.9 FY16-17 \$20.1

Data Source: N.C. Department of Transportation

2. Maximum Tax of \$2,000 for Recreational Vehicles

Citation: G.S. 105-187.3(a)

Description: Effective Jan. 1, 2016, the tax on each title issued for a recreational vehicles is capped at \$2,000. Prior to Jan. 1, 2016, the maximum tax was \$1,500.

Enacting Legislation: S.L. 1989-692, effective Oct. 1, 1989; the cap rose from \$1,000 in 1989 to \$1,500 on July 1, 1993; see prior cap under the sales tax in description of the Highway Use Tax.

Estimate (in millions): FY15-16.....\$4.7 FY16-17 \$4.5

Data Source: N.C. Department of Transportation

Highway Use Tax

3. Trade-In Allowance on Sales of Motor Vehicles

Citation: G.S. 105-187.3(b)

Description: The retail value of a motor vehicle for which a certificate of title is issued is reduced by the amount of any allowance given by the seller for a motor vehicle taken in trade as a full or partial payment for the purchased motor vehicle.

Enacting Legislation: S.L. 1989-692, effective Oct. 1, 1989; a trade-in allowance was added in the sales tax statutes for motor vehicles by S.L. 1983-713, effective Aug. 1, 1983, when the maximum tax was raised from \$120 to \$300.

Estimate (in millions): FY15-16.....\$113.7 FY16-17 \$116.7

Data Source: N.C. Department of Transportation; Virginia Department of Motor Vehicles; National Automobile Dealers Association; RL Polk & Co. (as used by NADA)

4. Trade-In Allowance on Leases of Motor Vehicles

Citation: G.S. 105-187.5(b)

Description: The gross receipts tax on a lease or rental of a motor vehicle does not include the amount of any allowance given for a motor vehicle taken in trade as a partial payment.

Enacting Legislation: S.L. 1995-410 - effective Oct. 1, 1995

Estimate (in millions): FY15-16.....\$2.0 FY16-17 \$2.1

Data Source: N.C. Department of Transportation; Virginia Department of Motor Vehicles; National Automobile Dealers Association; RL Polk & Co. (as used by NADA)

5. Title Issued by Will or Intestacy

Citation: G.S. 105-187.6(a)(4)

Description: Full exemption when a certificate of title is issued by will or intestacy.

Enacting Legislation: S.L. 1989-692, effective Oct. 1, 1989

Estimate (in millions): Unavailable

6. Gift Between Close Family Members

Citation: G.S. 105-187.6(a)(5)

Description: Full exemption when a certificate of title is issued by a gift between a husband and wife, a parent and child, or a stepparent and a stepchild.

Enacting Legislation: S.L. 1989-692, effective Oct. 1, 1989

Estimate (in millions): Unavailable

- 7. Vehicles Leased to Public School Driver Education Programs**
Citation: G.S. 105-187.6(a)(8)
Description: Full exemption when a certificate of title is issued to a local board of education for use in a driver education program when the vehicle is transferred back to retailer within 300 days or from another board of education.
Enacting Legislation: S.L. 1993-467 - effective Aug. 1, 1993

Estimate (in millions): Unavailable
- 8. Volunteer Fire and Rescue Squad Vehicles**
Citation: G.S. 105-187.6(a)(9)
Description: Full exemption for volunteer fire department or rescue squad, when the vehicle is either (1) a fire truck, a pump truck, a tanker truck, or a ladder truck used to suppress fire, (2) a four-wheel drive vehicle intended to be mounted with a water tank and used to fight forest fires, (3) an emergency service vehicle.
Enacting Legislation: S.L. 2001-424, section 34.24, effective October 1, 2001

Estimate (in millions): Unavailable
- 9. Transfer to a Revocable Trust**
Citation: G.S. 105-187.6(a)(11)
Description: Full exemption for transfer to a revocable trust from an owner who is the sole beneficiary of the trust.
Enacting Legislation: S.L. 2010-95 - effective July 17, 2010

Estimate (in millions): Unavailable
- 10. Secured Party with Perfected Interest**
Citation: G.S. 105-187.6(b)(1)
Description: Maximum tax of \$40 when a certificate is issued to a secured party who has a perfected interest in the motor vehicle.
Enacting Legislation: S.L. 1989-692, effective Oct. 1, 1989

Estimate (in millions): Unavailable
- 11. Sales to Related Businesses**
Citation: G.S. 105-187.6(b)(2)
Description: Maximum of \$40 when a certificate of title is issued to a business that is not a separate entity from the seller.
Enacting Legislation: S.L. 1989-692, effective Oct. 1, 1989

Estimate (in millions): Unavailable

Highway Use Tax

12. Vehicles Titled in Another State

Citation: G.S. 105-187.6(c)

Description: Maximum tax of \$250 if vehicle has been titled in another state for at least 90 days. Prior to Jan. 1, 2016, the maximum tax was \$150.

Enacting Legislation: S.L. 1989-692, effective Oct. 1, 1989

Estimate (in millions): FY15-16.....\$6.5 FY16-17\$4.3

Data Source: N.C. Department of Transportation

13. Credit for Tax Paid in Another State

Citation: G.S. 105-187.7(a)

Description: Credit for amount of tax paid in another state within 90 days of applying for title.

Enacting Legislation: S.L. 1989-692, effective Oct. 1, 1989

Estimate (in millions): Unavailable

14. Credit for Tax Paid in Another State if Previously Titled in NC

Citation: G.S. 105-1987.7(b)

Description: Credit for amount paid in another state within 1 year if vehicle was previously titled in NC.

Enacting Legislation: S.L. 1995-512 - effective Oct. 1, 1995

Estimate (in millions): Unavailable

15. Return of Purchased Vehicle

Citation: G.S. 105-187.8

Description: Refund for return of purchased vehicle within 90 days of purchase.

Enacting Legislation: S.L. 1989-692, effective Oct. 1, 1989

Estimate (in millions): Unavailable

Scrap Tire Disposal Tax (Article 5B)

Tax Base Information

This privilege tax is imposed on a tire retailer on the sale price of each new tire sold at retail and on a retailer or wholesaler on the price of each new tire sold for placement on a vehicle offered for sale, lease or rental. The tax is also applicable to new tires that are purchased for storage, use or consumption in this State or for placement in this State on a vehicle offered for sales, lease or rental.

This tax was enacted by S.L. 1991-221 and became effective on July 1, 1991. (It replaced a similar provision that had been enacted in 1989 under Chapter 130A, effective Jan. 1, 1990.)

The base tax rate is 2%.

In Fiscal Year 2014-15, \$18.2 million was collected from this tax.

For Fiscal Year 2013-14 and forward, 30% of net revenues are transferred to the General Fund and the remaining amount is distributed to counties on a per capita basis.

Tax Expenditures

1. Lower Tax Rate for Large Tires

Citation: G.S. 105-187.16

Description: The tax rate on tires with a bead diameter of 20 inches or more is 1%.

Enacting Legislation: S.L. 1993-548 - the tax rate on tires with a bead diameter of less than 20 inches was increased from 1% to 2% effective October 1, 1993. A sunset of July 1, 1997 was in effect for the original legislation. This sunset was extended by subsequent legislation and later repealed by S.L. 2002-10.

Estimate (in millions): FY15-16.....\$0.6 FY16-17 \$0.6

Data Source: Department of Revenue tax database

Note: The estimate does not include additional revenues that would be distributed to the counties, which is 70% of net revenues.

2. Exemption for Certain Tire Sales

Citation: G.S. 105-187.18

Description: Exemption for bicycle tires, recapped tires, tires sold for placement on new vehicle.

Enacting Legislation: S.L. 1991-221 – effective July 1, 1991

Estimate (in millions): Unavailable

White Goods Disposal Tax

White Goods Disposal Tax (Article 5C)

Tax Base Information

The tax is imposed on a white goods retailer at a flat rate of \$3 for each new white good sold. The tax is imposed on a new white good purchased outside the State for storage, use, or consumption in this State. Examples of white goods are refrigerators, ranges, water heaters, freezers, unit air conditioners, washing machines, clothes dryers, and dishwashers.

This tax was enacted by S.L. 1993-471 and became effective on January 1, 1994.

The base tax rate is \$3 for each new white good sold

In Fiscal Year 2014-15, \$4.6 million was collected from this tax.

For Fiscal Year 2013-14 and forward, 28% of net revenues are transferred to the General Fund and the remaining amount is distributed to counties on a per capita basis (unless the county is disallowed a distribution under G.S. 130A-309.87).

Tax Expenditures

1. Refund for Large Purchases

Citation: G.S. 105-187.23

Description: Refund of 60% for person who buys at least 50 new white goods of any kind in the same sale.

Enacting Legislation: S.L. 1993-471 - effective Jan. 1, 1994

Estimate (in millions): less than \$100,000

Data Source: Department of Revenue tax database

Note: The estimate does not include additional revenues that would be distributed to the counties, which is 72% of net revenues.

Severance Tax (Article 5I)

Tax Base Information

The tax is imposed on all energy minerals severed from the soil and water of this State when sold.

This tax was enacted by S.L. 2014-4 and became effective July 1, 2015.

For oil and condensates, the tax rate is 2% between July 1, 2015 and Dec. 31, 2018; 3.5% between Jan. 1, 2019 and Dec. 31, 2020; and 5% on or after Jan. 1, 2021.

For gas, the tax rate ranges from 0.9% to 2.9% between July 1, 2015 and Dec. 31, 2018. The tax rate depends on the delivered to market value of the gas sold. Between Jan. 1, 2019 and Dec. 31, 2020, the tax rate ranges between 0.9% and 5%. On or after Jan. 1, 2021, the rate ranges from 0.9% to 9%.

The tax rate from a marginal gas well is 0.4% between July 1, 2015 and Dec. 31, 2018; 0.6% between Jan. 1, 2019 and Dec. 31, 2020; and 0.8% on or after Jan. 1, 2021.

Tax Expenditures

1. Delivered to Market Adjustment

Citation: G.S. 105-187.78(a)

Description: A producer may deduct the actual costs of delivering the gas to market incurred from the gross receipts of a cost reimbursement.

Enacting Legislation: S.L. 2014-4 - effective July 1, 2015

Estimate (in millions): Unavailable

2. On-Site Use Exemption

Citation: G.S. 105-187.79

Description: On-site use is exempt from the severance tax. On-site use refers to energy minerals that are used on the land from which they are taken by the producer and which have a yearly cumulative delivered to market value of not greater than \$1,200.

Enacting Legislation: S.L. 2014-4 - effective July 1, 2015

Estimate (in millions): Unavailable

Taxes on Insurance Companies (Article 8B)

Tax Base Information

The tax on an insurer is measured by gross premiums from business done in this State during the calendar year. The base tax rate is 1.9%. However, premiums on worker compensation plans are taxed at 2.5%. There is an additional 0.74% tax on property coverage contracts.

There is also an insurance regulatory charge, which is a percentage of the insurer's gross premiums tax liability. The percentage is set at 6.5% for calendar years 2015 and 2016.

In Fiscal Year 2014-15, \$563.8 million was collected from the tax and regulatory fee.

Tax Expenditures

1. Captive Insurance Company Cap

Citation: G.S. 105-228.4A(f)

Description: The aggregate amount of tax payable may not exceed \$100,000. If the company is a protected cell captive insurance company with more than 10 cells, the tax may not exceed \$100,000 plus \$5,000 times the number of cells in excess of 10.

Enacting Legislation: S.L. 2013-116, effective July 1, 2013

Estimate (in millions): Unavailable

2. Federally Tax-Exempt Pensions, Annuities or Profit-Sharing Plan

Citation: G.S. 105-228.5(c)(1)

Description: Excludes premiums connected with funding a pension, annuity or profit-sharing plan qualified or exempt under section 401, 403, 404, 408, 457 or 501 of the Code.

Enacting Legislation: S.L. 1973-142 - effective July 1, 1973

Estimate (in millions): Unavailable

3. Premiums Received from Annuities

Citation: G.S. 105-228.5(c)(2)

Description: Excludes premiums if received from annuities, as defined in G.S. 58-7-15.

Enacting Legislation: S.L. 1993-600 - effective Jan. 1, 1995

Estimate (in millions): FY15-16.....\$139.4 FY16-17\$142.2

Data Source: North Carolina Department of Insurance

4. Premiums Related to Funding Agreements

Citation: G.S. 105-228.5(c)(3)

Description: Excludes premiums if connected with funding agreements defined in G.S. 58-7-16.

Enacting Legislation: S.L. 1993-600 - effective Jan. 1, 1995

Estimate (in millions): FY15-16.....\$24.7 FY16-17 \$24.7

Data Source: North Carolina Department of Insurance

5. Automobile Premiums for Additional Rate on Property Coverage Contracts

Citation: G.S. 105-228.5(d)(3)

Description: Only 10% of the gross premiums from insurance contracts for automobile physical damage coverage are taxed compared to 100% of all other types of property coverage. This provision refers to the additional tax on property coverage contracts.

Enacting Legislation: S.L. 2006-196 - effective for taxable years beginning on or after Jan. 1, 2008. This provision replaced a tax on fire and lightning coverage that had excluded automobile and marine contracts.

Estimate (in millions): FY15-16.....\$17.1 FY16-17 \$18.2

Data Source: North Carolina Department of Insurance

Note: Only a fraction of the revenues of the additional tax on property coverage contracts are credited to the General Fund. The estimates , however, represent 100% of the foregone revenues.

6. Farmers' Mutual Assessment Fire Insurance Companies and Fraternal Organizations

Citation: G.S. 105-228.5(g)

Description: Excludes farmers' mutual assessment fire insurance companies and nonprofit fraternal organizations.

Enacting Legislation: This is a longstanding provision in the insurance statutes.

Estimate (in millions): FY15-16.....\$2.5 FY16-17 \$2.6

Data Source: North Carolina Department of Insurance

Note: Includes an estimate for the additional 0.74% rate on property coverage contracts (for the farmers' mutuals only).

Taxes on Insurance Companies

7. **Assessments paid to Insurance Guaranty Association and Life and Health Insurance Guaranty Association**

Citation: G.S. 105-228.5A

Description: Credit against gross premiums for assessments paid to the Insurance Guaranty Association and the Life and Health Insurance Guaranty Association. (These organizations require insurers to pay assessments to cover claims against insolvent insurers.)

Enacting Legislation: S.L. 1991-689 - effective Jan. 1, 1991. Prior to this, insurance companies were allowed to increase their premiums to recoup assessment charges.

Estimate (in millions): FY15-16.....\$2.1 FY16-17 \$3.3

Data Source: Department of Revenue Insurance Tax database; North Carolina Insurance Guaranty Association

Excise Tax on Conveyances (Article 8E)

Tax Base Information

This tax is levied on each instrument by which any interest in real property is conveyed to another person. This tax applies to timber deeds and contracts for the sale of standing timber as if these were transfers of real property.

The tax rate is \$1 on each \$500 of real property value or fractional part thereof.

Fifty percent of the taxes collected are deposited in county funds, and the counties may also retain an additional 2% for administrative costs. The remaining amount is remitted to the State.

In Fiscal Year 2014-15, \$55.5 million was remitted to the State from this tax.

Tax Expenditures

1. Transfers of Property by Operation of Law

Citation: G.S. 105-228.29(1)

Description: The tax does not apply to transfer of real property if by operation of law.

Enacting Legislation: S.L. 1967-986 - effective Jan. 1, 1968

Estimate (in millions): Unavailable

2. Transfers of Property by Lease

Citation: G.S. 105-228.29(2)

Description: The tax does not apply to a transfer by lease for a term of years.

Enacting Legislation: S.L. 1967-986 - effective Jan. 1, 1968

Estimate (in millions): Unavailable

3. Transfers of Property Pursuant to a Will

Citation: G.S. 105-228.29(3)

Description: The tax does not apply to transfers pursuant to a will.

Enacting Legislation: S.L. 1967-986 - effective Jan. 1, 1968

Estimate (in millions): Unavailable

Excise Stamp Tax on Conveyances

4. Transfers of Property by Intestacy

Citation: G.S. 105-228.29(4)

Description: The tax does not apply to transfers by intestacy.

Enacting Legislation: S.L. 1967-986 - effective Jan. 1, 1968

Estimate (in millions): Unavailable

5. Transfers of Property by Gift

Citation: G.S. 105-228.29(5)

Description: The tax does not apply to transfers by gift.

Enacting Legislation: S.L. 1967-986 - effective Jan. 1, 1968

Estimate (in millions): Unavailable

6. Transfers Involving No Payments

Citation: G.S. 105-228.29(6)

Description: The tax does not apply if no consideration in property or money is due or paid by the transferee to the transferor.

Enacting Legislation: S.L. 1967-986 - effective Jan. 1, 1968

Estimate (in millions): Unavailable

7. Transfers by Merger, Conversion or Consolidation

Citation: G.S. 105-228.29(7)

Description: The tax does not apply if transfer is by merger, conversion or consolidation.

Enacting Legislation: S.L. 1967-986 - effective Jan. 1, 1968

Estimate (in millions): Unavailable

8. Transfers by Instrument Securing Debt

Citation: G.S. 105-228.29(8)

Description: The tax does not apply if transfer is by an instrument securing indebtedness.

Enacting Legislation: S.L. 1967-986 - effective Jan. 1, 1968

Estimate (in millions): Unavailable

Excise Tax on Motor Fuels (Article 36C) and Alternative Fuels (Article 36D)

Tax Base Information

The tax base includes only fuel for vehicles licensed for highway use. Fuels sold for non-highway use are exempt from the Motor Fuels Tax but are subject to the Sales and Use Tax.

The tax rate on Alternative Fuels is set equivalent to the tax on motor fuels, as determined by the Secretary of Revenue.

Prior to April 1, 2015, the motor fuel excise tax rate was calculated every six months and was based, in part, on the wholesale price of gasoline during an applicable 6-month base period. S. L. 2015-2 repealed this tax rate and replaced it with a series of rates as shown in the following table:

Time Period	Tax Rate
April 1, 2015 – Dec. 31, 2015	36¢
Jan. 1, 2016 – June 30, 2016	35¢
July 1, 2016 – Dec. 31, 2016	34¢

Beginning Jan. 1, 2017, the tax rate is adjusted each year using a weighted average of the population growth rate and the growth rate of the energy consumer price index.

In Fiscal Year 2014-15, approximately \$1.94 billion was collected from the motor fuels excise tax.

Tax Expenditures

1. Sales to the State for its Use

Citation: G.S. 105-449.88(3)

Description: Exemption for motor fuel sales to the State for its use.

Enacting Legislation: S.L. 1991-689

Estimate (in millions): FY15-16.....\$0 FY16-17\$0

Data Source: Motor Fuels Tax Division, Department of Revenue

Note: The loss to the Highway Fund & Highway Trust Fund is approximately \$10 million per year, but there is no net effect on overall State funds.

2. Sales to Local Boards of Education

Citation: G.S. 105-449.88(4)

Description: Exemption for motor fuel sales to local boards of education.

Enacting Legislation: S.L. 1995-390; formerly, there was an exemption for gasoline used in public school transportation (S.L. 1941-119)

Estimate (in millions): FY15-16.....\$9.7 FY16-17\$9.5

Data Source: Motor Fuels Tax Division, Department of Revenue

Excise Tax on Motor and Alternative Fuels

3. Sales to Charter Schools

Citation: G.S. 105-449.88(6)

Description: Exemption for motor fuels sales to charter schools.

Enacting Legislation: S.L. 2000-72 - effective Oct. 1, 2000

Estimate (in millions): FY15-16.....\$0.1 FY16-17\$0.1

Data Source: Motor Fuels Tax Division, Department of Revenue

4. Sales to Community Colleges

Citation: G.S. 105-449.88(7)

Description: Exemption for motor fuel sales to community colleges.

Enacting Legislation: S.L. 2001-427 - effective Jan. 1, 2003

Estimate (in millions): FY15-16.....\$0.4 FY16-17\$0.4

Data Source: Motor Fuels Tax Division, Department of Revenue

5. Sales to County or Municipal Corporation

Citation: G.S. 105-449.88(8)

Description: Exemption for motor fuel sales to county or municipal corporation.

Enacting Legislation: S.L. 2002-108 - effective Jan. 1, 2003; counties and municipal corporations were formerly allowed a refund of all but 1¢ per gallon (S.L. 1957-1226)

Estimate (in millions): FY15-16.....\$29.2 FY16-17\$29.6

Data Source: Motor Fuels Tax Division, Department of Revenue

6. Biodiesel Used in the Producer's Vehicle

Citation: G.S. 105-449.88(9)

Description: Exemption for biodiesel that is produced by an individual for use in a private passenger vehicle registered in that individual's name.

Enacting Legislation: S.L. 2007-524 - effective Oct. 1, 2007

Estimate (in millions): Unavailable

7. Discount for Timely Payment -- Licensed Distributors and Importers

Citation: G.S. 105-449.93(b)

Description: 1% discount to licensed distributor for timely payment.

Enacting Legislation: S.L. 1995-390 - effective Jan. 1, 1996; prior to this, distributors had been allowed a tare deduction for gasoline

Estimate (in millions): FY15-16.....\$18.2 FY16-17\$18.0

Data Source: Motor Fuels Tax Division, Department of Revenue

8. Discount for Collection Expense -- Suppliers

Citation: G.S. 105-449.97(b)

Description: 0.1% discount to supplier for timely payment.

Enacting Legislation: S.L. 1995-390 - effective Jan. 1, 1996

Estimate (in millions): FY15-16.....\$1.0 FY16-17\$1.0

Data Source: Motor Fuels Tax Division, Department of Revenue

9. Discount for Timely Filing and Payments -- Sales to Unlicensed Distributors or Bulk-End Users

Citation: G.S. 105-449.97(c)

Description: A supplier that sells motor fuel directly to an unlicensed distributor or to the bulk-end user, the retailer, or the user of the fuel may take the same percentage discount on the fuel that a licensed distributor may take under G.S. 105-449.93(b) when making deferred payments of tax to the supplier.

Enacting Legislation: S.L. 1995-390 - effective Jan. 1, 1996

Estimate (in millions): included in item #7

10. Discount for Timely Filing and Payments -- Certain Returns of Importers

Citation: G.S. 105-449.99(b)

Description: An importer that imports motor fuel received from an elective supplier or a permissive supplier may deduct the percentage discount under G.S. 105-449.93(b) when remitting tax to the supplier, as trustee, for payment to the State.

Enacting Legislation: S.L. 1995-390 - effective Jan. 1, 1996

Estimate (in millions): included in item #7

11. Damage to Conveyance

Citation: G.S. 105-449.105(b)

Description: Exemption for loss of fuel due to damage to a conveyance transporting the motor fuel, fire, a natural disaster, an act of war, or an accident.

Enacting Legislation: S.L. 1995-390 - effective Jan. 1, 1996

Estimate (in millions): less than \$0.1

Data Source: Motor Fuels Tax Division, Department of Revenue

Excise Tax on Motor and Alternative Fuels

12. Accidentally Combining Fuels

Citation: G.S. 105-449.105(c)

Description: Refund for accidentally combining any of the following: (1) dyed diesel fuel with tax-paid motor fuel, (2) gasoline with diesel fuel, or (3) undyed diesel fuel with dyed kerosene.

Enacting Legislation: S.L. 1995-390 - effective Jan. 1, 1996

Estimate (in millions): less than \$0.1

Data Source: Motor Fuels Tax Division, Department of Revenue

13. Hold Harmless Refunds to Distributors and Importers

Citation: G.S. 105-449.105B

Description: Refund to distributors and importers of the difference between the amount of discount under G.S. 105-449.93(b) for all motor fuel and the amount calculated by the following schedule for gasoline: 2% of the first 150,000 gallons purchased per month; 1.5% of the next 100,000 gallons; and 1% of the amount over 250,000 gallons.

Enacting Legislation: S.L. 1995-390 - effective Jan. 1, 1996

Estimate (in millions): FY15-16.....\$0.1 FY16-17 \$0.1

Data Source: Motor Fuels Tax Division, Department of Revenue

14. Refund for Nonprofit Transportation Services

Citation: G.S. 105-449.106(a)(2)

Description: Refund of tax less 1 cent per gallon for a private nonprofit organization that transports passengers under contract with or at the express designation of a unit of local government.

Enacting Legislation: S.L. 1977-1215 - effective July 1, 1978

Estimate (in millions): FY15-16.....\$0.4 FY16-17 \$0.3

Data Source: Motor Fuels Tax Division, Department of Revenue

15. Refund for Volunteer Fire Department

Citation: G.S. 105-449.106(a)(3)

Description: Refund of tax less 1 cent per gallon for a volunteer fire department.

Enacting Legislation: S.L. 1971-1160 - effective Oct. 1, 1971

Estimate (in millions): FY15-16.....\$0.3 FY16-17 \$0.3

Data Source: Motor Fuels Tax Division, Department of Revenue

16. Refund for Volunteer Rescue Squad

Citation: G.S. 105-449.106(a)(4)

Description: Refund of tax less 1 cent per gallon for a volunteer rescue squad.

Enacting Legislation: S.L. 1981-1246 - effective July 1, 1983

Estimate (in millions): FY15-16.....\$0.1 FY16-17\$0.1

Data Source: Motor Fuels Tax Division, Department of Revenue

17. Refund for Sheltered Workshop

Citation: G.S. 105-449.106(a)(5)

Description: Refund of tax less 1 cent per gallon for a sheltered workshop recognized by the Department of Human Services.

Enacting Legislation: S.L. 1975-845 - effective July 1, 1975

Estimate (in millions): FY15-16.....\$0.1 FY16-17\$0.1

Data Source: Motor Fuels Tax Division, Department of Revenue

18. Partial Refund for Power Takeoff Vehicles

Citation: G.S. 105-449.107(b)

Description: Annual refund of 33.3% of taxes for certain vehicles, less appropriate sales or privilege tax. The vehicles include concrete mixing vehicles; solid waste compacting vehicle; bulk feed vehicle that delivers feed to poultry or livestock and uses a power takeoff to unload the feed; a vehicle that delivers lime or fertilizer in bulk to farms and uses a power takeoff to unload the lime or fertilizer; a tank wagon that delivers alternative fuel or motor fuel or another type of liquid fuel into storage tanks and uses a power takeoff to make the delivery; or a commercial vehicle that delivers and spreads mulch, soils, composts, sand, sawdust, and similar materials and that uses a power takeoff to unload, blow and spread the materials; a septage removal vehicle; and a sweeper.

Enacting Legislation: S.L. 1979-801 - effective Jan. 1, 1980 for concrete mixers; S.L. 1983-1025 added solid waste compactors; S.L. 1985-656 added farm delivery vehicles; S.L. 1997-423 reduced the refund by the amount of sales or privilege tax that would be due on the fuel; S.L. 2001-408 added mulch-blowing equipment; S.L. 2005-377 added septage pumpers and sweepers

Estimate (in millions): FY15-16.....\$2.1 FY16-17\$2.1

Data Source: Motor Fuels Tax Division, Department of Revenue

Appendix

Appendix A: Federal Tax Expenditure Flow-Throughs

The taxable income amounts for North Carolina income taxes are derived in large part from federal rules defining what constitutes income components. As such, most federal exemptions and exclusions “flow through” to State income taxes. The tables in this appendix provide estimates of the North Carolina FY16-17 tax revenue loss for those federal flow-through provisions. For the individual income tax provision, only those provisions with an estimated impact over \$0.5 million are presented.

	Individual Income Tax Expenditures	FY16-17 Estimate \$Millions
1	Exclusion of contributions and earnings to pension plans (includes Keoghs, defined benefit and defined contribution plans)	1,083.4
2	Exclusion of employer contributions for health care, health insurance premiums, and long-term care insurance premiums	1,053.6
3	Exclusion of Medicare benefits	481.9
4	Exclusion of capital gains at death	375.3
5	Exclusion of capital gains from sale of principal residences	332.2
6	Exclusion of benefits provided through cafeteria plans	260.7
7	Exclusion of untaxed Social Security and railroad retirement benefits	283.5
8	Exclusion of investment income on life insurance and annuity contracts	190.8
9	Deduction for IRAs (traditional and Roth)	138.6
10	Exclusion of benefits and allowances to armed forces personnel (includes exemption for military disability benefits)	119.5
11	Exclusion of foreign earned income	64.4
12	Exclusion of Veterans’ benefits (includes veteran’s disability compensation, pensions, and readjustment benefits)	63.0
13	Exclusion of Workers’ Compensation benefits	52.3
14	Exclusion of miscellaneous fringe benefits	50.5
15	Deduction for health insurance premiums and long-term care insurance premiums for the self-employed	41.7
16	Deferral of gain on like-kind exchanges	41.3
17	Medical care and Tricare Insurance for military dependents and retirees	40.2

	Individual Income Tax Expenditures (cont.)	FY16-17 Estimate \$Millions
18	Exclusion for employer-paid transportation benefits and employer-provided transit and vanpool benefits	35.4
19	Carryover basis of capital gains on gifts	30.6
20	Exclusion for employer paid accident and disability premiums	28.3
21	Depreciation of rental housing in excess of alternative depreciation system	27.2
22	Exclusion of combat pay	23.4
23	Exclusion for employer contributions for premiums on group long-term life insurance	22.6
24	Exclusion of income earned by voluntary employees' beneficiary associations	21.3
25	Exclusion of scholarship and fellowship income	19.4
26	Health Savings Accounts	16.6
27	Deferral of gain on non-dealer installment sales	14.9
28	Exclusion of certain allowances for federal employees abroad	14.8
29	Exclusion of employee meals and lodging	14.2
30	Exclusion of cash public assistance benefits	13.9
31	Cash accounting, other than agriculture	12.3
32	Deduction for interest on student loans	12.3
33	Expensing under IRC section 179 of depreciable business property	11.9
34	Exclusion of damages on account of personal physical injuries or physical sickness	11.0
35	Exclusion of gain for certain small business stock	10.3
36	Exclusion for employer-provided education & tuition reduction benefits	9.7
37	Exclusion of earnings of qualified tuition programs	8.9

Appendix

	Individual Income Tax Expenditures (cont.)	FY16-17 Estimate \$Millions
38	Exceptions for publicly-traded partnership with qualified income derived from certain energy-related activities	7.8
39	Exclusion of employer-provided child care	6.3
40	Exclusion of health insurance benefits for military retirees and retiree dependents enrolled in Medicare	5.7
41	Exclusion of housing allowances for ministers	5.2
42	Exemption from imputed interest rules	4.4
43	Exclusion for employer-provided adoption assistance	3.6
44	Exclusion of certain foster care payments	2.6
45	Inventory methods and valuation, including LIFO, lower of cost or market, specific identification for homogeneous products	1.9
46	Exclusion of employee awards	1.9
47	Exclusion of income attributable to the discharge of certain student loan debt and NHSC and certain state educational loan repayments	1.3
48	Depreciation of buildings other than rental housing in excess of alternative depreciation system	1.3

Sources: *Estimates of Federal Tax Expenditures for Fiscal Years 2014-2018*, Joint Committee on Taxation, August 2014. The reference tax law includes changes through June 30, 2014. The estimates do not include the effects of the Tax Increase Prevention Act of 2014 which was enacted in December 2014. The Tax Relief Extension Act of 2015, which has not been ratified as of the time of this report, extends many federal tax breaks to Tax Years 2015 and 2016. Federal tax expenditures are also measured by the “Tax Expenditure” chapter of *Fiscal Year 2016 Analytical Perspectives: Budget of the U.S. Government*, Office of Management and Budget.

Note: Descriptions of federal tax expenditures can be found in *Tax Expenditures: Compendium of Background Material on Individual Provisions*, Congressional Research Service, Dec. 2014.

Corporate Income Tax Expenditures		FY16-17 Estimate \$Millions
1	Deferral of gain on like-kind exchanges	41.0
2	Deferral of gain on non-dealer installment sales	19.5
3	Expensing of research and development costs in lieu of R&D credits	18.3
4	Depreciation of equipment in excess of the alternative depreciation system (includes bonus depreciation and MACRS)	13.3
5	Inventory property sales source rule exception	9.0
6	Exclusion of investment income on life insurance and annuity contracts	8.1
7	Inventory methods and valuation, including LIFO, lower of cost or market, specific identification for homogeneous products	4.9
8	Expensing under IRC section 179 of depreciable business property	2.7
9	Special tax provisions for employee stock ownership plans	2.6
10	Completed contract rules	2.6
11	Eliminate requirement that financial institutions allocate interest expense attributable to tax-exempt interest	1.5
12	Depreciation of rental housing in excess of alternative depreciation system	1.5
13	Amortization of air pollution control facilities	0.9
14	Five-year MACRS for certain energy property (solar, wind, etc.)	0.9
15	Expensing of timber-growing costs	0.9
16	Cash accounting, other than agriculture	0.9
17	Depreciation of buildings other than rental housing in excess of alternative depreciation system	0.6
18	Deferral of taxation on spread on employee stock purchase plans	-0.6
19	Disallowance of deduction for excess parachute payments	-0.6
20	Limits on deductible compensation	-2.6
21	Deferral of taxation on spread on acquisition of stock under incentive stock option rules	-3.5

Source: *Estimates of Federal Tax Expenditures for Fiscal Years 2014-2018*, Joint Committee on Taxation, August 2014. The reference tax law includes changes through June 30, 2014. The estimates do not include the effects of the Tax Increase Prevention Act of 2014 which was enacted in December 2014. The estimates provided above follow the Joint Committee on Taxation's rule of including negative tax expenditures, which are gains in tax revenue from a provision that deviates from normal income tax law.

Appendix B: Other Tax Exclusions and Exemptions

These additional provisions are not included in the main body of the report's text because they are necessary for the ordinary functioning of the tax system.

Tobacco Tax

1. Sales to Distributors

Description: Manufacturers shipping cigarettes to other distributors are exempt.

Citation: G.S. 105-113.1

Reason for Excluding from Tax Expenditure List: Avoid Double Taxation

2. Out-of-State Shipments

Description: A distributor is exempt from tax if possession is for out-of-state shipments.

Citation: G.S. 105-113.9

Reason for Excluding from Tax Expenditure List: Constitutional Restrictions

3. Out-of-State Sales

Description: Exemption for tobacco products sold outside the State.

Citation: G.S. 105-113.35(a)(1)

Reason for Excluding from Tax Expenditure List: Constitutional Restrictions

4. Sales to Federal Government

Description: Exemption for tobacco products sold to the federal government.

Citation: G.S. 105-113.35(a)(2)

Reason for Excluding from Tax Expenditure List: Constitutional Restrictions

Alcoholic Beverage License and Excise Taxes

5. Sales to U.S. Armed Forces

Description: Exemption if beverage is sold to the U.S. Armed Forces.

Citation: G.S. 105-113.81(c)

Reason for Excluding from Tax Expenditure List: Constitutional Restrictions

6. Out-of-State Sales

Description: Exemption if beverage is sold outside the State.

Citation: G.S. 105-113.81(d)

Reason for Excluding from Tax Expenditure List: Constitutional Restrictions

Franchise Tax

- 7. Deduction from Capital Stock/Net Worth for Treasury Stock**
Description: Treasury stock shall not be considered in computing the capital stock, surplus, and undivided profits as the basis for franchise tax, but shall be excluded proportionately. (Treasury stock is not considered part of outstanding shares.)
Citation: G.S. 105-122(b)(7)
Reason for Excluding from Tax Expenditure List: Not in Taxable Base
- 8. Insurance Companies**
Description: Exemption for an insurance company subject to tax under Article 8B of this Chapter.
Citation: G.S. 105-125(a)(2)
Reason for Excluding from Tax Expenditure List: Avoid Double Taxation
- 9. Transfers of Debt**
Description: For debtor corporations, a proportionate part of debt determined on the bases of the ratio of capital borrowed by a creditor corporation from a source other than a parent, subsidiary or affiliate to the total assets of the creditor corporation. For creditor corporations, the amount of any debt owed to it by a parent, subsidiary, or affiliated corporation to the extent that such debt has been included in the tax base of the parent, subsidiary, or affiliated debtor corporation reporting for taxation under the provisions of this section.
Citation: G.S. 105-122(b)
Reason for Excluding from Tax Expenditure List: Avoid Double Taxation

Corporation Income Tax

- 10. U.S. Obligation Interest**
Description: Deductions for interest upon the obligations of the U.S. or its possessions, to the extent included in federal taxable income.
Citation: G.S. 105-130.5(b)(1)
Reason for Excluding from Tax Expenditure List: Intergovernmental Reciprocity
- 11. Adjustment for Federal Tax Credits**
Description: Deduction for business expenses when a federal tax credit was taken in lieu of a deduction.
Citation: G.S. 105-130.5(b)(11)
Reason for Excluding from Tax Expenditure List: Not in Taxable Base: In the Code, there are some activities that may receive either a tax credit or a deduction from taxable income, but not both. A taxpayer that chooses to take the credit may deduct the alternative allowable Federal deduction when calculating North Carolina taxable income. Many of these deductions are related to the federal Work Opportunity, Welfare-to-Work, and fuel tax credits.

- 12. Exemption for Adding Back Paid Royalties to Taxable Income**
Description: A taxpayer that pays royalties to a related member that does not include this income on a North Carolina income tax return must add these payments to their taxable income. However, the addback may be foregone if the recipient of the payment is organized under the laws of another country that has a tax treaty with the U.S. and the country imposes a tax on the royalty income of the recipient at a rate that is equal to or exceeds the State's corporate income tax rate.
Citation: G.S. 105-130.7A(c)(3)
Reason for Excluding from Tax Expenditure List: Constitutional Restrictions
- 13. Certain Charitable Organizations**
Description: Exemption for cemetery corporations and corporations organized for religious, charitable, scientific, literary, or educational purposes, or for the prevention of cruelty to children or animals.
Citation: G.S. 105-130.11(a)(3)
Reason for Excluding from Tax Expenditure List: Not in Taxable Base - following the Joint Committee on Taxation's argument that the nonbusiness activities of charities predominate and unrelated business activities are subject to tax.
- 14. Nonprofit Business Associations**
Description: Exemption for business leagues, chambers of commerce, merchants' associations or boards of trade not organized for profit.
Citation: G.S. 105-130.11(a)(4)
Reason for Excluding from Tax Expenditure List: Not in Taxable Base
- 15. Nonprofit Promoters of Social Welfare**
Description: Exemption for civic leagues or organizations not organized for profit, but operated for the promotion of social welfare.
Citation: G.S. 105-130.11(a)(5)
Reason for Excluding from Tax Expenditure List: Not in Taxable Base
- 16. Nonprofit Agricultural Marketing Memberships**
Description: Exemption for farmers', fruit growers' or like organization for the purposes of marketing member products.
Citation: G.S. 105-130.11(a)(8)
Reason for Excluding from Tax Expenditure List: Not in Taxable Base
- 17. Certain Agricultural Associations**
Description: Exemption for mutual associations formed under G.S. 54-111 through 54-128 to conduct agricultural business on the mutual plan and marketing associations organized under GS 54-129 through 54-158.
Citation: G.S. 105-130.11(a)(9)
Reason for Excluding from Tax Expenditure List: Not in Taxable Base
- 18. Real Estate Mortgage Investment Conduits**
Description: An entity that qualifies as a real estate mortgage investment conduit, per Section 860D of the Code is exempt.
Citation: G.S. 105-130.11(d)
Reason for Excluding from Tax Expenditure List: Avoid Double Taxation

- 19. Distributed Earnings of Regulated Investment Companies and Real Estate Investment Trusts**
Description: A regulated investment company or real estate investment trust shall be taxed only on that part of its net income which is not distributed or declared for distribution to shareholders.
Citation: G.S. 105-130.12
Reason for Excluding from Tax Expenditure List: Avoid Double Taxation
- 20. Payments Received from an Affiliated Company That Paid Tax on Payment**
Description: Payment received from a parent, subsidiary or affiliated corporation in excess of fair compensation in inter-company transactions which in the determination of the net income or net loss of such corporation were not allowed as a deduction.
Citation: G.S. 105-130.5(b)(2)
Reason for Excluding from Tax Expenditure List: Avoid Double Taxation
- 21. Royalty Payments Taxed by Related Member**
Description: Exemption for royalty payments received from a related member who added the payments to income.
Citation: G.S. 105-130.5(b)(2)
Reason for Excluding from Tax Expenditure List: Avoid Double Taxation
- 22. S-Corporation Shareholders**
Description: Credits shall be given to prevent double taxation of S-Corporation shareholders.
Citation: G.S. 105-131.8
Reason for Excluding from Tax Expenditure List: Avoid Double Taxation

Individual Income Tax

- 23. U.S. Obligation Interest**
Description: Deductions for interest upon the obligations of the U.S. or its possessions, to the extent included in federal taxable income.
Citation: G.S. 105-153.5(b)(1)
Reason for Excluding from Tax Expenditure List: Intergovernmental Reciprocity
- 24. Refunds of State, Local or Foreign Taxes in Federal AGI**
Description: Refunds of state, local, and foreign income taxes included in the taxpayer's federal adjusted gross income are exempt.
Citation: G.S. 105-153.5(b)(4)
Reason for Excluding from Tax Expenditure List: Avoid Double Taxation
- 25. Income from Federally-Recognized Indian Reservation**
Description: Exemption for income that is (1) earned or received by an enrolled member of a federally recognized Indian Tribe and (2) derived from activities on a federally recognized Indian reservation while the member resides on the reservation.
Citation: G.S. 105-153.5(b)(6)
Reason for Excluding from Tax Expenditure List: Constitutional Restrictions

Appendix

26. Adjustment to the Basis of Property

Description: Deduction for the amount by which the basis of property exceeds the basis of property under the Code, in the year the taxpayer disposes of the property.

Citation: G.S. 105-153.5(b)(7)

Reason for Excluding from Tax Expenditure List: The basis needs to be adjusted in order to apply the correct amount of taxation on capital gains and capital losses.

27. Income Taxes Paid to Other States

Description: Individuals residing in North Carolina may receive a tax credit for income taxes paid to other states. The tax credit may not exceed the amount of income tax that would have been paid to North Carolina on the relevant income.

Citation: G.S. 105-105.151

Reason for Excluding from Tax Expenditure List: Avoid Double Taxation: The income has been taxed by another State

Sales and Use Tax

28. Instructional Seminars and Workshops

Description: Tuition, registration fees, or charges to attend instructional seminars, conferences, or workshops for educational purposes are excluded from sales tax on entertainment activities.

Citation: G.S. 105-164.4G(e)(2)

Effective Date: admissions sold on or after May 29, 2014 (S.L. 2014-3)

Reason for Excluding from Tax Expenditure List: Not in tax base

29. Political Contributions Related to an Entertainment Activity

Description: A political contribution is excluded from the sales tax on entertainment activities.

Citation: G.S. 105-164.4G(e)(3)

Effective Date: admissions sold on or after May 29, 2014 (S.L. 2014-3)

Reason for Excluding from Tax Expenditure List: Not in tax base

30. Transportation Related to an Amusement

Description: An amount paid solely for transportation is excluded from the sales tax on entertainment activities.

Citation: G.S. 105-164.4G(e)(5)

Effective Date: admissions sold on or after May 29, 2014 (S.L. 2014-3)

Reason for Excluding from Tax Expenditure List: Not in tax base

31. Farm Products Requiring Further Processing

Description: Exemption for sales of cotton, tobacco, peanuts or other farm products sold to manufacturers for further manufacturing or processing.

Citation: G.S. 105-164.13(4)

Reason for Excluding from Tax Expenditure List: Purchase of Intermediate Good

- 32. Baby Chicks or Poults Sold for Further Production**
Description: Purchases by a qualified farmer for baby chicks and poults sold for commercial poultry or egg production.
Citation: G.S. 105-164.13E(7)
Reason for Excluding from Tax Expenditure List: Purchase of Intermediate Good
- 33. Manufactured Products Sold for Resale**
Description: Exemption for sales of manufactured products produced and sold by manufacturers or producers to other manufacturers, producers, or registered retailers or wholesale merchants, for the purpose of resale.
Citation: G.S. 105-164.13(5)
Reason for Excluding from Tax Expenditure List: Purchase of Intermediate Good
- 34. Ingredients in Manufacturing Process**
Description: Exemption for sales to a manufacturer of tangible personal property that enters into or becomes an ingredient or component part of tangible personal property that is manufactured.
Citation: G.S. 105-164.13(8)
Reason for Excluding from Tax Expenditure List: Purchase of Intermediate Good
- 35. Articles Repossessed by Vendor**
Description: Exemption for sales of an article repossessed by the vendor if the tax was paid on the sales price of the article.
Citation: G.S. 105-164.13(16)
Reason for Excluding from Tax Expenditure List: Not in the Tax Base
- 36. Sales with Constitutional Protection**
Description: Sales which a state would be without power to tax under the limitations of the Constitution or laws of the United States or under the Constitution of this State.
Citation: G.S. 105-164.13(17)
Reason for Excluding from Tax Expenditure List: Constitutional Restrictions
- 37. Items for Use on Ocean-Going Vessels**
Description: Sales of fuel and other items for use or consumption by or on ocean-going vessels.
Citation: G.S. 105-164.13(24)
Reason for Excluding from Tax Expenditure List: Sales for Use Outside North Carolina
- 38. Sales on Cherokee Indian Reservation**
Description: Exemption for sales by merchants on the Cherokee Indian Reservation.
Citation: G.S. 105-164.13(25)
Reason for Excluding from Tax Expenditure List: Constitutional Restrictions
- 39. Articles Purchased for Export to a Foreign Country**
Description: Exemption for tangible property purchased solely for the purpose of export to a foreign country for exclusive use or consumption in that or some other foreign country.
Citation: G.S. 105-164.13(33)
Reason for Excluding from Tax Expenditure List: Sales for Use Outside North Carolina

Appendix

40. Purchases Delivered Outside N.C.

Description: Exemption for tangible property sold by a retailer to purchasers within or without this State, when the property is delivered in this State to a common carrier or to the United States Postal Service for delivery to the purchaser or the purchaser's designees outside this State and the purchaser does not subsequently use the property in this State.

Citation: G.S. 105-164.13(33a)

Reason for Excluding from Tax Expenditure List: Sales for Use Outside North Carolina

41. Food Stamp Purchases

Description: Exemption for food and other items lawfully purchased under the Food Stamp Program or WIC.

Citation: G.S. 105-164.13(38)

Reason for Excluding from Tax Expenditure List: Federal law prohibits state or local taxation.

42. Deposit on Returnable Beverage Container

Description: Exemption for an amount charged as a deposit on a beverage container that is returnable to the vendor for reuse when the amount is refundable or creditable to the vendee.

Citation: G.S. 105-164.13(47)

Reason for Excluding from Tax Expenditure List: Not a Final Sale

43. Deposit on Returnable Replacement Part

Description: Exemption for an amount charged as a deposit on an aeronautic, automotive, industrial, marine or farm replacement part that is returnable to the vendor for rebuilding or remanufacturing when the amount is refundable or creditable to the vendee. This exemption does not include tires or batteries.

Citation: G.S. 105-164.13(48)

Reason for Excluding from Tax Expenditure List: Not a Final Sale

44. Resold Telecommunications Services

Description: Telecommunications service that is a component part of or is integrated into a telecommunications service that is resold.

Citation: G.S. 105-164.13(54)a

Reason for Excluding from Tax Expenditure List: Not a Final Sale

45. Repair, Maintenance and Installation Services Purchased for Resale

Description: Exemption for repair, maintenance and installation services purchased for resale. (Enacting Legislation: S.L. 2015-241)

Citation: G.S. 105-164.13(61b)

Reason for Excluding from Tax Expenditure List: Not a Final Sale

Highway Use Tax

- 46. Resale of Automobile by Manufacturer or Retailer**
Description: Full exemption when a certificate of title is issued to either a manufacturer or a motor vehicle retailer for the purpose of resale.
Citation: G.S. 105-187.6(a)(2)
Reason for Excluding from Tax Expenditure List: Not a Final Sale
- 47. Correction in Owner's Name on Title**
Description: Full exemption when a certificate of title is issued to the same owner to reflect a change or correction in the owner's name.
Citation: G.S. 105-187.6(a)(3)
Reason for Excluding from Tax Expenditure List: Avoid Double Taxation
- 48. Removal of a Co-Owner's Name from Title**
Description: Full exemption when a certificate of title is issued to one or more of the same co-owners to reflect the removal of one or more other co-owners.
Citation: G.S. 105-187.6(a)(3a)
Reason for Excluding from Tax Expenditure List: Avoid Double Taxation
- 49. Transfer of Government-Operated Vehicle Through a State Agency**
Description: Full exemption for sale to a State agency from a unit of local government, volunteer fire department, or volunteer rescue squad to enable the State agency to transfer the vehicle to another unit of local government, volunteer fire department, or volunteer rescue squad.
Citation: G.S. 105-187.6(a)(10)
Reason for Excluding from Tax Expenditure List: Not a Final Sale
- 50. Change in Title Due to Marital Separation or Divorce**
Description: Full exemption when a certificate of title is issued by a distribution of marital or divisible property incident to a marital separation or divorce.
Citation: G.S. 105-187.6(a)(6)
Reason for Excluding from Tax Expenditure List: Avoid Double Taxation
- 51. Salvage Vehicles**
Description: Full exemption when a certificate of title is issued to the insurer of the motor vehicle because the vehicle is a salvage vehicle.
Citation: G.S. 105-187.6(a)(1)
Reason for Excluding from Tax Expenditure List: Not a Final Sale

Tax on Insurance Companies

- 52. Premiums from Federal Employees Health Benefits Plan and Medicare or Medicaid**
Description: Excludes premiums to the extent prohibited by federal law from Federal Employees Health Benefits Plan and Medicare or Medicaid.
Citation: G.S. 105-228.5(c)(4)
Reason for Excluding from Tax Expenditure List: Constitutional Restrictions

Excise Tax on Motor Fuels and Alternative Fuels

53. Sales for Out-of-State Use

Description: The excise tax on motor fuel does not apply to motor fuel removed from a terminal for export if the motor fuel is removed by a licensed distributor or a licensed exporter and the supplier of the motor fuel collects tax on it at the rate of the motor fuel's destination state.

Citation: G.S. 105-449.88(1)

Reason for Excluding from Tax Expenditure List: Sale for Use Outside North Carolina

54. Sales to Out-of-State Suppliers

Description: The tax does not apply to motor fuel removed by transport truck from a terminal for export if the motor fuel is removed by a licensed distributor or licensed exporter, the supplier that is the position holder for the motor fuel sells the motor fuel to another supplier as the motor fuel crosses the terminal rack, the purchasing supplier or its customer receives the motor fuel at the terminal rack for export, and the supplier that is the position holder collects the tax on the motor fuel at the rate of the motor fuel's destination state.

Citation: G.S. 105-449.88(1a)

Reason for Excluding from Tax Expenditure List: Sale for Use Outside North Carolina

55. Sales to the Federal Government

Description: The tax does not apply to motor fuel sold to the federal government for its use.

Citation: G.S. 105-449.88(2)

Reason for Excluding from Tax Expenditure List: Constitutional Restrictions

56. Diesel Sold to an Airport

Description: Exemption for sales of diesel that is kerosene and sold to an airport.

Citation: G.S. 105-449.88(5)

Reason for Excluding from Tax Expenditure List: Not in Taxable Base

57. Refunds for Sale to Exempt Entity

Description: An entity whose use of motor fuel is exempt from tax may obtain a refund of any motor fuel excise tax the entity pays. The person who sells the fuel to the exempt entity is also allowed to obtain a refund of any taxes paid on the fuel.

Citation: G.S. 105-449.105(a)

Reason for Excluding from Tax Expenditure List: Not in Taxable Base

58. Sale of Kerosene for Uses Not Related to Motor Vehicles

Description: A distributor who sells kerosene may obtain a refund for the excise tax paid on the kerosene if the distributor dispenses the kerosene into a storage facility for use in: (1) heating, (2) drying crops, (3) a manufacturing process. The storage facility must be installed in a manner that makes use of the fuel for any other purpose improbable.

Citation: G.S. 105-449.105A

Reason for Excluding from Tax Expenditure List: Not in Taxable Base

59. Motor Fuel for Off-Highway Equipment

Description: Quarterly refunds of the estimated entire tax to a person who purchases and uses motor fuel to operate special mobile equipment off-highway. (Special mobile equipment is a vehicle that has a permanently attached crane, mill, ditch-digging apparatus, or similar attachment. It is not designed or used primarily for the transportation of persons or property.)

Citation: G.S. 105-449.106(c)

Reason for Excluding from Tax Expenditure List: Not in Taxable Base

60. Sale of Motor Fuel for Uses Not Related to Highway Vehicle

Description: Refund for purchases and uses of motor fuel for a purpose other than to operate a licensed highway vehicle.

Citation: G.S. 105-449.107(a)

Reason for Excluding from Tax Expenditure List: Not in Taxable Base

61. Sales to Cherokee Indian Reservation

Description: Refund for motor fuels and special fuels taxes to the Cherokee Indians on behalf of its members who reside on or engage in otherwise taxable transactions within Cherokee trust lands.

Citation: G.S. 105-449.114

Reason for Excluding from Tax Expenditure List: Constitutional Restrictions

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