

**North Carolina**

**Biennial Tax  
Expenditure Report**

**2011**



**Policy Analysis and  
Statistics Division**

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# North Carolina Biennial Tax Expenditure Report

2011

## 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 as amended through 2011. 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.

The estimates in this report are derived for the Fiscal Year 2011-12 (FY12). As in past publications, each type of State-level tax is 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 FY12 is presented. For each tax expenditure, we have provided a General Statutes citation, a short description of the tax expenditure, and a "Data Source" that briefly describes 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 that particular tax expenditure. Also, several of the tax expenditures have a "Distributional Note" that provides information on the income levels of the taxpayers using the tax expenditure.

## 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 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. These types of tax expenditures are listed in Appendix B. No cost estimates are provided for these.

Some exemptions and exclusions that are necessary to define the appropriate tax base are not considered in the main body of this report. For example, the calculation of North Carolina personal income tax liability starts with federal Adjusted Gross Income (AGI). However, AGI is not the broadest measure of income, since many exemptions from gross income are taken in order to calculate AGI. These exemptions, such as nontaxable Social Security benefits or certain educator expenses, are not included in this report.

## Introduction

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. Nor are graduated tax rates, such as those contained in the individual income tax, the estate tax, and the piped natural gas tax. 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 2009 and 2008 respectively to precisely 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 3% to 3.5%, which also corresponds to North Carolina’s share of population and gross domestic product (GDP). Therefore, national statistics are often multiplied by 3.3% 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 2011-12 by Tax Category**

<b>Tax</b>	<b>Number of Tax Expenditures</b>	<b>Sum of Estimates of \$100,000 and Over (Millions of Dollars)</b>	<b>Number Estimated to Be Less than \$100,000</b>	<b>Number with Unavailable Estimate</b>
Privilege Tax	20	16.1	7	1
Tobacco Products Tax	4	6.2	0	0
Alcoholic Beverage Tax	2	5.7	1	0
Franchise Tax	25	289.6	1	11
Corporation Income Tax	50	325.7	17	4
Various Tax Incentives (Articles 3B through 3K)	26	137.2	5	2
Individual Income Tax	41	5,011.3	11	2
Sales and Use Tax	102	3,094.3	3	14
Highway Use Tax	13	110.0	1	5
Scrap Tire Disposal Tax	1	0.0	0	1
White Goods Disposal Tax	1	0.0	1	0
Piped Natural Gas Tax	2	15.1	0	0
Taxes on Insurance Companies	6	174.2	0	1
Excise Stamp Tax on Conveyances	8	6.5	2	2
Excise Taxes on Motor Fuels	17	50.8	5	0
<b>Totals</b>	<b>318</b>	<b>9,242.7<sup>†</sup></b>	<b>54</b>	<b>43</b>

<sup>†</sup> 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.

**Table 2****Forty Largest Tax Expenditures in North Carolina in FY 2011-12**

<b>Rank</b>	<b>Tax</b>	<b>Item</b>	<b>Citation (G.S. § 105)</b>	<b>Short Title</b>	<b>FY 2012 Estimate (\$ millions)</b>
1	Individual Income Tax	3	134.6(a2)	Standard or Itemized Deduction	2,296.0
2	Individual Income Tax	2	134.6(a1)	Personal Exemption	1,228.2
3	Sales and Use Tax	77	164.13B	Food for Home Consumption	622.1
4	Sales and Use Tax	27	164.13(13)	Prescription Drugs and Insulin	464.7
5	Individual Income Tax	8	134.6(b)(5b)	Government Retirement Income under Bailey Settlement	428.8
6	Sales and Use Tax	45	164.13(32)	Motor Vehicle Exemption Less Highway Use Tax	424.7
7	Individual Income Tax	7	134.6(b)(3)	Social Security Benefits in Excess of Federal Limit	362.9
8	Sales and Use Tax	84	164.14(b)	Refund of Sales Taxes to Nonprofits	228.2
9	Sales and Use Tax	99	164.4(a)(4a)	Electricity to Commercial Businesses and Residences	180.1
10	Sales and Use Tax	16	164.13(5a)	Items Taxed by Article 5F	178.4
11	Individual Income Tax	29	151.24	Credit for Children	151.0
12	Sales and Use Tax	8	164.13(2a)a	Feeds, Litter and Medications for Farming	139.6
13	Individual Income Tax	17	134.6(b)(22)	Business Income Deduction	131.6
14	Franchise Tax	25	120.2(b)(1)	Cap for Holding Companies	130.2

<b>Rank</b>	<b>Tax</b>	<b>Item</b>	<b>Citation (G.S. § 105)</b>	<b>Short Title</b>	<b>FY 2012 Estimate (\$ millions)</b>
15	Sales and Use Tax	35	164.13(23)a	Packaging Items for Manufacturers, Producers and Retailers	120.8
16	Taxes on Insurance Premiums	2	228.5(c)(2)	Premiums Received from Annuities	120.0
17	Franchise Tax	2	125(a)(1)	Charitable Nonprofits	115.0
18	Corporation Income Tax	30	130.8	Net Economic Losses	106.3
19	Individual Income Tax	35	151.31	Earned Income Tax Credit	102.5
20	Individual Income Tax	9	134.6(b)(6)	Private Retirement Plans and Government Pensions	89.2
21	Highway Use Tax	1	187.3(b)	Trade-In Allowance	86.3
22	Sales and Use Tax	85	164.14(c)	Refund of Sales Taxes to Sub- State Government Entities Except Schools	85.7
23	Sales and Use Tax	55	164.13(44)	Piped Natural Gas Taxed by Article 5E	84.0
24	Sales and Use Tax	73	164.13(57)	Electricity and Fuel Used by Manufacturers	71.4
25	Corporation Income Tax	5	130.11(a)(3)	Certain Charitable Organizations	56.1
26	Sales and Use Tax	64	164.13(51)	Water Delivered Through Main Pipes	53.6
27	Individual Income Tax	22	151.11	Credit for Child Care and Certain Employment-Related Expenses	51.2
28	Corporation Income Tax	1	130.4	Double-Weighting of Sales Factor in Apportionment Formula	51.1

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<b>Rank</b>	<b>Tax</b>	<b>Item</b>	<b>Citation (G.S. § 105)</b>	<b>Short Title</b>	<b>FY 2012 Estimate (\$ millions)</b>
29	Sales and Use Tax	2	164.13(1)a	Fertilizer, Seeds and Related Items Sold to a Farmer	38.5
30	Individual Income Tax	31	151.26	Charitable Contributions by Nonitemizers	36.8
31	Corporation & Individual Income Taxes	49	130.47 151.29	Film Industry Production Expenses	35.8
32	Low-Income Housing Tax Credits	2	129.42	Credit for Low-Income Housing Awarded on or after Jan. 1, 2003	35.5
33	Sales and Use Tax	17	164.13(5b)	Telephone Equipment	35.2
34	Sales and Use Tax	39	164.13(27)	Food Sold in Dining Rooms Operated by Educational Institutions	33.0
35	Tax Credits for Growing Businesses	2	129.88	Credit for Investing in Business Property	28.0
36	Sales and Use Tax	26	164.13(12)	Durable Medical Equipment	26.5
37	Sales and Use Tax	25	164.13(11a)	Diesel Fuel for Railroads	24.2
38	Individual Income Tax	41	N/A	Carry-Over Provisions	24.0
39	Excise Taxes on Motor Fuels	4	449.88(8)	Sales to County or Municipal Corporation	23.7
40	Individual Income Tax	11	134.6(b)(11)	Severance Wages	23.3

## Updates to the Expenditure Report Since 2009

This section highlights changes to this report since the last publication in December 2009. These changes are listed in five separate categories:

1. tax expenditures that have been substantially altered
2. tax expenditures that have had their sunset dates extended
3. new tax expenditures enacted
4. tax expenditures that have sunsetted or been repealed
5. existing tax expenditures added to the report.

In several of the entries below, a brief description of the changes to the tax expenditure is provided. For a more complete description, as well as cross-references to particular legislation that includes the changes, see the annual “Tax Law Changes” publication located on the North Carolina Department of Revenue website.

### Tax Expenditures That Have Been Substantially Altered

1. Retroactive Provision for Exemption for Billings in Excess of Costs  
 Tax Category: Franchise Tax  
 Citation: G.S. 105-122(b)(1a)  
 Description of Changes: This exemption from S.L. 2009-422 was made retroactive for taxable years beginning on or after January 1, 2007. A request for refund for taxable years 2007, 2008 and 2009 must be made by January 1, 2011. (S.L. 2010-31)
2. Definition of Renewable Energy Property Expanded  
 Tax Category: Business and Energy Tax Credit  
 Citation: G.S. 105-129.16A  
 Description of Changes: Expands definition of renewable energy property related to the credit in G.S. 105-129.16A to include combined heat and power system property as defined in section 48 of the Code. The definition of wind equipment was expanded to include equipment required to relay the electricity by cable from the turbine motor to the power grid.
3. Allowance for Federal Renewable Energy Grants  
 Tax Category: Business and Energy Tax Credit  
 Citation: G.S. 105-129.16A  
 Description of Changes: The credit may be claimed for property for which a taxpayer has received federal renewable energy grants authorized under the American Recovery and Reinvestment Tax Act of 2009.
4. Credit Ceiling for Eco-Industrial Park  
 Tax Category: Business and Energy Tax Credit  
 Citation: G.S. 105-129.16A  
 Description of Changes: Effective January 1, 2011: Places a ceiling of \$5 million on each installation of renewable energy property placed in service at an Eco-Industrial Park.

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5. Repeal of Large Recycling Facility Credit  
Tax Category: Tax Incentives for Recycling Facilities  
Citation: G.S. 105-129.27  
Description of Changes: Effective July 1, 2010, repeal of the 20% credit for machinery and equipment placed in service in a large recycling facility. The credit for a major recycling facility remains.
6. Sunset Date Added  
Tax Category: Historic Rehabilitation Tax Credit  
Citation: G.S. 105-129.39  
Description of Changes: The credit sunsets for qualified rehabilitation expenses incurred on or after January 1, 2014.
7. Environmental Impact Provision Added  
Tax Category: Tax Credits for Growing Businesses  
Citation: G.S. 105-129.83(e)  
Description of Changes: A taxpayer becomes ineligible for Article 3J credits if there has been a final determination unfavorable to the taxpayer with respect to an environmental disqualifying event, defined in G.S. 105-129.81.
8. Disallow Credit with Other Tax Break  
Tax Category: Tax Credits for Growing Businesses  
Citation: G.S. 105-129.83(m)  
Description of Changes: No Article 3J credits are allowed for a facility that caused a corporation to become eligible for the special apportionment formula for qualified capital intensive corporations.
9. Additional Credit for Port Enhancement Zone  
Tax Category: Tax Credits for Growing Businesses  
Citation: G.S. 105-129.87  
Description of Changes: Allows an additional credit for a Port Enhancement Zone, an area which is located near a State port and has at least 11% of households with incomes of \$15,000 or less. This provision is effective January 1, 2013.
10. Conditions on Real Property Donated for a Conservation Purpose  
Tax Category: Corporation & Individual Income Tax  
Citation: G.S. 105-130.34(a) & 105-151.12(a)  
Description of Changes: Effective August 2, 2010: The donated property for which a credit is received must be both donated and accepted in perpetuity.
11. Expand Film Industry Credit  
Tax Category: Corporation & Individual Income Tax  
Citation: G.S. 105-130.47(b) & 105-151.29(b)  
Description of Changes: Effective January 1, 2011: Increased the credit from 15% to 25% of eligible production expenses. Qualifying expenses were expanded to include employee fringe benefits, such as health, pension, and welfare contributions, as well as per diems, stipends, and living allowances paid for work being performed in this State. Also, the tax credit limit was increased from \$7.5 million to \$20 million.

12. Film Credit Not Subject to Addback  
Tax Category: Corporation Income Tax  
Citation: G.S. 105-130.5(a)(10)  
Description of Changes: Effective January 1, 2011: Exempts taxpayers taking the credit in G.S. 105-130.47 from the addition to federal taxable income required for amounts claimed as credits against the Corporation income tax.
13. Remove Income Threshold for Parental Savings Trust Fund Deduction  
Tax Category: Individual Income Tax  
Citation: G.S. 105-134.6(d)(4)  
Description of Changes: Repeal of the income thresholds that would have been implemented for tax years beginning on or after January 1, 2012.
14. Temporary Sales Tax Refund for Joint Governmental Agency Operating a Cable System  
Tax Category: Sales & Use Tax  
Citation: G.S. 105-164.14(c)  
Description of Changes: A joint agency created by an interlocal agreement pursuant to G.S. 160A-462 to operate a cable system that provides video programming services is allowed a refund of sales and use tax paid by it on purchases made between July 1, 2007 and June 30, 2011.
15. Additional Business Types Allowed Industrial Facilities Tax Refund  
Tax Category: Sales & Use Tax  
Citation: G.S. 105-164.14B(a)  
Description of Changes: Effective for purchases made on or after July 1, 2010, industries engaged in (1) paper-from-pulp manufacturing or (2) turbine manufacturing are eligible for the sales & use tax refund.
16. Reduced Tax Rate for Machinery Purchased by Companies Located at Port Facility  
Tax Category: Sales & Use Tax (via the Article 5F exemption)  
Citation: G.S. 105-187.51B  
Description of Changes: Effective July 1, 2013: 1% tax rate on machinery purchases for a company located at a port facility for waterborne commerce that purchases specialized equipment to be used at the facility to unload or process bulk cargo to make it suitable for delivery to and use by manufacturing facilities.

### **Extended Sunset Dates**

17. Sunset Extended for Constructing Renewable Fuel Facilities  
Tax Category: Business and Energy Credit  
Citation: G.S. 105-129.16D  
Description of Changes: The sunset is extended to facilities placed in service on or after January 1, 2013. Previously, the sunset date was January 1, 2011.
18. Sunset Extended for Biodiesel Producers  
Tax Category: Business and Energy Credit  
Citation: G.S. 105-129.16F(b)  
Description of Changes: The sunset is extended to facilities placed in service on or after January 1, 2013. Previously, the sunset date was January 1, 2012.

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19. Sunset Extended for Mill Rehabilitation Tax Credit  
Tax Category: Mill Rehabilitation Tax Credit  
Citation: G.S. 105-129.75  
Description of Changes: The sunset is extended to rehabilitation projects for which an application for eligibility certification was submitted prior to January 1, 2014. Previously, the sunset date was January 1, 2011.
20. Sunset Extended for Article 3J  
Tax Category: Tax Credits for Growing Businesses  
Citation: G.S. 105-129.82(a)  
Description of Changes: The sunset is extended to businesses activities occurring prior to January 1, 2013. Previously, the sunset date was January 1, 2011.
21. Sunset Extended for Tax Credit for Recycling Oyster Shells  
Tax Category: Corporation Income Tax & Individual Income Tax  
Citation: G.S. 105-130.48 & G.S. 105-151.30  
Description of Changes: The sunset has been extended from taxable years beginning on or after January 1, 2011 to January 1, 2013.
22. Sunset Extended for Tax Credits for Qualified Business Investments  
Tax Category: Individual Income Tax  
Citation: G.S. 105-163.015  
Description of Changes: The sunset has been extended from taxable years beginning on or after January 1, 2011 to January 1, 2013.
23. Sunset Extended on Passenger Plane Maximum  
Tax Category: Sales and Use Tax  
Citation: G.S. 105-164.14A(a)(1)  
Description of Changes: The sunset is extended to purchases occurring prior to January 1, 2013. Previously, the sunset date was January 1, 2011.
24. Sunset Extended for Aviation Fuel for Motorsports Events  
Tax Category: Sales and Use Tax  
Citation: G.S. 105-164.14A(a)(4)  
Description of Changes: The sunset is extended to purchases occurring prior to January 1, 2013. Previously, the sunset date was January 1, 2011.

## **New Tax Expenditure Provisions**

25. Amenities Exemption for Gross Receipts Tax on Live Entertainment  
Tax Category: Privilege Tax  
Citation: G.S. 105-37.1
26. Exemption for Amortization of Intangible Assets  
Tax Category: Franchise Tax  
Citation: G.S. 105-122(b)(2)



27. Special Condition to Retain Article 3A Installment Credit  
Tax Category: Corporation Income Tax  
Citation: G.S. 105-129.12A(c)
28. Credit for a Renewable Energy Property Facility  
Tax Category: Business and Energy Credit  
Citation: G.S. 105-129.16I
29. Small Business Unemployment Insurance Tax Credit  
Tax Category: Business and Energy Credit  
Citation: G.S. 105-129.16J
30. Research in an Eco-Industrial Park  
Tax Category: Technology Development Credit  
Citation: G.S. 105-129.55
31. Interactive Digital Media Credit  
Tax Category: Technology Development Credit  
Citation: G.S. 105-129.56
32. Special Apportionment Formula for a Qualified Capital Intensive Corporation  
Tax Category: Corporation Income Tax  
Citation: G.S. 105-130.4(s1)
33. Business Income Deduction  
Tax Category: Individual Income Tax  
Citation: G.S. 105-134.6(b)(22)
34. Education Expenses Credit for Children with Disabilities  
Tax Category: Individual Income Tax  
Citation: G.S. 105- 151.33
35. Exempt Accommodation Rentals for Certain Entities  
Tax Category: Sales and Use Tax  
Citation: G.S. 105- 164.4(a)(3)
36. Exempt Sales of Wood Chippers for Out-of-State Use  
Tax Category: Sales and Use Tax  
Citation: G.S. 105- 164.13(4g)
37. Changes to Taxation of Computer Software  
Tax Category: Sales and Use Tax  
Citation: G.S. 105-164.13(43a)

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38. Certain Sales of Computer Software or Digital Property  
Tax Category: Sales and Use Tax  
Citation: G.S. 105-164.13(43b)
39. Temporary Exemption to Government Agencies Operating a Cable System  
Tax Category: Sales and Use Tax  
Citation: G.S. 105-164.14(c)  
Description: This provision allowed sales tax refund for a joint agency created by an interlocal agreement pursuant to G.S. 160A-462 to operate a cable system that provides video programming services on purchases made on or after July 1, 2007 and before June 30, 2010. The agency must make the request for refund by January 1, 2011.
40. Refund of Tax for Public Library  
Tax Category: Sales and Use Tax  
Citation: G.S. 105-164.14(c)(23)  
Description: A public library created pursuant to an act of the General Assembly may receive an annual refund of sales and use tax, effective for purchases made on or after July 1, 2008.
41. Reduced Tax Rate on Machinery at Large Manufacturing and Distribution Facility  
Tax Category: Sales and Use Tax (via the Article 5F exemption)  
Citation: G.S. 105-187.15D
42. Exemption for Certificate of Title Transfer to a Revocable Trust  
Tax Category: Highway Use Tax  
Citation: G.S. 105-187.6(a)

## Repealed and Sunsetting Tax Expenditures

43. Low Admission Fee  
Tax Category: Privilege Tax  
Citation: G.S. 105-37(a)(1)  
Description: Removed condition that an admission charge for a dance or athletic contest exceed 50 cents for the event to be taxable.
44. Small Business Employee Health Benefits  
Tax Category: Business and Energy Tax Credit  
Citation: G.S. 105-129.16E(d)  
Description: Sunsetting for tax years beginning on or after January 1, 2010. This provision allowed a tax credit to small businesses that provided health benefits for all its eligible employees. The credit amount was \$250 per employee whose annual wages or salary did not exceed \$40,000.
45. Tax Incentives for Major Computer Manufacturing Facilities  
Tax Category: Tax Incentives for Major Computer Manufacturing Facilities  
Citation: G.S. 105-129.60  
Description: Article 3G was repealed effective July 1, 2010. This provision allowed a tax credit for a taxpayer that built a computer manufacturing and distribution facility that employed at least 1,200 employees and spent \$100 million in constructing the facility.

46. Alternate Film Industry Credit  
Tax Category: Corporation & Individual Income Tax  
Citation: G.S. 105- 130.47(b1) & 105-151.29(b1)
47. 15-Year Option for Alternative Apportionment Method  
Tax Category: Franchise Tax and Corporation Income Tax  
Citation: G.S. 105- 122(c1)(3) & 105-130.4(t2)  
Description: Allowed the Secretary to permit an alternative apportionment formula for 15 years instead of 3, if the corporation certified that it would invest at least \$500 million in private funds to construct a facility in a development tier one area within 5 years after the time that the construction begins.

### **Existing Tax Expenditures Added to the Report**

Due to changes to the Individual Income Tax statutes in S.L. 2011-145 (H.B. 200), the starting point for calculating state income tax liability has changed from federal taxable income to adjusted gross income. This change has led to the identification of the following tax expenditures that have been added to this report:

48. Personal Exemption  
Tax Category: Individual Income Tax  
Citation: G.S. 105- 134.6(a1)  
Note: This item encompasses the “Higher Personal Exemption for Low and Middle-Income Taxpayers” that was included as a tax expenditure in the prior edition of this report.
49. Standard or Itemized Deduction  
Tax Category: Individual Income Tax  
Citation: G.S. 105- 134.6(a2)
50. Additional Deduction for Blind and Elderly Taxpayers  
Tax Category: Individual Income Tax  
Citation: G.S. 105- 134.6(a2)

The following item was omitted from previous editions of this report:

51. Certain Accommodation Rentals  
Tax Category: Sales & Use Tax  
Citation: G.S. 105- 164.4(a)(3)

## **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.

There is no standard tax base or tax rate for privilege taxes that covers all businesses or activities. However, in order to determine preferential tax rates and exclusions, the tax rate is assumed to be 3% when the tax base is gross receipts and \$50 when there is a flat licensing fee.

In Fiscal Year 2010-11, approximately \$41.8 million was collected from this tax.

### **Exemptions from 3% gross receipts tax**

#### **1. Amenities Exemption for Gross Receipts Tax on Live Entertainment**

**Citation:** G.S. 105-37.1

**Description:** Effective August 1, 2010: 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 charge subject to the tax is equal to the charge for a ticket to the same event for a seat that does not include amenities and is located directly in front of or closest to the seat that includes amenities.

**Estimate (in millions):** \$0.7

**Data Source:** Fiscal impact estimate for S.L. 2010-31

#### **2. Charitable Performances by Uncompensated Local Talent**

**Citation:** G.S. 105-40(1)

**Description:** Performances by local talent exclusively, for the benefit of religious, charitable, benevolent or educational purposes, as long as no compensation is paid to the local talent.

**Estimate (in millions):** Unavailable

#### **3. NC Symphony Society**

**Citation:** G.S. 105-40(2)

**Description:** NC Symphony Society, Inc., as specified in G.S. 140-10.1.

**Estimate (in millions):** \$0.1

**Data Source:** Ticket sales and performance fees reported by the North Carolina Symphony Society.

**4. Agricultural Fairs**

**Citation:** G.S. 105-40(3)

**Description:** Exhibits, shows, attractions, and amusements operated by a society or association organized under the provisions of Chapter 106 of the General Statutes where the society or association has obtained a permit from the Secretary of Revenue to operate without the payment of taxes.

**Estimate (in millions):** \$1.5

**Data Source:** List of county fairs and attendance from North Carolina Association of Agricultural Fairs, fair websites and local media where available.

**Note:** Per person receipts based on avg. gate price of \$6 and additional \$16 for amusements.

**5. Outdoor Historical Dramas**

**Citation:** G.S. 105-40(4)

**Description:** Outdoor historical dramas, as specified in Article 19C of Chapter 143 of the General Statutes.

**Estimate (in millions):** \$0.1

**Data Source:** Institute of Outdoor Drama at the University of North Carolina at Chapel Hill

**6. Events at Primary and Secondary Schools**

**Citation:** G.S. 105-40(5)

**Description:** Elementary and secondary school athletic contests, dances and other amusements.

**Estimate (in millions):** \$8.7

**Data Source:** Estimates based on 2008 data from the National Center for Education Statistics. North Carolina's revenues from student activities were not directly available. Estimates were made by averaging revenues in nearby states and adjusting by the number of schools and the number of students in North Carolina.

## Privilege Taxes

### 7. **First \$1,000 of Charitable Amusements**

**Citation:** G.S. 105-40(6)

**Description:** First \$1,000 of gross receipts from amusements promoted and managed by civic organizations when the entire proceeds are used exclusively for civic and charitable purposes and not to defray the expenses of conducting the amusement.

**Estimate (in millions):** less than \$0.1

**Data Source:** Department of Revenue amusement tax data

**Note:** Each event receives a \$30 tax break. There would have to be over 3,300 events to reach the \$100,000 threshold.

### 8. **Youth Athletic Contests**

**Citation:** G.S. 105-40(6a)

**Description:** Youth athletic contest with an admission price of \$10 or less sponsored by an entity exempt from State income tax.

**Estimate (in millions):** less than \$0.1

**Data Source:** Department of Revenue amusement tax data

### 9. **Amusements at Nonprofit Arts Centers**

**Citation:** G.S. 105-40(7)

**Description:** Amusements promoted by a corporation exempt from income tax that operates a center for the performing or visual arts -- the exempt events must be held at the center.

**Estimate (in millions):** \$0.6

**Data Source:** Estimate based on expected receipts of major qualifying events and festivals.

### 10. **Amusements Promoted by Nonprofit Arts Organization**

**Citation:** G.S. 105-40(7a)

**Description:** Exemption for all exhibitions, performances, and entertainments promoted and managed by nonprofit arts organization whose primary purpose is to create, produce, or support music, dance, literature or visual arts.

**Estimate (in millions):** \$0.2

**Data Source:** Revenues from exempt arts groups provided by 2002 Economic Census. The share of ticket sales are from Theatre Communications Group and 2002 Census (for promoters).

**Note:** The estimate is net of related estimated expenditures in this section.

**11. Amusements by Teen Centers**

**Citation:** G.S. 105-40(8)

**Description:** Persons exempt from income tax who are operating a teen center.

**Estimate (in millions):** less than \$0.1

**Note:** Likely to be small given amounts in other amusement categories.

**12. Arts Festivals**

**Citation:** G.S. 105-40(10)

**Description:** Arts festivals of less than 7 consecutive days, no more than twice a year, held outdoors on public property by an income tax-exempt person.

**Estimate (in millions):** \$0.2

**Data Source:** Estimate based on expected receipts of major qualifying events and festivals

**13. Community Festivals**

**Citation:** G.S. 105-40(11)

**Description:** Community festivals held by a person exempt from income tax, no more than one per calendar year, no more than seven consecutive days, involving a variety of exhibitions, the majority of which are open to the public.

**Estimate (in millions):** \$0.1

**Data Source:** Estimate based on expected receipts of major qualifying events and festivals.

**14. Farm-Related Amusements**

**Citation:** G.S. 105-40(12)

**Description:** All farm-related exhibitions, shows, attractions, or amusements offered on land used for bona fide farm purposes as defined in G.S. 153A-340. This exemption was added in 2006 and was made effective retroactively for activities occurring on or after January 1, 1999.

**Estimate (in millions):** \$0.1

**Data Source:** Estimate based on expected receipts of major qualifying events and festivals.

## Privilege Taxes

### **Preferential rate for 3% gross receipts tax**

#### **15. 1% Tax on Motion Pictures**

**Citation:** G.S. 105-38.1(a)

**Description:** 1% gross receipts tax on motion pictures -- if a person offers entertainment that includes both a motion picture and another type of amusement, the total gross receipts will be taxed at the normal rate.

**Estimate (in millions):** \$3.5

**Data Source:** Department of Revenue amusement tax collections for FY10-11

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

#### **16. 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.

**Estimate (in millions):** less than \$0.1

**Data Source:** Relevant privilege tax collections for FY10-11 and share of affected group in workforce

#### **17. 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.

**Estimate (in millions):** less than \$0.1

**Data Source:** Derived from Department of Revenue list of licenses

#### **18. Blind Individuals**

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

**Description:** Exemption from license fee for blind individuals.

**Estimate (in millions):** less than \$0.1

**Data Source:** Relevant privilege tax collections for FY10-11 and share of affected group in workforce



### **Exemptions from bank privilege tax**

#### **19. Savings Institutions**

**Citation:** G.S. 105-102.3

**Description:** Exemption from bank privilege tax for savings institutions created under General Statute Chapter 54B, 54C or Home Owners' Loan Act of 1933.

**Estimate (in millions):** \$0.3

**Data Source:** North Carolina Commission on Banks and Federal Depositors' Insurance Corporation

**Note:** The privilege tax on banks is \$30 for each \$1,000,000 or fractional part thereof of total assets.

### **Exemptions from \$15 per ton tax on unrecycled newsprint**

#### **20. Unavailability of Recycled Newsprint**

**Citation:** G.S. 105-102.6(e)

**Description:** Exemption from tax on unrecycled paper if recycled newsprint is unavailable due to (1) high price, (2) comparable quality or (3) time constraints.

**Estimate (in millions):** less than \$0.1

**Data Source:** Department of Revenue tax data

## Tobacco Tax

### Tobacco Tax (Article 2A)

#### Tax Base Information

The tax rate on a pack of cigarettes increased from 35¢ to 45¢ on September 1, 2009. The tax rate on other tobacco products increased from 10% of the price of the products to 12.8% as of September 1, 2009.

During Fiscal Year 2010-11, approximately \$290 million was collected from this 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%.

**Estimate (in millions):** \$5.0

**Data Source:** Department of Revenue tax data

**2. Refund for Unsalable Cigarettes and Cigars**

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

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

**Estimate (in millions):** \$0.4

**Data Source:** Department of Revenue tax data

**3. 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%.

**Estimate (in millions):** \$0.8

**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.

**4. 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.

**Estimate (in millions):** less than \$0.1

## Alcoholic Beverage License and Excise Taxes (Article 2C)

### Tax Base Information

On September 1, 2009, the excise tax on the sale of malt beverages increased from 53.177¢ per gallon to 61.71¢ per gallon.

On September 1, 2009, the excise tax on the sale of unfortified wine increased from 21¢ per liter to 26.34¢ per liter. The excise tax on the sale of fortified wine increased from 24¢ per liter to 29.34¢ per liter.

On September 1, 2009, the excise tax on liquor sold in ABC stores rose from 25% to 30%.

During Fiscal Year 2010-11, \$309.3 million was collected from this tax. Of this amount, \$34.0 million was distributed to local governments.

### Expenditures

**1. 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%.

**Estimate (in millions):** \$5.7

**Data Source:** Department of Revenue tax data

**2. Sacramental Wine**

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

**Description:** Refund for wine used for sacramental purposes.

**Estimate (in millions):** less than \$0.1

**Data Source:** Department of Revenue tax data

## **Franchise Tax (Article 3)**

### **Brief Background and Tax Base Information**

The franchise tax is composed of several categories: (1) a gross receipts tax on electric power, water, and sewerage companies, (2) a tax on mutual burial associations based on membership, and (3) a tax on domestic and foreign corporations and holding companies. All the tax expenditures in this section are derived from the third type, which is also referred to as the “general business franchise tax.”

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 tax year 2008, 44% of C-corporations filing tax returns used the first of these measures as the taxable amount, while 15% of corporations used the second and 8% used the third. Thirty-four percent of the returns listed no assets for various reasons: (1) the taxpayer was exempt from the franchise tax; (2) the 2008 tax year return was a final return; or (3) the taxpayer incorrectly completed the form.

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.

The minimum franchise tax is \$35. For tax year 2008, 49% of C-corporations and 53% of S-corporations paid the minimum amount.

For more information and data regarding the general business franchise tax, see the “Corporate Income and Business Franchise Taxes” publication on the North Carolina Department of Revenue website.

In Fiscal Year 2010-11, North Carolina collected approximately \$455 million in general business franchise taxes.

## Exemptions

### 1. Double-Weighting of Sales Factor in Apportionment of Capital Stock

**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.

**Estimate (in millions):** \$4.0

**Data Source:** Department of Revenue 2006 C-Corporation tax database

**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, and motor carriers.

### 2. Charitable Nonprofits

**Citation:** G.S. 105-125(a)(1)

**Description:** Charitable, religious, fraternal, benevolent, scientific or educational nonprofit.

**Estimate (in millions):** \$115.0

**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.

**Estimate (in millions):** \$2.5

**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.

**Estimate (in millions):** \$0.6

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

## Franchise Tax

### 5. Production Credit Association

**Citation:** G.S. 105-125(a)(5)

**Description:** Nonprofit production credit association organized under federal Farm Credit Act of 1933.

**Estimate (in millions):** \$0.8

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

### 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.

**Estimate (in millions):** \$4.6

**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.

**Estimate (in millions):** \$2.6

**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.

**Estimate (in millions):** \$2.7

**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.

**Estimate (in millions):** \$10.0

**Data Source:** Estimate for credit unions from NC Department of Commerce, Credit Union Division Annual Report (2010). The capital stock base was estimated based on reported assets and comparison to savings banks in Department of Revenue database.

**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.**Estimate (in millions):** Unavailable**Deductions****11. Deduction from Capital Stock for Legal Liabilities****Citation:** G.S. 105-122(b)(1)**Description:** Deduction from capital stock base for definite and accrued legal liabilities.**Estimate (in millions):** Unavailable**12. Deduction from Capital Stock for Billings in Excess of Costs****Citation:** G.S. 105-122(b)(1a)**Description:** Effective January 1, 2010 (Tax Year 2009 returns): Deduction for billings in excess of costs that are considered a deferred liability under the percentage of completion method of revenue recognition.**Estimate (in millions):** less than \$0.1**Data Source:** Department of Revenue tax records**13. Deduction from Capital Stock for Taxes, Dividends, and Depreciation****Citation:** G.S. 105-122(b)(2)**Description:** Deduction from 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.**Estimate (in millions):** Unavailable**14. Deduction from Capital Stock for Deferred Tax Assets****Citation:** G.S. 105-122(b)(3)**Description:** When including deferred tax liabilities, a corporation may reduce the amount included in its base by netting against that amount deferred tax assets. The reduction may not decrease deferred tax liabilities below zero.**Estimate (in millions):** Unavailable**15. Deduction from Capital Stock for Investments in Pollution Abatement Equipment****Citation:** G.S. 105-122(b)(4)**Description:** Deduction for cost of air-cleaning device or sewage or waste treatment plant and pollution abatement equipment.**Estimate (in millions):** Unavailable

Franchise Tax

- 16. Deduction from Capital Stock for Investments in Hazardous Waste Abatement**  
**Citation:** G.S. 105-122(b)(5)  
**Description:** Deduction for cost of purchasing equipment or constructing facilities for the purpose of recycling or reducing hazardous wastes.  
**Estimate (in millions):** Unavailable
- 17. Deduction from Capital Stock for Facilities Used for Residential Sewer Services**  
**Citation:** G.S. 105-122(b)(6)  
**Description:** Deduction for the cost of constructing facilities used to provide sewer services to residential and outlying areas.  
**Estimate (in millions):** Unavailable
- 18. Deduction for Treasury Stock**  
**Citation:** G.S. 105-122(b)(7)  
**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.  
**Estimate (in millions):** \$12.4  
**Data Source:** Department of Revenue 2001 and 2003 C-Corporation sample
- 19. 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.  
**Estimate (in millions):** Unavailable
- 20. Deduction from Property Investment for Waste Abatement Investments**  
**Citation:** G.S. 105-122(d)  
**Description:** Deduction from tangible property investments of cost of air-cleaning device or sewerage or waste treatment plant.  
**Estimate (in millions):** Unavailable
- 21. 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.  
**Estimate (in millions):** Unavailable



**22. 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.**Estimate (in millions):** Unavailable**Tax Credits****23. 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.**Estimate (in millions):** \$0.2**Data Source:** Department of Revenue 2008 C-corporation and S-corporation databases**Note:** This credit was effective January 1, 2007 (Tax Year 2006 returns). Prior to this, all LLCs were exempt from the franchise tax, but paid the higher reporting fee.**24. Piped Natural Gas Credit****Citation:** G.S. 105-122(d1)**Description:** Tax credit of one-half amount of piped natural gas tax. The credit allowed may not exceed the tax amount reduced by all credits.**Estimate (in millions):** \$4.0**Data Source:** Department of Revenue 2008 C-corporation and S-corporation databases**Note:** The amount of piped natural gas excise taxes collected in a year is generally around \$60 million. This credit is much less than half because companies cannot take a larger credit than their franchise tax liability. There is no carry-forward provision for this credit.

## Franchise Tax

### Caps

**25. Cap for Holding Companies**

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

**Description:** Maximum tax of \$75,000 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.

**Estimate (in millions):** \$130.2

**Data Source:** Department of Revenue 2008 & 2009 C-corporation and S-corporation databases

**Note:** Approximately 65 companies were subject to this cap in 2008.

## Corporation Income Tax (Article 4, Part 1)

### Brief Description and Tax Base Information

The corporation income tax is a tax on the profits of C-corporations operating in North Carolina. The tax rate is 6.9% of the corporation's State net income.

The corporation tax base is net income, or profits, since most operating costs can be deducted. There is no minimum tax, so that corporations with negative profits pay no corporation income taxes. Based on 2008 tax returns, 68% of corporations filing North Carolina C-corporation tax returns had no tax liability. This creates a special problem in measuring individual tax expenditures since some companies that claim them would still have zero tax liability if they were not allowed a particular deduction. In the measurement of tax expenditures in this section, attempts were made to include only companies for which the tax expenditure actually reduces tax liability.

S-corporations may also claim the credits and deductions in this section for nonresident shareholders who elect **not** to file individual income tax returns in North Carolina. In practice, these shareholders represent a small fraction of S-corporations' overall activity in North Carolina. For shareholders who file N.C. individual income tax returns, the S-corporation passes them credits and deductions in proportion to their ownership shares. As such, most of the tax breaks generated by S-corporations are measured in the Individual Income Tax section of this report – if not in the Business Incentives sections (Articles 3B through 3K).

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

For more information and data regarding the corporation income tax, see the "Corporate Income and Business Franchise Taxes" publication on the North Carolina Department of Revenue website.

In Fiscal Year 2010-11, North Carolina collected approximately \$1,092 million in corporate income taxes.

Corporation Income Tax

**Table 3**

**Corporate Income Tax Expenditure Estimates for FY 2011-12**

<b>Item</b>	<b>Citation (G.S. § 105)</b>	<b>Short Title</b>	<b>FY12 Estimate (\$ Millions)</b>
1	130.4	Double-Weighting of Sales Factor in Apportionment Formula	51.1
2	130.4(s1)	Sales-Only Apportionment for Capital-Intensive Corporations	3.0
3	130.11(a)(1)	Fraternal Beneficiary Societies	less than 0.1
4	130.11(a)(2)	Certain Cooperative Companies	2.0
5	130.11(a)(3)	Certain Charitable Organizations	56.1
6	130.11(a)(4)	Nonprofit Business Associations	1.3
7	130.11(a)(5)	Nonprofit Promoters of Social Welfare	0.3
8	130.11(a)(6)	Nonprofit Clubs	0.6
9	130.11(a)(7)	Local Mutual Nonprofits	less than 0.1
10	130.11(a)(8)	Nonprofit Agricultural Marketing Memberships	0.2
11	130.11(a)(9)	Certain Agricultural Associations	included above
12	130.11(a)(11)	Homeowners' Association	0.6
13	130.5(b)(1)	U.S. Obligation Interest	5.0
14	130.5(b)(1a)	N.C. Obligation Interest	1.0
15	130.5(b)(7)	Depreciation of Certain Facilities	less than 0.1
16	130.5(b)(8)	Net Capital Losses Not Deductible from Federal Taxable Income	15.0
17	130.5(b)(9)	Shareholders of a Regulated Investment Company	Unavailable

Corporation Income Tax

<b>Item</b>	<b>Citation (G.S. § 105)</b>	<b>Short Title</b>	<b>FY12 Estimate (\$ Millions)</b>
18	130.5(b)(12)	Reforestation and Cultivation of Trees	less than 0.1
19	130.5(b)(13)	Income from International Banking Facility	0.1
20	130.5(b)(14)	Basis Adjustment for Federal Tax Credit	Unavailable
21	130.5(b)(15)	Marketing Assessments on Tobacco	0.0
22	130.5(b)(16)	Natural Gas Expansion Surcharges	less than 0.1
23	130.5(b)(17)	911 Charges	less than 0.1
24	130.5(b)(18)	Earnings of Certain Trusts	less than 0.1
25	130.5(b)(19)	Income from Hurricane Floyd Reserve Fund	less than 0.1
26	130.5(b)(22)	Disaster Relief Reserve Payments	0.2
27	130.5(b)(24)	Deduction for Sale of a Manufactured Home Community to Manufactured Home Owners	less than 0.1
28	130.5(c)(2)	Percentage Depletion over Cost Depletion	13.2
29	130.6A(e)	Expenses Related to Nontaxed Dividends for Bank Holding Company	10.0
30	130.8	Net Economic Losses	106.3
31	130.9(1)	Charitable Contributions Outside N.C.	4.8
32	130.9(1)-(3)	Charitable Contributions Within N.C.	4.2
33	130.10	Amortization of Pollution Abatement Facilities and Equipment	Unavailable
34	130.10A	Amortization of Equipment Mandated by OSHA	Unavailable

Corporation Income Tax

<b>Item</b>	<b>Citation (G.S. § 105)</b>	<b>Short Title</b>	<b>FY12 Estimate (\$ Millions)</b>
35	130.6A(f)	Credit for Bank Holding Companies Related to Expenses on Nontaxed Earnings	3.8
36	130.6A(g)	Credit for Electric Power Holding Companies Related to Expenses on Nontaxed Earnings	1.0
37	130.22	Rental Units for Handicapped Persons	less than 0.1
38	130.25	Equipment for Cogenerating Power Plant	less than 0.1
39	129.12A(c)	Special Condition to Retain Article 3A Installment Credit	0.4
40	130.34	Credit for Certain Real Property Donations	0.2
41	130.36	Conservation Tillage Equipment Credit	less than 0.1
42	130.37	Credit for Gleaned Crops	less than 0.1
43	130.39	Credit for Low-Income Residential Telephone Service	3.2
44	130.41	Credit for Costs at NC Ports	0.4
45	130.43	Credit for S&L Supervisory Fees	0.3
46	130.44	Credit for Poultry Composting Facility	less than 0.1
47	130.45	Credit for Manufacturing Cigarettes for Exportation	0.0
48	130.46	Alternative Cigarette Export Credit	5.6
49	130.47	Film Industry Production Expenses	35.8
50	130.48	Tax Credit for Recycling Oyster Shells	less than 0.1

## 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.

**Estimate (in millions):** \$51.1

**Data Source:** Department of Revenue 2006 C-Corporation tax database

**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. 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.

**Estimate (in millions):** \$3.0

**Data Source:** Department of Revenue 2008 C-Corporation tax database; Legislative Fiscal Note for SB 575(2009)

**Note:** This provision is effective January 1, 2010. It sunsets January 1, 2019.

### 3. 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.

**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

## Corporation Income Tax

### 4. **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.

**Estimate (in millions):** \$2.0

**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)(12) organizations

### 5. **Certain Charitable Organizations**

**Citation:** G.S. 105-130.11(a)(3)

**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.

**Estimate (in millions):** \$56.1

**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)(3) and 501(c)(13) organizations

### 6. **Nonprofit Business Associations**

**Citation:** G.S. 105-130.11(a)(4)

**Description:** Exemption for business leagues, chambers of commerce, merchants' associations or boards of trade not organized for profit.

**Estimate (in millions):** \$1.3

**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)(6) organizations

### 7. **Nonprofit Promoters of Social Welfare**

**Citation:** G.S. 105-130.11(a)(5)

**Description:** Exemption for civic leagues or organizations not organized for profit, but operated for the promotion of social welfare.

**Estimate (in millions):** \$0.3

**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)(4) organizations



**8. 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.

**Estimate (in millions):** \$0.6

**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

**9. 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.

**Estimate (in millions):** less than \$0.1

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

**10. Nonprofit Agricultural Marketing Memberships**

**Citation:** G.S. 105-130.11(a)(8)

**Description:** Exemption for farmers', fruit growers' or like organization for the purposes of marketing member products.

**Estimate (in millions):** \$0.2

**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)(5) organizations. The estimate includes Item #12

**11. Certain Agricultural Associations**

**Citation:** G.S. 105-130.11(a)(9)

**Description:** Exemption for mutual associations formed under GS 54-111 through 54-128 to conduct agricultural business on the mutual plan and marketing associations organized under GS 54-129 through 54-158.

**Estimate (in millions):** included above

## Corporation Income Tax

### 12. Homeowners' Associations

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

**Description:** Exemption for nonprofit condominium associations, homeowners' associations, or cooperative housing corporation.

**Estimate (in millions):** \$0.6

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

## Deductions

### 13. U.S. Obligation Interest

**Citation:** G.S. 105-130.5(b)(1)

**Description:** Deductions for interest upon the obligations of the U.S. or its possessions, to the extent included in federal taxable income.

**Estimate (in millions):** \$5.0

**Data Source:** Department of Revenue 2003 C-Corporation and S-Corporation databases

### 14. N.C. 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.

**Estimate (in millions):** \$1.0

**Data Source:** Department of Revenue 2005 C-Corporation database

### 15. Depreciation of Certain Facilities

**Citation:** G.S. 105-130.5(b)(7)

**Description:** Deduction for depreciation of emergency facilities acquired prior to Jan 1, 1955.

**Estimate (in millions):** less than \$0.1

**Data Source:** Department of Revenue 2001 C-Corporation sample database

### 16. 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.

**Estimate (in millions):** \$15.0

**Data Source:** Department of Revenue 2003 C-Corporation sample database

**Note:** The estimate is net of the amount of additional tax due to G.S. 105-130.5(a)(5).

**17. 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.

**Estimate (in millions):** Unavailable

**18. Reforestation and Cultivation of Trees**

**Citation:** G.S. 105-130.5(b)(12)

**Description:** Deduction for reasonable expenses, in excess of deductions allowed under the Code, paid for reforestation and cultivation of commercially grown trees.

**Estimate (in millions):** less than \$0.1

**Data Source:** Department of Revenue 2003 C-Corporation sample database

**19. Income from International Banking Facility**

**Citation:** G.S. 105-130.5(b)(13)

**Description:** Deduction of the eligible income of an international banking facility to the extent included in determining federal taxable income.

**Estimate (in millions):** \$0.1

**Data Source:** Department of Revenue 2005 C-Corporation database

**20. 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 Federal tax credit.

**Estimate (in millions):** Unavailable

**21. Marketing Assessments on Tobacco**

**Citation:** G.S. 105-130.5(b)(15)

**Description:** 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.

**Estimate (in millions):** \$0.0

**Data Source:** Department of Revenue 2002 and 2003 C-Corporation database

**Note:** The federal provisions on which the marketing assessments were based have been repealed in the American Jobs Creation Act of 2004.

## Corporation Income Tax

### 22. 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.

**Estimate (in millions):** less than \$0.1

**Data Source:** North Carolina Utilities Commission; Department of Revenue 2008 Corporation database

**Note:** There are four natural gas local distribution companies.

### 23. 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.

**Estimate (in millions):** less than \$0.1

**Data Source:** Department of Revenue 2008 C-Corporation database

### 24. Earnings of Certain Trusts

**Citation:** G.S. 105-130.5(b)(18)

**Description:** 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.

**Estimate (in millions):** less than \$0.1

### 25. Income from Hurricane Floyd Reserve Fund

**Citation:** G.S. 105-130.5(b)(19)

**Description:** Deduction for the amount paid to taxpayer from the Hurricane Floyd Reserve Fund.

**Estimate (in millions):** less than \$0.1

**Note:** Not likely to be significant in the analysis period.

### 26. Disaster Relief Reserve Payments

**Citation:** G.S. 105-130.5(b)(22)

**Description:** 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.

**Estimate (in millions):** \$0.2

**Data Source:** see data source and note for G.S. 105-134.6(b)(18), which is an identical provision for the individual income tax.

**27. Deduction for Sale of a Manufactured Home Community to Manufactured Home Owners**

**Citation:** G.S. 105-130.5(b)(24)

**Description:** Taxpayers may deduct 5% of the gross purchase price of a qualified sale of a manufactured home community from federal taxable income. To qualify, the sale must be a one-time event to a group composed of a majority of the community's leaseholders or to a nonprofit organization that represents the group of leaseholders and notice of the sale must be given to the NC Housing Finance Agency. Effective for taxable years beginning on or after January 1, 2008; expires for taxable years beginning on or after January 1, 2015.

**Estimate (in millions):** less than \$0.1

**Data Source:** North Carolina Housing Finance Agency; Community Reinvestment Association of North Carolina

**28. Percentage Depletion over Cost Depletion**

**Citation:** G.S. 105-130.5(c)(2)

**Description:** Federal taxable income must be increased or decreased to account for any difference in the amount of depreciation, amortization, or gains or losses applicable to property which has been depreciated or amortized by use of a different basis or rate for State income tax purposes than used for federal income tax purposes.

**Estimate (in millions):** \$13.2

**Data Source:** Department of Revenue 2008 C-Corporation database

**29. Expenses Related to Nontaxed Dividends for Bank Holding Company**

**Citation:** G.S. 105-130.6A(e)

**Description:** If the attribution of expenses related to nontaxed dividends results 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 is \$11 million.

**Estimate (in millions):** \$10.0

**Data Source:** Department of Revenue 2009 C-Corporation database

**Note:** See related tax credit (item #35)

**30. Net Economic Losses**

**Citation:** G.S. 105-130.8

**Description:** Deduction for net economic losses in any or all of the 15 preceding income years.

**Estimate (in millions):** \$106.3

**Data Source:** Department of Revenue 2008 C-Corporation database

**Note:** Approximately 15,500 C-corporations claimed this deduction in Tax Year 2008, although only 5,592 had tax liability to offset. In practice, S-corporations cannot take this deduction; their shareholders may deduct their share of net economic losses in the corporation through the individual income tax. (See 105-134.7(a)(4).)

## Corporation Income Tax

### 31. 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.

**Estimate (in millions):** \$4.8

**Data Source:** Department of Revenue 2008 C-Corporation database

**Note:** This estimate includes only contributions made to donees outside NC; see next item for deduction for donees in NC. In practice, S-corporations cannot take this deduction; their shareholders may deduct their share of charitable contributions made by the corporation through the individual income tax.

### 32. 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.

**Estimate (in millions):** \$4.2

**Data Source:** Department of Revenue 2008 C-Corporation database

**Note:** In practice, S-corporations cannot take this deduction; their shareholders may deduct their share of charitable contributions made by the corporation through the individual income tax.

### 33. Amortization of Pollution Abatement Facilities and Equipment

**Citation:** G.S. 105-130.10

**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.

**Estimate (in millions):** Unavailable

### 34. 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.

**Estimate (in millions):** Unavailable

## Tax Credits

### 35. Credit for Bank Holding Companies Related to Expenses on Nontaxed Earnings

**Citation:** G.S. 105-130.6A(f)

**Description:** Credit for bank holding companies of \$2 million if they are eligible for the cap in 105-130.6A(e). If a bank holding company (and its affiliated group) does not qualify for the cap, it may take a credit equal to the additional tax that would be due if the expense adjustment were 15% instead of 20%. The credit must be taken in 4 annual installments.

**Estimate (in millions):** \$3.8

**Data Source:** Department of Revenue 2009 Corporation tax returns

**Note:** This credit may be taken against either the income tax or the franchise tax.

### 36. Credit for Electric Power Holding Companies Related to Expenses on Nontaxed Earnings

**Citation:** G.S. 105-130.6A(g)

**Description:** After calculating the adjustment for expenses related to dividends under G.S. 105-130.5(c)(3), each electric power holding company must calculate the amount of additional tax that results from the expense adjustment for the taxable year. The electric power holding company is allowed a credit for the following taxable year equal to one-half of this amount of additional tax.

**Estimate (in millions):** \$1.0

**Data Source:** Department of Revenue 2009 Corporation tax returns

**Note:** This credit may be taken against either the income tax or the franchise tax.

### 37. Rental Units for Handicapped Persons

**Citation:** G.S. 105-130.22

**Description:** Credit for corporate owners of multifamily rental units for handicapped persons of \$550 per unit constructed.

**Estimate (in millions):** less than \$0.1

**Data Source:** Department of Revenue 2008 C-Corporation and S-Corporation databases

### 38. 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. The total amount of tax credits for all taxpayers for qualifying payments in a calendar year may not exceed \$5,000,000.

**Estimate (in millions):** less than \$0.1

**Data Source:** Department of Revenue 2008 C-Corporation and S-Corporation databases

## Corporation Income Tax

### 39. **Special Condition to Retain Article 3A Installment Credit**

**Citation:** G.S. 105-129.12A(c)

**Description:** A taxpayer that fails to meet the job creation and retention requirements under Article 3A may retain its installments if it employs at least 125 workers at the property and invests at least \$5 million or twice the value of its remaining installments. This provision is effective for tax years beginning on or after January 1, 2009.

**Estimate (in millions):** \$0.4

**Data Source:** Legislative fiscal note for HB 751 (2011 session)

### 40. **Credit for Certain Real Property Donations**

**Citation:** G.S. 105-130.34

**Description:** Credit of 25% for donations of real property for public beach access, public access to water or trails, fish and wildlife conservation, or other similar land conservation purposes. The credit may not exceed \$500,000.

**Estimate (in millions):** \$0.2

**Data Source:** Department of Revenue 2008 C-Corporation and S-Corporation databases

### 41. **Conservation Tillage Equipment Credit**

**Citation:** G.S. 105-130.36

**Description:** Credit of 25% of the cost of conservation tillage equipment used in a farm business, including tree farming. The credit may not exceed \$2,500 for any taxable year for any taxpayer.

**Estimate (in millions):** less than \$0.1

**Data Source:** Department of Revenue 2008 C-Corporation and S-Corporation databases

### 42. **Credit for Gleaned Crops**

**Citation:** G.S. 105-130.37

**Description:** Credit of 10% of the market price of the quantity of gleaned crops for companies that allow gleaning of their crop.

**Estimate (in millions):** less than \$0.1

**Data Source:** Department of Revenue 2008 C-Corporation and S-Corporation databases

### 43. **Credit for Low-Income Residential Telephone Service**

**Citation:** G.S. 105-130.39

**Description:** Credit for corporation that provides local telephone service to low-income residential consumers at reduced rates. The credit is equal to the difference between what the companies actually charged these customers and the amount they would have charged at normal rates.

**Estimate (in millions):** \$3.2

**Data Source:** Department of Revenue 2008 C-Corporation and S-Corporation databases



**44. Credit for Costs at NC Ports**

**Citation:** G.S. 105-130.41

**Description:** Credit for loading or unloading cargo at a State-owned port terminal at Wilmington or Morehead City.

**Estimate (in millions):** \$0.4

**Data Source:** Department of Revenue "Economic Incentive Reports," 2011

**Note:** This provision sunsets January 1, 2014.

**45. Credit for S&L Supervisory Fees**

**Citation:** G.S. 105-130.43

**Description:** Credit for savings and loan supervisory fees assessed by the Commissioner of Banks of the Department of Commerce

**Estimate (in millions):** \$0.3

**Data Source:** Department of Revenue 2008 C-Corporation and S-Corporation databases

**46. Credit for Poultry Composting Facility**

**Citation:** G.S. 105-130.44

**Description:** Credit for 25% of the installation, materials and equipment costs of constructing poultry composting facility.

**Estimate (in millions):** less than \$0.1

**Data Source:** Department of Revenue 2008 C-Corporation and S-Corporation databases

**47. 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.

**Estimate (in millions):** \$0.0

**Data Source:** Department of Revenue 2008 C-Corporation and S-Corporation databases

## Corporation Income Tax

### 48. **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.

**Estimate (in millions):** \$5.6

**Data Source:** Department of Revenue "Economic Incentive Reports," 2011

**Note:** This provision sunsets January 1, 2018

### 49. **Film Industry Production Expenses**

**Citation:** G.S. 105-130.47

**Description:** A film or television production company that spends at least \$250,000 in North Carolina on productions during the tax year is allowed a credit equal to up to 25% of the qualifying expenses. However, prior to January 1, 2010, the credit rate is 15%. A production company may include as qualifying expenses compensation paid to a highly compensated individual up to \$1 million. The cost of production-related insurance coverage constitutes a qualifying expense as long as the coverage is not purchased from a related member. The credit sunsets January 1, 2014.

**Estimate (in millions):** \$35.8

**Data Source:** Legislative fiscal note for House Bill 1973 (2009-10 Session). See also Department of Revenue "Other Credit and Incentive Reports," 2011.

**Note:** This tax credit is refundable if it exceeds income tax liability. The maximum credit for a feature film production is \$20 million. No credit is allowed for productions related to political advertising, news programs, sporting events, or obscene material.

### 50. **Tax Credit for Recycling Oyster Shells**

**Citation:** G.S. 105-130.48

**Description:** Taxpayers are 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. The credit is not refundable. Any unused credit can be carried forward for the succeeding five years. A taxpayer who claims this credit must add back to taxable income any amount deducted under the Code for the donation of oyster shells. Effective for taxable years beginning on or after January 1, 2006 and expires for taxable years beginning on or after January 1, 2013.

**Estimate (in millions):** less than \$0.1

**Data Source:** Department of Revenue 2008 C-Corporation and S-Corporation databases

## **Business and Energy Tax Credits (Article 3B)**

### **Methodology Note for all Business Incentive Credits (Article 3B through 3K):**

In general, all of the tax credits in this chapter and the following, through the chapter on the Tax Incentives for Railroad Intermodal Facilities (Article 3K), share certain attributes that affect estimation of fiscal year budget effects. For instance, taxpayers may take credits only up to 50% of their net franchise tax or income tax liability for the year (with the exception of the refundable low-income housing credits and the credit for major computing manufacturing facilities). Also, in some cases the credits generated in a given year must be taken in installments over several succeeding years. These attributes can create a large difference in the amount of credits generated in a year and the amount of credits actually taken.

**Unless otherwise noted, the FY12 estimates used in this report for Articles 3B through 3K are the expected amount of credits actually taken (used) by taxpayers for Tax Year 2011.**

The estimates are based on Economic Incentive Reports produced by the N.C. Department of Revenue covering returns up through those processed in 2010, most of which were tax year 2009 forms. These reports are available on the North Carolina Department of Revenue website under "Reports and Statistics." The reports provide detailed information on credits generated and credits taken by taxpayer and by Development Tier when applicable.

#### **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) \$2.5 million for property placed in service for a business purpose, (2) \$1,400 for solar energy equipment for residential water heating, (3) \$3,500 for residential space heating, (4) \$8,400 per installation of geothermal equipment, (5) \$10,500 per installation for all other residential renewable energy property, (6) \$5 million for property placed in service at an Eco-Industrial Park.

**Estimate (in millions):** \$6.3

**Data Source:** Department of Revenue database

**Note:** If the renewable property is placed in a single-family dwelling, the credit must be taken for the year of installation. For other types of property, the credit is taken in 5 annual installments, beginning in the year of installation. This provision sunsets for renewable energy property placed into service on or after January 1, 2016.

**The following three tax credits sunset for facilities placed into service on or after January 1, 2013. The term “renewable fuels” refers to biodiesel, biodiesel mixes, and ethanol mixes that contain at least 70% ethanol by volume (G.S. 105-129.15(8)).**

**A taxpayer cannot claim the credits allowed under G.S. 105-129.16D(b) and G.S. 105-129.16D(b1) with respect to the same facility. A taxpayer that claims any other tax credit allowed under Chapter 105 with respect to the costs of constructing and installing a renewable energy facility may not take the credits allowed in this section with respect to the same costs.**

**2. Credit for Renewable Fuel Dispensing Facilities**

**Citation:** G.S. 105-129.16D(a)

**Description:** A taxpayer that constructs and installs and places in service in this State a qualified commercial facility for dispensing renewable fuel is allowed a credit equal to 15% of the cost to the taxpayer of constructing and installing the part of the dispensing facility, including pumps, storage tanks, and related equipment, that is directly and exclusively used for dispensing or storing renewable fuel. This credit must be taken in 3 annual installments.

**Estimate (in millions):** less than \$0.1

**Data Source:** Department of Revenue database

**3. Credit for Constructing Renewable Fuel Processing Facilities**

**Citation:** G.S. 105-129.16D(b)

**Description:** A taxpayer that constructs and places in service in this State a commercial facility for processing renewable fuel is allowed a credit equal to 25% of the cost to the taxpayer of constructing and equipping the facility. The credit must be taken in 7 annual installments. Unused credits may be carried forward for 5 years.

**Estimate (in millions):** less than \$0.1

**Data Source:** Department of Revenue database

**4. Alternative Credit for Constructing Renewable Fuel Processing Facilities**

**Citation:** G.S. 105-129.16D(b1)

**Description:** A taxpayer that invests at least \$400,000,000 to construct and place in service in this State three or more commercial facilities for processing renewable fuel may receive a credit of 35% of the cost of constructing and equipping the facilities. The tax credit is taken in 7 equal installments and unused credits may be carried forward for 10 years. This credit may only be taken against the corporate income tax.

**Estimate (in millions):** \$0.0

**Data Source:** Department of Revenue database

**5. Tax Credit to Refund Motor Fuel Excise Tax for Biodiesel**

**Citation:** G.S. 105-129.16F

**Description:** Effective January 1, 2008, a biodiesel provider that produces at least 100,000 gallons of biodiesel per year may receive a credit equal to the per gallon excise tax paid under Article 36C of Chapter 105. The credit does not apply to tax paid on diesel fuel included in a biodiesel blend. The maximum credit is \$500,000.

**Estimate (in millions):** \$0.1

**Data Source:** Department of Revenue database

**6. Work Opportunity Tax Credit**

**Citation:** G.S. 105-129.16G

**Description:** Effective for tax years beginning January 1, 2008, a taxpayer who is allowed a federal tax credit under Part IV, Subpart F of the Code for the taxable year is allowed a credit against the tax imposed by this Part. The credit is equal to six percent (6%) of the amount of credit allowed under the Code for wages paid related to positions located in North Carolina.

**Estimate (in millions):** \$0.8

**Data Source:** Department of Revenue database

**Note:** This provision sunsets January 1, 2012.

**7. Credit for Donations to a Nonprofit to Acquire Renewable Energy Property**

**Citation:** G.S. 105-129.16H

**Description:** Effective for tax years beginning January 1, 2008, a taxpayer who donates money to a tax-exempt organization 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.

**Estimate (in millions):** less than \$0.1

**Data Source:** Department of Revenue database

## Business and Energy Tax Credits

### 8. **Credit for a Renewable Energy Property Facility**

**Citation:** G.S. 105-129.16I

**Description:** Effective for taxable years beginning January 1, 2011, a taxpayer that places in service in this State a commercial facility for the manufacture of renewable energy property or a major component subassembly for a solar array or wind turbine is allowed a credit of 25% of the cost to construct/convert and equip the facility. The credit is taken in 5 annual installments.

**Estimate (in millions):** Unavailable

### 9. **Small Business Unemployment Insurance Tax Credit**

**Citation:** G.S. 105-129.16J

**Description:** A small business may receive a tax credit equal to 25% of the qualified contributions to the State Unemployment Insurance Trust Fund. A small business is a business whose cumulative gross receipts from business activity for the taxable year do not exceed \$1 million. This credit is refundable.

**Estimate (in millions):** \$6.0

**Data Source:** Department of Revenue Tax Year 2010 databases

**Note:** This provision applies only to taxable years 2010 and 2011. The estimate is calculated as 75% of the estimated tax credits taken for Tax Year 2011.

## **Tax Incentives for Recycling Facilities (Article 3C)**

See Methodology Note under Article 3B.

**1. Credit for Investing in Large or Major Recycling Facility**

**Citation:** G.S. 105-129.27

**Description:** An owner that purchases or leases machinery and equipment for a major or large recycling facility in this State is allowed a credit equal to 50% or 20%, respectively, of the amount payable by the owner during the taxable year to purchase or lease the machinery and equipment.

**Estimate (in millions):** \$6.3

**Data Source:** Department of Revenue database

**Note:** A recycling facility that is eligible for this credit is not allowed the credit for investing in machinery and equipment provided in G.S. 105-129.9 or G.S. 105-129.88.

## Historic Rehabilitation Tax Credits (Article 3D)

See Methodology Note under Article 3B.

### 1. Credit for Rehabilitating Income-Producing Historic Structure

**Citation:** G.S. 105-129.35

**Description:** A taxpayer who is allowed a federal income tax credit under Section 47 of the Code for making qualified rehabilitation expenditures for a certified historic structure located in this State is allowed a credit equal to 20% of the expenditures that qualify for the federal credit. The tax credit is 40% if the certified historic structure is a facility that at one time served as a State training school for juvenile offenders.

**Estimate (in millions):** \$6.2

**Data Source:** Department of Revenue database

**Note:** G.S. 105-129.71 provides more generous credits if the historic structure is a mill or agricultural warehouse.

### 2. Credit for Rehabilitating Nonincome-Producing Historic Structure

**Citation:** G.S. 105-129.36

**Description:** A taxpayer who is not allowed a federal income tax credit under Section 47 of the Code and who makes rehabilitation expenses for a State-certified historic structure located in this State is allowed a credit equal to 30% of the rehabilitation expenses. The tax credit is 40% if the certified historic structure is a facility that at one time served as a State training school for juvenile offenders. To qualify for the credit, the taxpayer's expenses must exceed \$25,000 within a 24-month period.

**Estimate (in millions):** \$8.0

**Data Source:** Department of Revenue database

**Note:** G.S. 105-129.72 provides more generous credits if the historic structure is a mill or agricultural warehouse and the site is located in Development Tier 1 or 2 areas.



## Low-Income Housing Tax Credits (Article 3E)

See Methodology Note under Article 3B.

**1. Credit for Low-Income Housing Awarded a Federal Credit Allocation before Jan. 1, 2003**

**Citation:** G.S. 105-129.41

**Description:** A taxpayer that is allowed a federal income tax credit for low-income housing under Section 42 of the Code with respect to a qualified North Carolina low-income building is allowed a credit equal to a percentage of the federal credit. The credit must be taken in equal installments over 5 years and is limited to 50% of tax liability for the year claimed. Any unused credits may be carried forward for 5 succeeding years.

**Estimate (in millions):** \$4.4

**Data Source:** Department of Revenue database

**Note:** Taxpayers cannot generate new credits after tax year 2007. However, they continue to take installment credits and carry-forwards. This provision sunsets January 1, 2015.

**2. Credit for Low-Income Housing Awarded a Federal Credit Allocation on or after Jan. 1, 2003**

**Citation:** G.S. 105-129.42

**Description:** A taxpayer that is allowed a federal income tax credit for low-income housing under Section 42 of the Code to construct or substantially rehabilitate a qualified North Carolina low-income housing development is allowed a credit equal to a percentage of the development's qualified basis. The percentage varies from 10% to 30%, depending on (1) the percentage of residential units that are affordable to low-income groups and (2) the income of the county or city where the housing is located. This credit is refundable.

**Estimate (in millions):** \$35.5

**Data Source:** Department of Revenue database

**Note:** This provision sunsets for developments for which federal credits are allocated on or after January 1, 2015.

## Technology Development Credits (Article 3F)

See Methodology Note under Article 3B.

**Note:** All the provisions in this article sunset January 1, 2014. Unused credits may be carried forward for 15 years.

**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.

**Estimate (in millions):** \$0.3

**Data Source:** Department of Revenue database

**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.

**Estimate (in millions):** \$3.0

**Data Source:** Department of Revenue database

**3. University Research Credit**

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

**Description:** A taxpayer that has North Carolina university research expenses for the taxable year is allowed a credit equal to 20% of the expenses.

**Estimate (in millions):** \$0.7

**Data Source:** Department of Revenue database

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

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

**Description:** Effective January 1, 2011, 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.

**Estimate (in millions):** Unavailable

**Data Source:** Department of Revenue database

**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.

**Estimate (in millions):** \$20.0

**Data Source:** Department of Revenue database

**6. Interactive Digital Media Credit**

**Citation:** G.S. 105-129.56

**Description:** Effective January 1, 2011, a taxpayer that develops in this State interactive digital media or a digital platform or engine for use in interactive digital media is allowed a credit of 15% of eligible expenses over \$50,000. The credit is 20% for allowable expenses paid to a community college or a research university. The credit may not exceed \$7.5 million per taxpayer.

**Estimate (in millions):** \$0.5

**Data Source:** Legislative fiscal note for House Bill 1973 (2009-10 Session)

**Note:** There are certain types of interactive digital media that are not eligible for the credit. A taxpayer that claims a credit in this section may not claim any of the following for the same expenses: (a) another credit; (b) a grant from the Job Development Investment Grant Program; or (c) a grant from the One North Carolina Fund.

## Mill Rehabilitation Tax Credit (Article 3H)

See Methodology Note under Article 3B.

Note: This article sunsets January 1, 2014, for rehabilitation projects for which an application for an eligibility certification is submitted on or after that date.

### 1. Credit for Income-Producing Rehabilitated Mill Property

**Citation:** G.S. 105-129.71

**Description:** A taxpayer who makes qualified rehabilitation expenditures for a certified historic mill or agricultural warehouse located in this State is allowed a credit equal to 40% of the expenditures if the building is located in a Development Tier 1 or 2 area or 30% if the building is located in a Development Tier 3 area. A certificate from the State Historic Preservation Officer must be obtained which shows that the expenditures either qualified for a Federal rehabilitation credit under section 47 of the Code or that the expenses exceeded \$3,000,000.

**Estimate (in millions):** \$1.5

**Data Source:** Department of Revenue database

### 2. Credit for Nonincome-Producing Rehabilitated Mill Property

**Citation:** G.S. 105-129.72

**Description:** A taxpayer who makes qualified rehabilitation expenditures for a certified historic mill or agricultural warehouse located in this State is allowed a credit equal to 40% of the expenditures if the building is located in a Development Tier 1 or 2 area. A certificate from the State Historic Preservation Officer must be obtained which shows that the expenditures either qualified for a Federal rehabilitation credit under section 47 of the Code or that the expenses exceeded \$3,000,000.

**Estimate (in millions):** \$0.5

**Data Source:** Department of Revenue database

## Tax Credits for Growing Businesses (Article 3J)

See Methodology Note under Article 3B.

The tax credits under this section are effective beginning January 1, 2007. The companies that qualify for these credits must meet certain eligibility requirements as laid out in G.S. 105-129.83. The credits are taken in equal installments over the 4 years (7 years for Real Property Credit) following the taxable year in which the jobs or eligible property are placed in service.

These credits are only available to establishments whose primary business is one of the following: (1) air courier services hub, (2) aircraft maintenance and repair, (3) company headquarters that creates at least 75 additional jobs, (4) customer service call center, (5) electronic shopping and mail order house, (6) information technology and services, (7) manufacturing, (8) motorsports facility, (9) motorsports racing team, (10) research and development, (11) warehousing, and (12) wholesale trade.

**Note:** This article is repealed effective for business activities that occur on or after January 1, 2013.

### 1. Credit for Creating Jobs

**Citation:** G.S. 105-129.87

**Description:** An eligible taxpayer is allowed a credit for creating jobs in this State. The amount of the credit is dependent on the development tier of the county in which the jobs are located. Additional credits are available for companies that create jobs in an urban progress zone or agrarian growth zone, as well as for new hires who reside in one of the zones or who were unemployed for at least 26 weeks before the date of hire.

**Estimate (in millions):** \$8.7

**Data Source:** Department of Revenue database

### 2. Credit for Investing in Business Property

**Citation:** G.S. 105-129.88

**Description:** An eligible taxpayer is allowed a credit for placing business property in this State. The amount of the credit is dependent on the development tier of the county in which the property is located. Additional credits are available for companies that place business property in an urban progress zone or agrarian growth zone.

**Estimate (in millions):** \$28.0

**Data Source:** Department of Revenue database

## Tax Credits for Growing Businesses

### 3. **Credit for Investing in Real Property**

**Citation:** G.S. 105-129.89

**Description:** An eligible taxpayer that purchases or leases real property in this State is allowed a credit equal to 30% of the eligible investment amount. The credit is applicable only for investments in a development tier 1 area.

**Estimate (in millions):** \$0.4

**Data Source:** Department of Revenue database

## Tax Incentives for Railroad Intermodal Facilities (Article 3K)

See Methodology Note under Article 3B.

### 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.

**Estimate (in millions):** less than \$0.1

**Data Source:** Department of Revenue database

**Note:** Effective for taxable years beginning on or after January 1, 2007. This provision sunsets on January 1, 2038.

## Individual Income Tax

### Individual Income Tax (Article 4, Part 2)

#### Brief Description and Tax Base Information

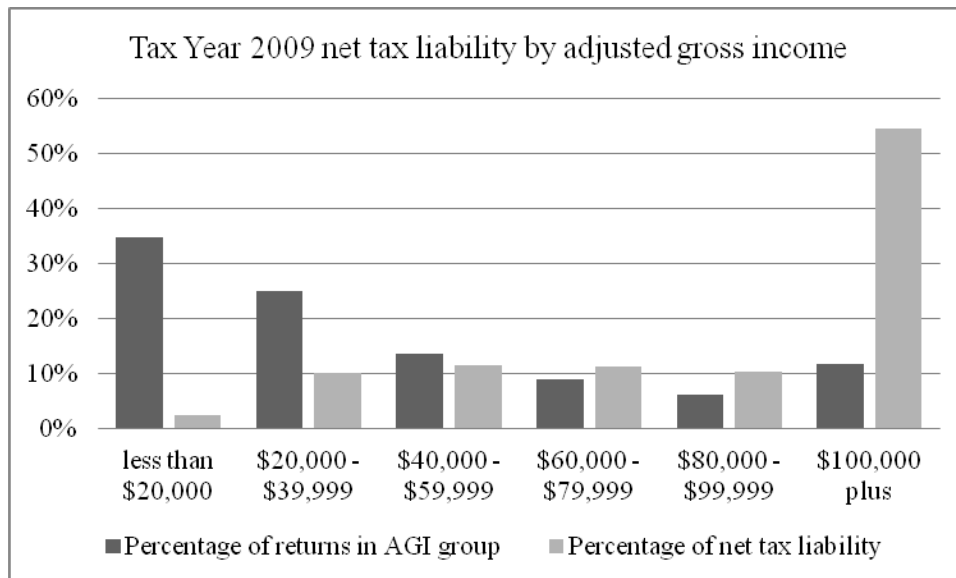
The individual income tax is the largest component of the State's General Fund revenues. In fiscal year 2010-11, the State collected nearly \$9.9 billion from this tax.

For taxable years beginning January 1, 2008, there are three marginal tax rates: 6%, 7%, and 7.75%. Tax brackets vary by marital status and by whether an individual is the head of a household.

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.

The tax base could also be reduced by excluding a certain level of income, consistent with the personal exemption and standard deduction amounts. However, we have chosen to treat these items as tax expenditures so that they could be estimated for this report.

The following graph shows the net tax liability of taxpayers by AGI brackets for the latest tax year for which data are available. Net tax liability is defined as the amount of tax minus credits, but it does not include the refundable portion of the earned income tax credit.





**Table 4****Individual Income Tax Expenditure Estimates for FY 2011-12**

<b>Item</b>	<b>Citation (G.S. § 105)</b>	<b>Short Title</b>	<b>FY12 Estimate (\$ Millions)</b>
1	158	Certain Individuals Upon Death	less than 0.1
2	134.6(a1)	Personal Exemption	1,228.2
3	134.6(a2)	Standard or Itemized Deduction	2,296.0
4	134.6(a2)	Additional Deduction for Blind and Elderly Taxpayers	22.1
5	134.6(b)(1)	U.S. and N.C. Obligation Interest	15.4
6	134.6(b)(2)	Disposition of Certain Obligations	less than 0.1
7	134.6(b)(3)	Social Security Benefits in Excess of Federal Limit	362.9
8	134.6(b)(5b)	Government Retirement Income under Bailey Settlement	428.8
9	134.6(b)(6)	Private Retirement Plans and Government Pensions	89.2
10	134.6(b)(10)	Basis Adjustment for Disposed Property	Unavailable
11	134.6(b)(11)	Severance Wages	23.3
12	134.6(b)(14)	Erroneous Conviction and Imprisonment	less than 0.1
13	134.6(b)(15)	Interest Earned on Certain Trusts	less than 0.1
14	134.6(b)(16)	Hurricane Floyd Reserve Fund	less than 0.1
15	134.6(b)(18)	Disaster Relief Reserve Payments	1.2
16	134.6(b)(19)	Deduction for Sale of a Manufactured Home Community to Manufactured Home Owners	less than 0.1
17	134.6(b)(22)	Business Income Deduction	131.6
18	134.6(d)(4)	Parental Savings Trust Fund Deduction	5.4
19	134.6(d)(6)	Volunteer Fire and Rescue Squad Deduction	0.3
20	134.7(a)(4)	Net Economic Losses Incurred Prior to January 1, 1989	0.0

Individual Income Tax

<b>Item</b>	<b>Citation (G.S. § 105)</b>	<b>Short Title</b>	<b>FY12 Estimate (\$ Millions)</b>
21	151.1	Construction of Dwellings for Handicapped Persons	0.1
22	151.11	Credit for Child Care and Certain Employment-Related Expenses	51.2
23	151.12	Credit for Certain Real Property Donations	16.2
24	151.13	Credit for Conservation Tillage Equipment	0.1
25	151.14	Credit for Gleaned Crops	less than 0.1
26	151.18	Credit for the Disabled	1.3
27	151.21	Credit for Property Taxes Paid on Farm Machinery	1.7
28	151.22	Use of North Carolina Ports	less than 0.1
29	151.24	Credit for Children	151.0
30	151.25	Construction of Poultry Composting Facility	less than 0.1
31	151.26	Charitable Contributions by Nonitemizers	36.8
32	151.28	Long-Term Care Credit	5.8
33	151.29	Film Industry Production Expenses	included in Corporate Income Tax for GS 105- 130.47
34	151.30	Credit for Oyster Shells	less than 0.1
35	151.31	Earned Income Tax Credit	102.5
36	151.32	Credit for Adoption Expenses	5.4
37	151.33	Education Credit for Children with Disabilities	1.4
38	159.1	Political Parties Financing Fund Designation	1.3
39	159.2	Public Campaign Fund Designation	1.1
40	163.011	Credit for Qualified Business Investments	7.0
41	N/A	Carry-Over Provisions	24.0

## Exemptions

### 1. Certain Individuals Upon Death

**Citation:** G.S. 105-158

**Description:** Certain armed forces personnel and other individuals upon death are exempt from taxation.

**Estimate (in millions):** less than \$0.1

**Data Source:** Number of military deaths from Department of Defense

## Deductions

### 2. Personal Exemption

**Citation:** G.S. 105-134.6(a1)

**Description:** The taxpayer is allowed the same number of personal exemptions allowed under section 151 of the Code for the taxable year. The exemption amount is \$2,000 if AGI is equal to or above the following limits by filing status: \$100,000 if married filing jointly; \$80,000 if head of household; \$60,000 if single; \$50,000 if married filing separately. If AGI is below these levels, the exemption amount is \$2,500.

**Estimate (in millions):** \$1,228.2

**Data Source:** Department of Revenue Individual Income Tax database (Tax Year 2009 is latest available)

### 3. Standard or Itemized Deduction

**Citation:** G.S. 105-134.6(a2)

**Description:** Taxpayers may elect to deduct either the standard deduction amount or the itemized deductions amount claimed under the Code. The standard deduction amount is \$6,000 for married filing jointly; \$4,400 for head of household; and \$3,000 for single or married filing separately. In the case of a married couple filing separately, both spouses must make the same election.

**Estimate (in millions):** \$2,296.0

**Data Source:** Department of Revenue Individual Income Tax database (Tax Year 2009 is latest available); Itemized deductions were estimated by adjusting federal estimates from Joint Committee on Taxation (see Appendix A of this report)

**Note:** Under G.S. 105-134.6(c)(3), taxpayers who elect the itemized deduction must exclude State and local income or sales tax and qualified motor vehicle tax that are included in their federal itemized deductions.

## Individual Income Tax

### 4. **Additional Deduction for Blind and Elderly Taxpayers**

**Citation:** G.S. 105-134.6(a2)

**Description:** A taxpayer that elects the standard deduction amount and is entitled to an additional deduction amount under section 63(f) of the Code for the aged or blind may deduct an additional amount under this subsection. The additional amount is \$600 for a married individual and \$750 for a single individual who is not a surviving spouse. The taxpayer is allowed the same number of additional amounts that the taxpayer claimed under the Code.

**Estimate (in millions):** \$22.1

**Data Source:** State estimates derived from national data from Internal Revenue Service, Statistics of Income report: "Individual Income Tax Returns, Preliminary Data, 2009"

### 5. **U.S. and N.C. Obligation Interest**

**Citation:** G.S. 105-134.6(b)(1)

**Description:** Deduction for interest on obligations of the United States, North Carolina, and nonprofit educational institutions.

**Estimate (in millions):** \$15.4

**Data Source:** Department of Revenue Individual Income Tax database (Tax Year 2009 is latest available)

**Note:** Although not separately stated, the deductible amount for interest on State and local obligations would likely be less than \$1 million.

### 6. **Disposition of Certain Obligations**

**Citation:** G.S. 105-134.6(b)(2)

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

**Estimate (in millions):** less than \$0.1

**Data Source:** Department of Revenue Individual Income Tax database

**7. Social Security Benefits in Excess of Federal Limit**

**Citation:** G.S. 105-134.6(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.

**Estimate (in millions):** \$362.9

**Data Source:** Department of Revenue Individual Income Tax database (Tax Year 2009 is latest available)

**Note:** The Social Security Amendments of 1983 made OASDI benefits subject to federal income tax. Federal taxation of 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.

**8. Government Retirement Income under Bailey Settlement**

**Citation:** G.S. 105-134.6(b)(5b)

**Description:** Exemption for State, local or federal government retirement plans to the extent the amount is exempt pursuant to a court order in settlement of Bailey v. State and Patton v. State.

**Estimate (in millions):** \$428.8

**Data Source:** Department of Revenue Individual Income Tax database (Tax Year 2009 is latest available)

**9. Private Retirement Plans and Government Pensions**

**Citation:** G.S. 105-134.6(b)(6)

**Description:** Deduction for private retirement plans up to \$2,000 or a State, local or federal government pension up to \$4,000.

**Estimate (in millions):** \$89.2

**Data Source:** Department of Revenue Individual Income Tax database (Tax Year 2009 is latest available)

**10. Basis Adjustment for Disposed Property**

**Citation:** G.S. 105-134.6(b)(10)

**Description:** Deduction for the amount that the basis of property disposed of exceeds the federal basis

**Estimate (in millions):** Unavailable

## Individual Income Tax

### 11. Severance Wages

**Citation:** G.S. 105-134.6(b)(11)

**Description:** Deduction for severance wages received from an employer as the result of the taxpayers' permanent termination from employment through no fault of their own. The amount of wages deducted may not exceed \$35,000 for any one termination.

**Estimate (in millions):** \$23.3

**Data Source:** Department of Revenue Individual Income Tax database (Tax Year 2009 is latest available)

### 12. Erroneous Conviction and Imprisonment

**Citation:** G.S. 105-134.6(b)(14)

**Description:** Deduction for the amount paid to the taxpayer under G.S. 148-84 for erroneous conviction and imprisonment.

**Estimate (in millions):** less than \$0.1

**Data Source:** Industrial Commission of the North Carolina Department of Commerce

### 13. Interest Earned on Certain Trusts

**Citation:** G.S. 105-134.6(b)(15)

**Description:** Deduction for interest earned on a Trust established by two or more manufacturers to pay for damages.

**Estimate (in millions):** less than \$0.1

**Data Source:** Department of Revenue Individual Income Tax database

### 14. Hurricane Floyd Reserve Fund

**Citation:** G.S. 105-134.6(b)(16)

**Description:** Deduction for amount paid from Hurricane Floyd Reserve Fund.

**Estimate (in millions):** less than \$0.1

**Data Source:** Department of Revenue Individual Income Tax database

**15. Disaster Relief Reserve Payments**

**Citation:** G.S. 105-134.6(b)(18)

**Description:** 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.

**Estimate (in millions):** \$1.2

**Data Source:** News reports on costs of Hurricane Irene

**Note:** This deduction is highly variable from year to year, since it is dependent on the occurrence and severity of a hurricane event. This estimate for FY12 includes a portion of the estimated costs of Hurricane Irene and an estimate for the likelihood of additional costs in 2011 and 2012. Payments received to replace property lost in a federally declared disaster are not included in the estimate, since these payments would be exempt from federal and state law in the absence of this provision. However, payments received to replace income are not exempt.

**16. Deduction for Sale of a Manufactured Home Community to Manufactured Home Owners**

**Citation:** G.S. 105-134.6(b)(19)

**Description:** Taxpayers may deduct 5% of the gross purchase price of a qualified sale of a manufactured home community from federal taxable income. To qualify, the sale must be a one-time event to a group composed of a majority of the community's leaseholders or to a nonprofit organization that represents the group of leaseholders and notice of the sale must be given to the NC Housing Finance Agency. Effective for taxable years beginning on or after January 1, 2008; expires for taxable years beginning on or after January 1, 2015.

**Estimate (in millions):** less than \$0.1

**Data Source:** North Carolina Housing Finance Agency; Community Reinvestment Association of North Carolina

**17. Business Income Deduction**

**Citation:** G.S. 105-134.6(b)(22)

**Description:** For tax years beginning on or after January 1, 2012, taxpayers may deduct up to \$50,000 of net business income the taxpayer receives during the taxable year. In the case of a married couple filing jointly where both spouses receive or incur net business income, the maximum dollar amount applies separately to each spouse's net business income. Passive business income is excluded.

**Estimate (in millions):** \$131.6

**Data Source:** Legislative estimate for 2011 budget bill

## Individual Income Tax

### 18. Parental Savings Trust Fund Deduction

**Citation:** G.S. 105-134.6(d)(4)

**Description:** A taxpayer may deduct from taxable income the amount contributed to an account in the Parental Savings Trust Fund of the State Education Assistance Authority. The maximum deduction is \$2,500 (\$5,000 for joint filers).

**Estimate (in millions):** \$5.4

**Data Source:** Department of Revenue Individual Income Tax database (Tax Year 2009 is latest available)

**Note:** Contributions to 529 plans or qualified tuition plans (QTPs) set up in other states are not deductible. Certain AGI limits apply in tax years beginning in 2012.

**Distributional Note:** Based on Tax Year 2009 returns, 28,025 taxpayers took the deduction. Of these, 2,786 had AGI less than \$40,000; 9,324 had AGI between \$40,000 and \$100,000; 11,288 had AGI between \$100,000 and \$200,000; and 4,627 had AGI of \$200,000 or more.

### 19. Volunteer Fire and Rescue Squad Deduction

**Citation:** G.S. 105-134.6(d)(6)

**Description:** Effective for taxable years beginning on or after January 1, 2007, a taxpayer who is an eligible volunteer firefighter or an eligible volunteer rescue worker may deduct \$250.

**Estimate (in millions):** \$0.3

**Data Source:** Department of Revenue Individual Income Tax database (Tax Year 2008 is latest available)

### 20. Net Economic Losses Incurred Prior to January 1, 1989

**Citation:** G.S. 105-134.7(a)(4)

**Description:** Deductions for net economic losses in the 5 years preceding Tax Year 1989, arising from business transactions, business capital, or business property.

**Estimate (in millions):** \$0.0

**Note:** When Federal Taxable Income was adopted as the basis for N.C. income tax in 1989, the Federal provisions allowing net operating losses were passed through to the State income calculation.



**Tax Credits**

**21. Construction of Dwellings for Handicapped Persons**

**Citation:** G.S. 105-151.1

**Description:** An owner of multifamily rental units located in this State is allowed a credit against income tax equal to \$550 for each dwelling unit constructed that conforms to Volume I-C of the NC Building Code.

**Estimate (in millions):** \$0.1

**Data Source:** Department of Revenue Individual Income Tax database (Tax Year 2009 is latest available)

**22. Credit for Child Care and Certain Employment-Related Expenses**

**Citation:** G.S. 105-151.11

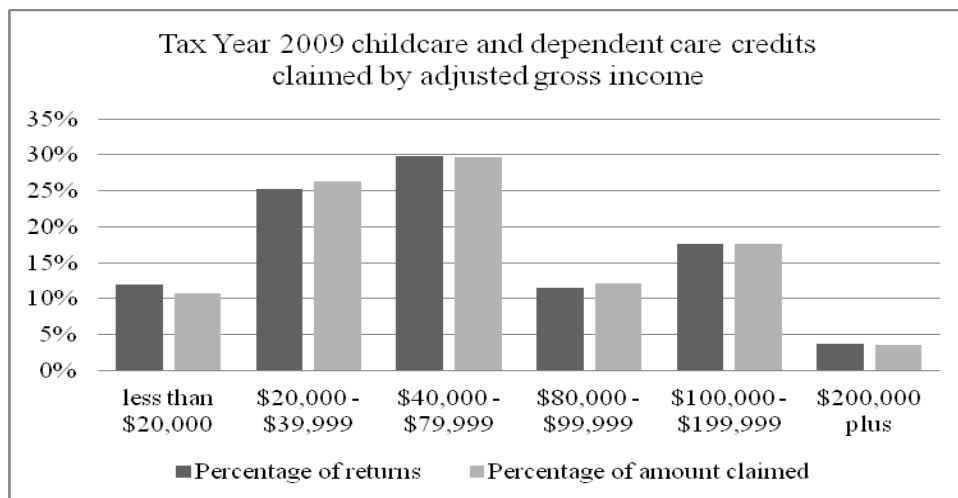
**Description:** A person who is allowed a credit against federal income tax for a percentage of employment-related expenses under Section 21 of the Code shall be allowed a proportional credit on State income taxes. The amount of expenses for which a credit is claimed may not exceed \$3,000 for one qualifying household member or \$6,000 for multiple qualifying members. Prior to 2006, the expense limits were \$2,400 for one qualifying member and \$4,800 for multiple qualifying members.

**Estimate (in millions):** \$51.2

**Data Source:** Department of Revenue Individual Income Tax database (Tax Year 2009 is latest available)

**Note:** The estimates do not include tax credits that were claimed but could not be taken due to nonrefundability constraints. It was estimated that 6% of credits claimed could not be taken for this reason.

**Distributional Note:** The following graph shows the percentage of childcare and dependent care credits claimed for tax year 2009 by income classes.



## Individual Income Tax

### 23. Credit for Certain Real Property Donations

**Citation:** G.S. 105-151.12

**Description:** Credit of 25% for donations of real property for public beach access, public access to water or trails, fish and wildlife conservation, or other similar land conservation purposes. The credit may not exceed \$250,000 (\$500,000 for qualified married couple). For donations by pass-throughs, the total credit to owners may not exceed \$500,000 (for tax years beginning January 1, 2007).

**Estimate (in millions):** \$16.2

**Data Source:** Department of Revenue Individual Income Tax database (Tax Year 2009 is latest available)

**Note:** The estimates do not include tax credits that were claimed but could not be taken due to nonrefundability constraints. It was estimated that 10% of credits claimed could not be taken for this reason.

### 24. Credit for Conservation Tillage Equipment

**Citation:** G.S. 105-151.13

**Description:** Credit for conservation tillage equipment.

**Estimate (in millions):** \$0.1

**Data Source:** Department of Revenue Individual Income Tax database (Tax Year 2009 is latest available)

### 25. Credit for Gleaned Crops

**Citation:** G.S. 105-151.14

**Description:** A credit of 10% of the market price of unharvested crops donated by the grower to a qualified organization. Any unused credit may be carried forward for the succeeding five years.

**Estimate (in millions):** less than \$0.1

**Data Source:** Department of Revenue Individual Income Tax database (Tax Year 2009 is latest available)

**26. Credit for the Disabled**

**Citation:** G.S. 105-151.18

**Description:** A taxpayer who (1) is retired on disability, (2) at the time of retirement was totally and permanently disabled, and (3) claims a federal income tax credit for the elderly and disabled for the taxable year is allowed a credit equal to 1/3 of the amount of the federal credit. A credit is also available for a disabled dependent.

**Estimate (in millions):** \$1.3

**Data Source:** Department of Revenue Individual Income Tax database (Tax Year 2009 is latest available)

**Note:** The estimates do not include tax credits that were claimed but could not be taken due to nonrefundability constraints. It was estimated that 40% of credits claimed could not be taken for this reason.

**27. Credit for Property Taxes Paid on Farm Machinery**

**Citation:** G.S. 105-151.21

**Description:** A credit is allowed to individual farmers and individual shareholders of S Corporations engaged in farming equal to the amount of property taxes paid on farm machinery, or attachments and repair parts for farm machinery. This credit is not to exceed \$1,000 and may not be carried forward.

**Estimate (in millions):** \$1.7

**Data Source:** Department of Revenue Individual Income Tax database (Tax Year 2009 is latest available)

**28. Use of North Carolina Ports**

**Citation:** G.S. 105-151.22

**Description:** A credit is allowed to individuals utilizing North Carolina ports in either Wilmington or Morehead City equal to the excess of current year charges paid on exported, processed cargo over the year. This credit may not exceed 50% of tax due less all other credits. The cumulative amount of credit cannot exceed \$100,000.

**Estimate (in millions):** less than \$0.1

**Data Source:** Department of Revenue "Economic Incentive Reports," 2011

**Note:** This provision sunsets January 1, 2014.

## Individual Income Tax

### 29. Credit for Children

**Citation:** G.S. 105-151.24

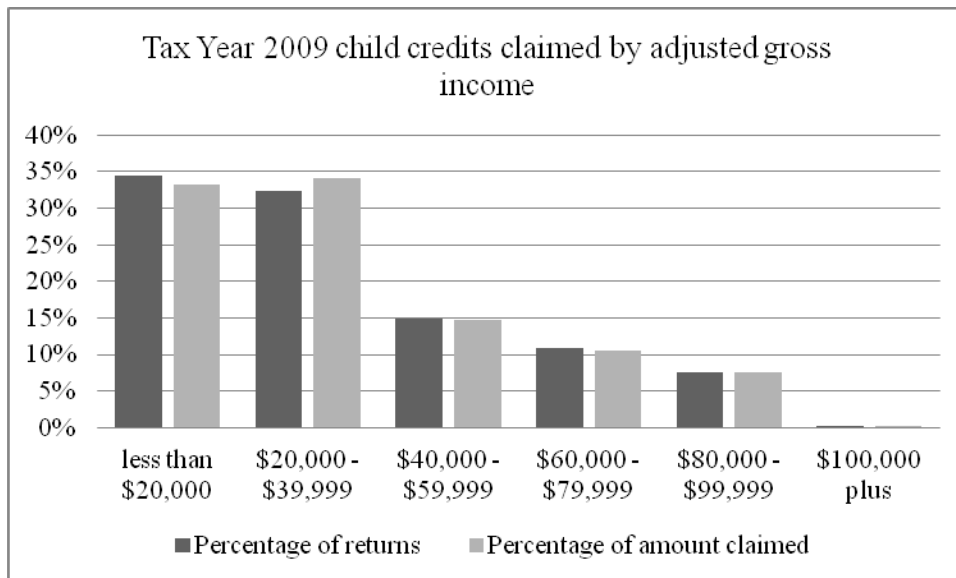
**Description:** An individual who is allowed a federal child tax credit under Section 24 of the Code (qualifying children must be under the age of 17 at the end of the calendar year) and whose adjusted gross income (AGI) is less than a specified amount (\$100,000 for married filers, filing jointly; \$80,000 for heads of households; \$60,000 for single filers; \$50,000 for married filers, filing separately) is allowed a credit of \$100 for each dependent child. The credit cannot exceed the individual's tax liability for the year reduced by all other credits.

**Estimate (in millions):** \$151.0

**Data Source:** Department of Revenue Individual Income Tax database (Tax Year 2009 is latest available)

**Note:** The estimates do not include tax credits that were claimed but could not be taken due to nonrefundability constraints. It was estimated that 25% of credits claimed could not be taken for this reason.

**Distributional Note:** The following graph shows the percentage of child credits claimed for tax year 2009 by income classes.



### 30. Construction of Poultry Composting Facility

**Citation:** G.S. 105-151.25

**Description:** A taxpayer who constructs in this State a poultry composting facility is allowed a credit of 25% of the installation, materials, and equipment costs of construction paid during the year. This credit may not exceed \$1,000 for any single installation.

**Estimate (in millions):** less than \$0.1

**Data Source:** Department of Revenue Individual Income Tax database (Tax Year 2009 is latest available)

**31. Charitable Contributions by Nonitemizers**

**Citation:** G.S. 105-151.26

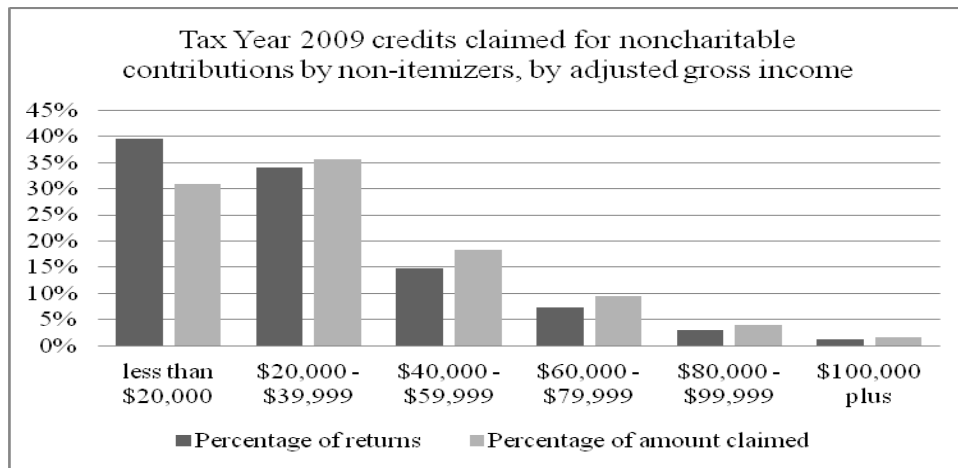
**Description:** A taxpayer who elects the standard deduction on their Federal income tax is allowed a credit of 7% of the taxpayer's excess charitable contributions. Excess contributions are those over 2% of the taxpayer's federal adjusted gross income.

**Estimate (in millions):** \$36.8

**Data Source:** Department of Revenue Individual Income Tax database (Tax Year 2009 is latest available)

**Note:** The estimates do not include tax credits that were claimed but could not be taken due to nonrefundability constraints. It was estimated that 17% of credits claimed could not be taken for this reason.

**Distributional Note:** The following graph shows the percentage of credits for charitable contributions by non-itemizers claimed for Tax Year 2009 by income classes.



**32. Long-Term Care Credit**

**Citation:** G.S. 105-151.28

**Description:** A taxpayer whose adjusted gross income, as calculated under the Code, is less than certain amounts (\$100,000 for married, filing jointly; \$80,000 for head of household; \$60,000 for single; \$50,000 for married, filing separately) is allowed a credit equal to 15% of the premiums paid on a long-term care insurance contract for themselves, spouse, or qualified dependent. The credit for each contract may not exceed \$350.

**Estimate (in millions):** \$5.8

**Data Source:** Department of Revenue Individual Income Tax database (Tax Year 2009 is latest available)

**Note:** This provision sunsets January 1, 2013. The estimates do not include tax credits that were claimed but could not be taken due to nonrefundability constraints. It was estimated that 25% of credits claimed could not be taken for this reason.

## Individual Income Tax

### 33. **Film Industry Production Expenses**

**Citation:** G.S. 105-151.29

**Description:** A film or television production company that spends at least \$250,000 in North Carolina on productions during the tax year is allowed a credit equal to up to 25% of the qualifying expenses. A production company may include as qualifying expenses compensation paid to a highly compensated individual up to \$1 million. The cost of production-related insurance coverage constitutes a qualifying expense as long as the coverage is not purchased from a related member.

**Estimate (in millions):** included in Corporate Income Tax for G.S. 105- 130.47

**Note:** This provision sunsets January 1, 2014. This tax credit is refundable if the amount exceeds income tax liability. No credit is allowed for productions related to political advertising, news programs, sporting events, or obscene material.

### 34. **Tax Credit for Recycling Oyster Shells**

**Citation:** G.S. 105-151.30

**Description:** Taxpayers are 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. Effective for taxable years beginning on or after January 1, 2006 and expires for taxable years beginning on or after January 1, 2013.

**Estimate (in millions):** less than \$0.1

**Data Source:** Department of Revenue Individual Income Tax database (Tax Year 2009 is latest available)

### 35. **Earned Income Tax Credit**

**Citation:** G.S. 105-151.31

**Description:** Taxpayers are allowed a refundable credit equal to 5% of their Federal EITC. This is effective for tax years beginning January 1, 2009. (For Tax Year 2008, the credit was 3.5% of Federal EITC.)

**Estimate (in millions):** \$102.5

**Data Source:** Department of Revenue Individual Income Tax database (Tax Year 2009 is latest available)

**Note:** This provision sunsets January 1, 2013. For tax year 2009, this tax credit is taken by approximately 880,000 taxpayers; of the \$99.6 million claimed for that year, 52% exceeded taxpayer tax liability and was refunded.

**36. Credit for Adoption Expenses**

**Citation:** G.S. 105-151.32

**Description:** Taxpayers are allowed a credit equal to 50% of their Federal credit for adoption expenses. This is effective for tax years beginning January 1, 2007.

**Estimate (in millions):** \$5.4

**Data Source:** Department of Revenue Individual Income Tax database (Tax Year 2009 is latest available)

**Note:** This provision sunsets January 1, 2013.

**37. Education Credit for Children with Disabilities**

**Citation:** G.S. 105-151.33

**Description:** A taxpayer is allowed a credit of up to \$3,000 per semester for each eligible dependent child who is a resident of this State and who is enrolled in grades K-12 in a nonpublic school or a public school that charges tuition. An eligible child must receive special education or related services on a daily basis; he or she must have been enrolled in a public school for the two preceding semesters. The amount of the credit cannot exceed the amount of tuition and special education expenses. The credit cannot exceed tax liability, but can be carried forward for 3 years. Effective for tax years beginning January 1, 2011 for semester charges beginning July 1, 2011.

**Estimate (in millions):** \$1.4

**Data Source:** Legislative fiscal note for HB344 (2011 session)

**38. Political Parties Financing Fund Designation**

**Citation:** G.S. 105-159.1

**Description:** An individual whose income tax liability is \$3.00 or more may designate \$3.00 of the tax to be credited to the North Carolina Political Parties Financing Fund for the use of the political party designated by the taxpayer. Couples who are filing a joint return may designate \$3.00 each if their tax liability is at least \$6.00.

**Estimate (in millions):** \$1.3

**Data Source:** Department of Revenue FY10-11 data

**39. Public Campaign Fund Designation**

**Citation:** G.S. 105-159.2

**Description:** An individual whose income tax liability is \$3.00 or more may designate \$3.00 of the tax to the North Carolina Public Campaign Fund for voter materials related to the election of N.C. Supreme Court justices and Court of Appeals judges. Couples who are filing a joint return may designate \$3.00 each if their tax liability is at least \$6.00.

**Estimate (in millions):** \$1.1

**Data Source:** Department of Revenue FY10-11 data

## Individual Income Tax

### 40. Credit for Qualified Business Investments

**Citation:** G.S. 105-163.011

**Description:** A credit is allowed to individuals investing in the equity securities or subordinated debt of a North Carolina Enterprise Corporation, a limited partnership in which a North Carolina Enterprise Corporation is the only general partner, a qualified business venture, a qualified grantee business, or a qualified investment organization, equal to 25% of the amount invested or \$50,000, whichever is less. Unused credits may be carried forward for five years. The total amount of all tax credits allowed to taxpayers may not exceed \$7,000,000.

**Estimate (in millions):** \$7.0

**Data Source:** Department of Revenue Individual Income Tax database (Tax Year 2009 is latest available)

**Note:** This provision sunsets January 1, 2013. The cap on total tax credits claimed for investments made prior to 2004 was \$6,000,000.



Table 5

## Carry-Over Provisions for NC Individual Income Tax

Description of tax credit	Length of carry forwards	Other conditions
Credit for construction of dwelling units for handicapped persons	1 year	
Credit for child care and certain employment-related expenses	none	
Credit for certain real property donations	5 years	
Credit for conservation tillage equipment	5 years	
Credit for gleaned crops	5 years	
Credit for the disabled	none	
Credit or partial refund for tax paid on certain federal retirement benefits	2 years	
Credit for property taxes paid on farm machinery	none	Maximum credit = \$1,000
Credit for North Carolina State Ports Authority	5 years	Cannot exceed 50% of tax liability; maximum=\$2 million
Credit for children	none	
Credit for construction of a poultry composting facility	none	Maximum=\$1,000 per facility
Credit for charitable contributions by non-itemizers	none	
Credit for qualified business investments	5 years	
Education Expenses Credit for Children with Disabilities	3 years	
Earned Income Tax Credit	none	Refundable

**41. Carry-Over Provisions****Citation:** See General Statutes text for each credit**Description:** Various individual income tax credits may be carried forward.**Estimate (in millions):** \$24.0**Data Source:** Department of Revenue Individual Income Tax database (Tax Year 2009 is latest available)

## 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 occurring in the State, and the use tax is imposed on purchases made outside the State if the property purchased is used in North Carolina.

In addition to retail sales, the sales and use tax is imposed on several services, such as accommodation rentals, restaurants, and laundry and dry-cleaning 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% temporary 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:

<b>General State sales tax rate</b>	<b>Time period of sales</b>
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

The State sales tax rate on telecommunication services and spirituous liquor is equal to the combined State and local tax rate. This rate has been 7.0% since July 1, 2011. The combined rate was 8% from September 1, 2009 through June 30, 2011.

Effective January 1, 2010, the combined rate applies to certain digital property that is delivered or accessed electronically, is not considered tangible personal property, and would be taxable under this Article if sold in a tangible medium.

For this report, we have used an effective tax rate for FY12 of 4.83%. This is the average rate for the period June 1, 2011 through May 31, 2012. (Note that this is lagged one month from the normal fiscal year due to the usual one-month lag in collections.) For comparative purposes, the effective tax rate used for FY10 in the “2009 Tax Expenditure Report” was 5.40%.

For Fiscal Year 2010-11, sales and use tax receipts net of refunds and transfers to local governments were approximately \$6.2 billion.

**Table 6****Sales and Use Tax Expenditure Estimates for FY 2011-12**

<b>Item</b>	<b>Citation (G.S. § 105)</b>	<b>Short Title</b>	<b>FY12 Estimate (\$ Millions)</b>
1	164.4(a)(3)	Certain Accommodation Rentals	Unavailable
2	164.13(1) a	Fertilizers, Seeds and Related Items Sold to a Farmer	38.5
3	164.13(1)b	Farm Machinery and Related Parts and Lubricants	13.4
4	164.13(1)c	Horses and Mules Sold to a Farmer	less than 0.1
5	164.13(1)d	Fuel Sold to a Farmer	20.4
6	164.13(1a)	Containers and Certain Storage Facilities Sold to a Farmer	9.5
7	164.13(1b)	Electricity Sold to a Farmer	2.7
8	164.13(2a)a	Feeds, Litter and Medications for Farming	139.6
9	164.13(2a)b-e	Certain Substances Used on Animals or Plants for Commercial Purposes	13.1
10	164.13(3)	Certain Products of Forests and Mines by Producers	Unavailable
11	164.13(4b)	Farm Products Requiring Ice Preservation For Further Sale	Unavailable
12	164.13(4c)	Manufactured Facilities, Building Materials and Related Equipment for Commercial Housing of Animals	7.0
13	164.13(4d)	Tobacco Farming Items	less than 0.1
14	164.13(4f)	Commercial Logging Machinery	6.3
15	164.13(4g)	Wood Chippers for Out-of-State Use	Unavailable
16	164.13(5a)	Items Taxed by Article 5F	178.4
17	164.13(5b)	Telephone Equipment	35.2
18	164.13(5c)	Radio and Television Broadcast Equipment	2.7
19	164.13(5d)	Cable Service Broadcast Equipment	11.9
20	164.13(7)	Aquacultural Products in Raw State	Unavailable

Sales and Use Tax

<b>Item</b>	<b>Citation (G.S. § 105)</b>	<b>Short Title</b>	<b>FY12 Estimate (\$ Millions)</b>
21	164.13(9)	Tangible Property Purchased for Commercial Fishing	2.4
22	164.13(10)	Items Used by Laundries and Dry Cleaning Businesses	1.8
23	164.13(10a)	Items Used by Major Recycling Facility	14.5
24	164.13(11)	Motor Fuel or Alternative Fuel Taxed by Articles 36C or 36D	0.0
25	164.13(11a)	Diesel Fuel for Railroads	24.2
26	164.13(12)	Durable Medical Equipment	26.5
27	164.13(13)	Prescription Drugs and Insulin	464.7
28	164.13(13c)	Chiropractors' Nutritional Supplements	0.4
29	164.13(14)	Public School Books	1.9
30	164.13(15)	Accounts of Sales Charged Off for Income Purposes	Unavailable
31	164.13(20)	Sales by Blind Merchants	0.5
32	164.13(21)	Lease or Rental of Films for Exhibition	3.5
33	164.13(22)	Lease or Rental of Films, Transcriptions and Recordings to Broadcasters	8.0
34	164.13(22a)	Audiovisual Masters	6.4
35	164.13(23)a	Packaging Items for Manufacturers, Producers and Retailers	120.8
36	164.13(23)b	Packaging Returned to Seller	0.1
37	164.13(26)	Food Sold by a Public or Private School Cafeteria	16.4
38	105.164.13(26a)	Food Sold by a Public School Cafeteria to Certain Childcare Centers	included above
39	164.13(27)	Food Sold in Dining Rooms Operated by Educational Institutions	33.0
40	164.13(27a)	Bread Sold at a Bakery Thrift Store	0.1
41	164.13(28)	Certain Sales of Newspapers	7.2

## Sales and Use Tax

<b>Item</b>	<b>Citation (G.S. § 105)</b>	<b>Short Title</b>	<b>FY12 Estimate (\$ Millions)</b>
42	164.13(30)	Vending Machine One-Cent Sales	less than 0.1
43	164.13(31)	Meals for the Elderly	less than 0.1
44	164.13(31a)	Food Sold by a Church or Religious Organization	Unavailable
45	164.13(32)	Motor Vehicle Exemption Less Highway Use Tax	424.7
46	164.13(34)	Sales by Nonprofits Whose Proceeds Go to the State	Unavailable
47	164.13(35)	Sales by Nonprofits Conducted Annually	1.3
48	164.13(36)	Advertising Supplements Sold with Newspapers	3.3
49	164.13(39)	Components of Free Distribution Periodicals	6.7
50	164.13(40)	Sales to the Department of Transportation	0.0
51	164.13(41)	Mobile Classrooms Purchased by Boards of Education or Community Colleges	0.6
52	164.13(43)	Custom Computer Software	7.0
53	164.13(43a)	Certain Computer Software	Unavailable
54	164.13(43b)	Certain Software or Digital Property	Unavailable
55	164.13(44)	Piped Natural Gas Taxed by Article 5E	84.0
56	164.13(45)	Items Purchased by Interstate Passenger Air Carriers	included in item #57
57	164.13(45a)	Lubricants and Parts Used in Maintenance of Commercial Aircraft	7.0
58	164.13(45b)	Items Purchased by Interstate Air Couriers	included in item #57
59	164.13(45c)	Exemption for Aircraft Simulators	0.7
60	164.13(46)	Electricity to Municipalities Supplied by Federal Agency	0.4

Sales and Use Tax

<b>Item</b>	<b>Citation (G.S. § 105)</b>	<b>Short Title</b>	<b>FY12 Estimate (\$ Millions)</b>
61	164.13(49)	Installation Charges	13.4
62	164.13(49a)	Delivery Charges of Direct Mail	0.5
63	164.13(50)	Goods Sold Through Vending Machines	10.9
64	164.13(51)	Water Delivered Through Main Pipes	53.6
65	164.13(52)	Sales to State Agencies	0.0
66	164.13(53)	Aerial Survey Data	less than 0.1
67	164.13(54)b	Pay Telephone Services	less than 0.1
68	164.13(54)c	911 Charges	6.3
69	164.13(54)d	Telephone Charges Related to Occupancy of an Accommodation	0.4
70	164.13(54)e	Charges Related to N.C. Information Highway and Other Government Data Networks	0.5
71	164.13(55)	Electricity and Eligible Business Property for an Internet Data Center	5.2
72	164.13(56)	Locomotives, Cranes and Trucks for a Railroad Intermodal Facility	0.2
73	164.13(57)	Electricity and Fuel Used by Manufacturers	71.4
74	164.13(58)	Disaster Assistance Debit Card Purchases	0.6
75	164.13(59)	Interior Design Services	1.0
76	164.13A	Service Charges on Meals and Beverages	0.5
77	164.13B	Food for Home Consumption	622.1
78	164.13B(a)	Exemption for Certain Bakery Items	3.8
79	164.13C	Sales and Use Tax Holiday	14.5
80	164.13D	Energy Star Sales Tax Holiday	1.7
81	164.21A	Municipalities That Sell Electric Power	8.8
82	164.14(a)	Refund to Interstate Carrier	5.3

## Sales and Use Tax

<b>Item</b>	<b>Citation (G.S. § 105)</b>	<b>Short Title</b>	<b>FY12 Estimate (\$ Millions)</b>
83	164.14(a2)	Partial Refund for Purchases of Railway Cars and Accessories by a Utility	Unavailable
84	164.14(b)	Refund of Sales Taxes to Nonprofits	228.2
85	164.14(c)	Refund of Sales Taxes to Sub-State Government Entities Except Schools	85.7
86	164.14A(a)(1)	Refund for Passenger Air Carrier	6.0
87	164.14A(a)(2)	Refund for Major Recycling Facilities	0.3
88	164.14A(a)(3)	Refund for Businesses in Low-Tier Area	0.2
89	164.14A(a)(4)	Refund of Aviation Fuel for Motorsports Events	0.1
90	164.14A(a)(5)	Refund on Professional Motor Racing Vehicle Parts	0.3
91	164.14A(a)(6)	Refund for Analytical Service Companies	0.1
92	164.14A(a)(7)	Refund for Railroad Intermodal Facilities	0.2
93	164.14B	Refund for Certain Industrial Facilities	0.7
94	164.4(a)(1a)	Manufactured Homes	6.9
95	164.4(a)(1b)	Aircraft and Boats	10.0
96	164.4(a)(1f)	Electricity to Commercial Laundries	0.1
97	164.4(a)(1h)	Electricity to Aluminum Smelting Facility	0.0
98	164.4(a)(3)	Various Real Estate Rentals	Unavailable
99	164.4(a)(4a)	Electricity to Commercial Businesses and Residences	180.1
100	164.4(a)(8)	Modular Homes	2.9
101	164.4C(f)	Out-of-State Call Centers	Unavailable
102	164.14(a1)	Cap on Tax of Aviation Fuel for Interstate Passenger Air Carriers	5.0

## Exemptions

### 1. Certain Accommodation Rentals

**Citation:** G.S. 105-164.4(a)(3)

**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.

**Estimate (in millions):** Unavailable

### 2. Fertilizers, Seeds and Related Items Sold to a Farmer

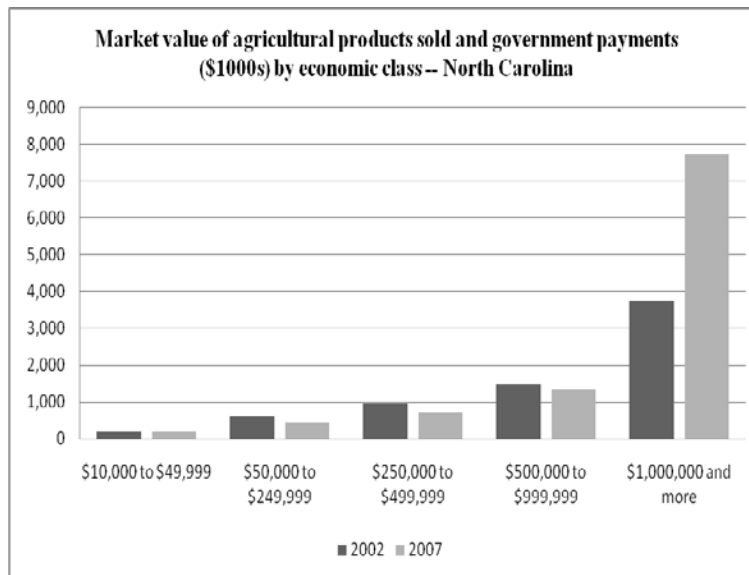
**Citation:** G.S. 105-164.13(1)a

**Description:** Various items sold for agricultural purposes: commercial fertilizer, lime, land plaster, plastic mulch, plant bed covers, potting soil, baler twine, and seeds

**Estimate (in millions):** \$38.5

**Data Source:** Farm Production Expenditure report for North Carolina (through 2010), National Agricultural Statistics Service, United States Department of Agriculture

**Distributional Note:** Between 2002 and 2007, North Carolina's overall agricultural production has become more concentrated among farms with at least \$1 million in revenues.



Source: Economic Census of Agriculture, US Census Bureau (accessed through NC Dept. of Agriculture and Consumer Services)



**3. Farm Machinery and Related Parts and Lubricants**

**Citation:** G.S. 105-164.13(1)b

**Description:** Farm machinery, attachment and repair parts for farm machinery, and lubricants applied to farm machinery.

**Estimate (in millions):** \$13.4

**Data Source:** Farm Production Expenditure report for North Carolina (through 2010), National Agricultural Statistics Service, United States Department of Agriculture

**4. Horse or Mule Sold to a Farmer**

**Citation:** G.S. 105-164.13(1)c

**Description:** Horse or mule sold for agricultural purposes.

**Estimate (in millions):** less than \$0.1

**Note:** Volume is not likely to exceed the level for a loss of \$100,000 or more

**5. Fuel Sold to a Farmer**

**Citation:** G.S. 105-164.13(1)d

**Description:** Fuel sold to farmers for use in the planting, cultivating, harvesting, or curing of farm crops or in the production of dairy products, eggs, or animals.

**Estimate (in millions):** \$20.4

**Data Source:** Farm Production Expenditure report for North Carolina (through 2010), National Agricultural Statistics Service, United States Department of Agriculture

**6. Containers and Certain Storage Facilities Sold to Farmers**

**Citation:** G.S. 105-164.13(1a)

**Description:** (a) containers sold to a farmer used to transport or package products, (b) grain, feed, or soybean storage facility, and parts and accessories attached to the facility.

**Estimate (in millions):** \$9.5

**Data Source:** Farm Production Expenditure report for North Carolina (through 2010), National Agricultural Statistics Service, United States Department of Agriculture

**7. Electricity Sold to a Farmer**

**Citation:** G.S. 105-164.13(1b)

**Description:** Effective July 1, 2010, electricity sold to a farmer to be used for any farming purpose other than preparing food, heating dwellings, and other household purposes.

**Estimate (in millions):** \$2.7

**Data Source:** Department of Revenue sales and use tax data for FY09-10

## Sales and Use Tax

### 8. Feeds, Litter and Medications for Farming

**Citation:** G.S. 105-164.13(2a)a

**Description:** Any of the following for commercial purposes: remedies, vaccines, medications, litter materials, and feeds for animals.

**Estimate (in millions):** \$139.6

**Data Source:** Farm Production Expenditure report for North Carolina (through 2010), National Agricultural Statistics Service, United States Department of Agriculture

### 9. Certain Substances Used on Animals or Plants for Commercial Purposes

**Citation:** G.S. 105-164.13(2a)b-e

**Description:** Any of the following substances for commercial purposes: (b) rodenticides, insecticides, herbicides, fungicides, and pesticides; (c) defoliant for use on cotton or other crops; (d) plant growth inhibitors, regulators, or stimulators; (e) semen.

**Estimate (in millions):** \$13.1

**Data Source:** Farm Production Expenditure report for North Carolina (through 2010), National Agricultural Statistics Service, United States Department of Agriculture

### 10. Certain Products of Forests and Mines 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.

**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.

### 11. 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.

**12. Manufactured Facilities, Building Materials, and Related Equipment for Commercial Housing of Animals**

**Citation:** G.S. 105-164.13(4c)

**Description:** Sales of (a) commercially manufactured facilities for commercial purposes in housing, raising or feeding animals or for housing related equipment; (b) building materials, supplies, fixtures, and equipment for housing, raising, or feeding animals; (c) commercially manufactured equipment and parts used in an exempt facility.

**Estimate (in millions):** \$7.0

**Data Source:** Farm Production Expenditure report for North Carolina (through 2010), National Agricultural Statistics Service, United States Department of Agriculture

**13. Tobacco Farming Items**

**Citation:** G.S. 105-164.13(4d)

**Description:** (a) The lease or rental of tobacco sheets used in handling tobacco in the warehouse and transporting tobacco to and from the warehouse. (b) A metal flue sold for use in curing tobacco, whether the flue is attached to a handfired furnace or used in connection with a mechanical burner. (c) 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.

**Estimate (in millions):** less than \$0.1

**Note:** The amount of sales is not likely to exceed the level for a loss of \$100,000

**14. 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.

**Estimate (in millions):** \$6.3

**Data Source:** 2006 NC Corporation Tax Returns, Legislative Fiscal Note for HB 1938(06). 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.

## Sales and Use Tax

### 15. **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 in this State that is to be registered in another state for use in towing the wood chipper.

**Estimate (in millions):** Unavailable

### 16. **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; manufacturing fuel; and certain machinery and equipment purchased by the following: major recycling facility, research and development company, industrial machine refurbisher, or data center.

**Estimate (in millions):** \$178.4

**Data Source:** Department of Revenue Form E-500J tax returns

**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. Article 5F imposes a 1% tax on eligible equipment, with a maximum tax of \$80 per item. Effective July 1, 2013, a company at a port facility and a large manufacturer-distribution facility will become eligible for the Article 5F tax. (The large manufacturer-distribution facilities will also be allowed a refund of sales tax on purchases made between July 1, 2012 and June 30, 2013.)

### 17. **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.

**Estimate (in millions):** \$35.2

**Data Source:** 2007 Annual Capital Expenditures, US Census

### 18. **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.

**Estimate (in millions):** \$2.7

**Data Source:** 2007 Annual Capital Expenditures, US Census

**19. 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.**Estimate (in millions):** \$11.9**Data Source:** 2007 Annual Capital Expenditures, US Census**20. 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.**Estimate (in millions):** Unavailable**Note:** No information on direct retail sales by producers for this category was available.**21. 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.**Estimate (in millions):** \$2.4**Data Source:** "2008 Commercial & Recreation Statistics," NC Fisheries Association, NC Division of Marine Fisheries; sample of NC corporate income tax returns**22. 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.**Estimate (in millions):** \$1.8**Data Source:** 2002 Economic Census, US Census Bureau; sample of NC corporate income tax returns**Note:** Laundering machinery, parts and accessories, and lubricants 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.

## Sales and Use Tax

### 23. 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.

**Estimate (in millions):** \$14.5

**Data Source:** 2007 Economic Census materials-consumed data for steel mills

### 24. 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.

**Estimate (in millions):** \$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 combined rate of 7.0% in excess of the amount collected by the Motor Fuels Tax and the Alternative Fuels Tax, whose minimum tax rate is 29.9¢ per gallon.

### 25. 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.

**Estimate (in millions):** \$24.2

**Data Source:** Association of American Railroads; US Energy Information Administration

### 26. 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.

**Estimate (in millions):** \$26.5

**Data Source:** NC-specific data through 2004 and national growth rate estimates from the US Centers for Medicare & Medicaid Services ([www.cms.gov](http://www.cms.gov))

**27. Prescription Drugs and Insulin**

**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, insulin.

**Estimate (in millions):** \$464.7

**Data Source:** NC-specific data through 2004 and national growth rate estimates from the US Centers for Medicare & Medicaid Services ([www.cms.gov](http://www.cms.gov))

**28. Chiropractors' Nutritional Supplements**

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

**Description:** Nutritional supplements sold by a chiropractic physician at a chiropractic office to a patient as part of the patient's plan of treatment.

**Estimate (in millions):** \$0.4

**Data Source:** 2002 Economic Census product-line data for Offices of Chiropractors

**29. 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.

**Estimate (in millions):** \$1.9

**Data Source:** NC Department of Public Instruction expenditures on textbooks from annual Statistical Report. The latest edition is for the 2009-10 year.

**30. 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.

**Estimate (in millions):** Unavailable

**31. 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.

**Estimate (in millions):** \$0.5

**Data Source:** Services for the Blind, NC Department of Health and Human Services

## Sales and Use Tax

### 32. **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.

**Estimate (in millions):** \$3.5

**Data Source:** Sample of income tax returns for movie theaters; Department of Revenue privilege tax database

### 33. **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.

**Estimate (in millions):** \$8.0

**Data Source:** Department of Revenue Income Tax Data; 2007 Services Annual Survey, US Census Bureau

### 34. **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.

**Estimate (in millions):** \$6.4

**Data Source:** 2002 Economic Census; Quarterly Census of Employment and Wages, North Carolina Employment Security Commission

### 35. **Packaging Items for Manufacturers, Producers and 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, cores, cones or spools, wooden boxes, baskets, coops and barrels, including paper cups, napkins and drinking straws and like articles sold to manufacturers, producers and retailers, when such materials constitute a part of the sale of tangible personal property.

**Estimate (in millions):** \$120.8

**Data Source:** Packaging costs from 2007 Economic Census (manufacturers) and 2007 Business Expenses Estimates from US Census (other industries)



**36. Packaging Returned to Seller**

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

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

**Estimate (in millions):** \$0.1

**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.

**37. Food Sold by a Public or Private School Cafeteria**

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

**Description:** Food sold not for profit by public or private school cafeterias within school building during the regular school day.

**Estimate (in millions):** \$16.4

**Data Source:** State revenue from sales of child nutrition from annual Statistical Report, NC Department of Public Instruction. The latest edition is for the 2006-07 year.

**Note:** An additional 10% of sales were added for private K-12 schools, based on recent enrollment data. Estimate includes next item.

**38. 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.

**Estimate (in millions):** included above

**39. Food Sold in Dining Rooms Operated by Educational Institutions**

**Citation:** G.S. 105-164.13(27)

**Description:** Sales of food served to students in dining rooms regularly operated by State or private education institutions or student organizations thereof.

**Estimate (in millions):** \$33.0

**Data Source:** Statistical Abstract of Higher Education in North Carolina, University of North Carolina; university meal-plan information from websites

## Sales and Use Tax

### 40. Bread Sold at a Bakery Thrift Store

**Citation:** G.S. 105-164.13(27a)

**Description:** Sales of bread, rolls, and buns sold at a bakery thrift store.

**Estimate (in millions):** \$0.1

**Data Source:** 2007 Legislative budget bill

### 41. Certain Sales of Newspapers

**Citation:** G.S. 105-164.13(28)

**Description:** Sales of newspapers by newspaper street vendors, by newspaper carriers making door-to-door deliveries and by means of vending machines. Over-the-counter sales of newspapers are taxable.

**Estimate (in millions):** \$7.2

**Data Source:** Audit Bureau of Circulation data, accessed through [www.accessabc.com](http://www.accessabc.com)

**Note:** Door-to-door sales of magazines were removed from this exemption effective January 1, 2010.

### 42. Vending Machine One-Cent Sales

**Citation:** G.S. 105-164.13(30)

**Description:** Sales from vending machines when sold by the owner or lessee of said machines at a price of \$0.01 per sale.

**Estimate (in millions):** less than \$0.1

### 43. 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.

**Estimate (in millions):** less than \$0.1

**Data Source:** Meals on Wheels data from Wake, Buncombe and Forsyth Counties

### 44. Food Sold by a Church or Religious Organization

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

**Description:** Food sold by a church or religious organization when proceeds are used for religious purposes.

**Estimate (in millions):** Unavailable

**45. 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.

**Estimate (in millions):** \$424.7

**Data Source:** FY 2010-11 Highway use tax data, NC Department of Motor Vehicles

**Note:** The estimate only includes the sales (and rentals) of vehicles because the other exemptions are not final sales. 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 also assumed that there would be no trade-in allowance (see estimate for GS 105-187.3(b)).

**46. 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.

**Estimate (in millions):** Unavailable

**47. 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.

**Estimate (in millions):** \$1.3

**Data Source:** Girl Scout Council Annual Reports

## Sales and Use Tax

### 48. 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 newspaper.

**Estimate (in millions):** \$3.3

**Data Source:** 2002 Economic Census, US Census Bureau

### 49. 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.

**Estimate (in millions):** \$6.7

**Data Source:** Fiscal Research Division fiscal note for HB1149 (2003-04 session)

### 50. 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.

**Estimate (in millions):** \$0.0

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

### 51. 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.

**Estimate (in millions):** \$0.6

**Data Source:** Statistical Reports, NC Department of Public Instruction provided growth of pupils by county; Wake County Public School System reports on school construction

**Note:** This tax expenditure is based on the exemption from the normal State tax rate. No information on community college use of mobile classrooms was obtained.

- 52. 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.
- Estimate (in millions):** \$7.0
- Data Source:** Revenues of software publishers from "custom applications design and development," from 2009 Service Annual Survey, US Census Bureau
- 53. 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 data center and is used within the data center, (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.
- Estimate (in millions):** Unavailable
- 54. 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.
- Estimate (in millions):** Unavailable
- 55. Piped Natural Gas Taxed by Article 5E**  
**Citation:** G.S. 105-164.13(44)  
**Description:** Piped natural gas is exempt because it is taxed under Article 5E.
- Estimate (in millions):** \$84.0
- Data Source:** "Natural Gas Consumption by End Use" for NC, Energy Information Administration
- Note:** The estimate is the amount of expected collections at the State tax rate, in excess of the expected collections under Article 5E, after the municipality distribution.
- 56. 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.
- Estimate (in millions):** included in item #57

## Sales and Use Tax

### 57. Lubricants 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.

**Estimate (in millions):** \$7.0

**Data Source:** Airline expenses from Federal Aviation Administration Fact Book (Aug 2009); share of maintenance material in airline expenses from Air Transport Association “Quarterly Cost Index”

**Note:** Includes item #56 and part (a) of item #58

### 58. 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.

**Estimate (in millions):** Unavailable – lubricants and repair parts estimate included in item #57

### 59. Exemption for Aircraft Simulators

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

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

**Estimate (in millions):** \$0.7

**Data Source:** Legislative Fiscal Note for Senate Bill 1057 (2009)

### 60. 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.

**Estimate (in millions):** \$0.4

**Data Source:** NC Treasurer Report on Municipal Electrical Systems

**61. Installation Charges**

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

**Description:** Installation charges when the charges are separately stated.

**Estimate (in millions):** \$13.4

**Data Source:** "Nonmerchandise Receipts" of Retail Stores from 2007 Economic Census, excluding Automobile Dealers. Installation charges are assumed to account for 25% of nonmerchandise receipts.

**62. 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.

**Estimate (in millions):** \$0.5

**Data Source:** Fiscal Research Division fiscal note for HB1414, version 4 (2003-04 session)

**63. Goods Sold Through Vending Machines**

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

**Description:** 50% of the sales price of goods sold through vending machines, except tobacco.

**Estimate (in millions):** \$10.9

**Data Source:** "2009 State of the Vending Industry Report," Automatic Merchandiser

**64. 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.

**Estimate (in millions):** \$53.6

**Data Source:** Amount of water used extrapolated from 2000 estimate by NC Department of Energy and Natural Resources. Average water rates were estimated from a sample of current municipal rates.

**Note:** The estimate only considers a sales tax on the variable rates on water consumption. It does not include fixed charges or wastewater rates, which are considered services.

## Sales and Use Tax

### 65. 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.

**Estimate (in millions):** \$0.0

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

### 66. 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.

**Estimate (in millions):** less than \$0.1

**Data Source:** 2002 Business Expenses Survey for Industry Codes related to Land Surveying, US Census Bureau

### 67. 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.

**Estimate (in millions):** less than \$0.1

**Note:** Pay telephone providers must pay the tax to the provider of their telecommunications services.

### 68. 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.

**Estimate (in millions):** \$6.3

**Data Source:** Amount of charges collected during Calendar Year 2008 from the 2009 Biennial Legislative Report, NC 911 Board

**Note:** The estimate is based on the 7% State tax rate on telecommunications.



- 69. 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.  
**Estimate (in millions):** \$0.4  
**Data Source:** 2007 Economic Census product-line data for accommodations  
**Note:** The estimate is based on the 7% State tax rate on telecommunications.
- 70. 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.  
**Estimate (in millions):** \$0.5  
**Data Source:** NC Information Highway rate schedule, ITS and NCIH websites  
**Note:** Estimate includes only local government users.
- 71. Electricity and Eligible Business Property for an Internet Data Center**  
**Citation:** G.S. 105-164.13(55)  
**Description:** Effective October 1, 2006, sales of electricity and business property to an eligible Internet data center. If the level of investment required by G.S. 105-164.3(8e)d. is not timely made, then the exemption provided under this subdivision is forfeited.  
**Estimate (in millions):** \$5.2  
**Data Source:** Newspaper article quote of \$3.6M to \$6.8M per year based on a NC legislative estimate, adjusted for electricity rate increase.
- 72. Locomotives, Cranes and Trucks for a Railroad Intermodal Facility**  
**Citation:** G.S. 105-164.13(56)  
**Description:** Effective January 1, 2007, 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.  
**Estimate (in millions):** \$0.2  
**Data Source:** News articles related to eligible facilities

## Sales and Use Tax

### 73. **Electricity and Fuel Used by Manufacturers**

**Citation:** G.S. 105-164.13(57)

**Description:** Effective July 1, 2010, fuel and electricity sold to a manufacturer for use in connection with the operation of a manufacturing plant.

**Estimate (in millions):** \$71.4

**Data Source:** Department of Revenue sales and use tax data for FY09-10

### 74. **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.

**Estimate (in millions):** \$0.6

**Data Source:** Legislative estimate of \$0.5M for FY09 from S.L. 08-107

### 75. **Interior Design Services**

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

**Description:** Effective August 1, 2008: Interior design services provided in conjunction with the sale of tangible personal property.

**Estimate (in millions):** \$1.0

**Data Source:** Product Line Data for Interior Design Services from 2002 Economic Census

### 76. **Service Charges on Meals and Beverages**

**Citation:** G.S. 105-164.13A

**Description:** Service charges, considered tips, imposed on food, beverages or meals when not above 20% of the sale price. The charge must be stated on the menu or price list and also in the invoice or bill.

**Estimate (in millions):** \$0.5

**Data Source:** Receipts at full-service restaurants and drinking places in NC were obtained from the 2002 Economic Census

**Note:** Receipts were adjusted by considering both the increase in employment and the increase in prices of food and beverages. It was assumed that service charges were applied to 1% of meals and averaged 15% of total receipts.

**77. 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, (4) soft drinks, (5) candy.**Estimate (in millions):** \$622.1**Data Source:** Department of Revenue data on 2% Local Sales Tax on food through June 2011**Distributional Note:** According to the 2009 Consumer Expenditure Survey, a household with income between \$20,000 and \$29,999 on average spent 10.2% of annual expenditures on food at home; an average household with income between \$50,000 and \$69,999 spent 7.7% on this category.**78. Certain Bakery Items****Citation:** G.S. 105-164.13B**Description:** Effective January 1, 2009: Exempts bakery items sold without eating utensils by an artisan bakery. An artisan bakery is defined as a business that derives at least 80% of its receipts from bakery items and has gross receipts under \$1.8 million per year.**Estimate (in millions):** \$3.8**Data Source:** Legislative estimate of \$1.6M for Jan-June 09 from S.L. 08-107, adjusted for population growth and change in the State tax rate**79. Sales and Use Tax Holiday****Citation:** G.S. 105-164.13C**Description:** The sales and use taxes do not apply on the following items during the first weekend of August: (1) clothing with a sales price of \$100 or less, (2) school supplies with a sales price of \$100 or less, (3) instructional material with a sales price of \$300 or less (effective Oct 1, 2007), (4) computers with a sales price of \$3,500 or less, (5) computer supplies with a sales price of \$250 or less, (6) sport or recreational equipment with a sales price of \$50 or less.**Estimate (in millions):** \$14.5**Data Source:** National Income and Product Accounts, Bureau of Economic Analysis; National Retail Federation survey on back-to-school spending in 2010**Note:** The relevant sales tax holiday occurred August 5-7, 2011. The State sales tax rate was 4.75% during that time period.

## Sales and Use Tax

### 80. Energy Star Sales Tax Holiday

**Citation:** G.S. 105-164.13D

**Description:** Certain Energy Star products are exempt from all State and local sales and use taxes if sold during the first weekend (Friday through Sunday) of November. Only the following Energy Star qualified products will be exempt: clothes washers, freezers, refrigerators, central air conditioners, room air conditioners, air-source heat pumps, geothermal heat pumps, ceiling fans, dehumidifiers, and programmable thermostats. The exemption does not apply to rentals and to sales of products for use in a trade or business, including sales to contractors that will be installed in buildings or structures.

**Estimate (in millions):** \$1.7

**Data Source:** Legislative estimate of \$1.4M for FY09 from S.L. 08-107

### 81. Municipalities That Sell Electric Power

**Citation:** G.S. 105-164.21A

**Description:** A municipality that pays sales tax on electricity may deduct from the sales tax 3% of the difference between its gross receipts from sales of electricity for the preceding reporting period and the amount paid by the municipality for purchased power and related services during that period.

**Estimate (in millions):** \$8.8

**Data Source:** Department of Revenue sales and use tax data for FY10-11

## Refunds

### 82. 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.

**Estimate (in millions):** \$5.3

**Data Source:** Department of Revenue sales and use tax database

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

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

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

**Description:** Effective July 1, 2006, 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.

**Estimate (in millions):** Unavailable

**84. Refund of Sales Taxes to Nonprofits**

**Citation:** G.S. 105-164.14(b)

**Description:** Refunds for sales taxes paid on purchases, other than electricity and telecommunications, for use in carrying on the work of the nonprofit and indirect purchases of building materials. The refund is only for nonprofits in the following categories: (1) hospitals, (2) educational institutions, (3) churches, orphanages and other charitable or religious institutions, (4) qualified retirement facilities, (5) volunteer fire departments and volunteer emergency medical service squads.

**Estimate (in millions):** \$228.2

**Data Source:** Department of Revenue sales and use tax database

**Note:** Volunteer fire and EMS services added to list effective July 1, 2008. Refund requests are made semi-annually, so refunds lag taxes paid by up to 6 months.

**85. 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 local governmental entities and indirect purchases of building materials for use by those entities.

**Estimate (in millions):** \$85.7

**Data Source:** Department of Revenue sales and use tax database

**Note:** Since governmental refund requests are made annually, refunds paid out for FY12 are based on estimates of tax payments made during FY11.

**86. 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).

**Estimate (in millions):** \$6.0

**Data Source:** Department of Revenue "Other Credit and Incentive Reports," 2011

## Sales and Use Tax

### 87. 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.

**Estimate (in millions):** \$0.3

**Data Source:** Department of Revenue "Other Credit and Incentive Reports," 2011

### 88. Refund for Businesses in Low-Tier Area

**Citation:** G.S. 105-164.14A(a)(3)

**Description:** A taxpayer that is engaged primarily in one of the businesses listed in G.S. 105-129.83(a) in a development tier one area and that places machinery and equipment in service in that area is allowed a refund of the sales and use tax paid by it on the machinery and equipment.

**Estimate (in millions):** \$0.2

**Data Source:** Department of Revenue "Other Credit and Incentive Reports," 2011

### 89. 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.

**Estimate (in millions):** \$0.1

**Data Source:** Department of Revenue "Other Credit and Incentive Reports," 2011

**Note:** This provision sunsets on January 1, 2013.

### 90. 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.

**Estimate (in millions):** \$0.3

**Data Source:** Department of Revenue "Other Credit and Incentive Reports," 2011

**Note:** This provision sunsets on January 1, 2014.

**91. Refund for Analytical Service Companies****Citation:** G.S. 105-164.14A(a)(6)**Description:** A taxpayer engaged in analytical services in this State is allowed a refund of fifty percent (50%) of the eligible amount of sales and use tax paid by it in this State on tangible personal property that is consumed or transformed in analytical service activities. The eligible amount of sales and use tax paid by the taxpayer in this State is the amount by which sales and use taxes paid by the taxpayer in this State in the fiscal year exceed the amount paid by the taxpayer in this State in the 2006-07 State fiscal year. The taxpayer is also eligible for a refund of 50% of the amount of sales and use tax paid on medical reagents.**Estimate (in millions):** \$0.1**Data Source:** Department of Revenue "Other Credit and Incentive Reports," 2011**Note:** This provision sunsets on January 1, 2013.**92. Refund for Railroad Intermodal Facilities****Citation:** G.S. 105-164.14A(a)(7)**Description:** Effective January 1, 2007, 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.**Estimate (in millions):** \$0.2**Data Source:** Estimate based on recent news reports of intermodal facility construction**Note:** This provision sunsets on January 1, 2038.**93. Refund for Certain Industrial Facilities****Citation:** G.S. 105- 164.14B**Description:** Refund for building materials, building supplies, fixtures, and equipment that become a part of the real property of the eligible facility. Eligible industries include (a) air courier services, (b) aircraft manufacturing, (c) bioprocessing, (d) financial services, securities operations, and related systems development, (e) motor vehicle manufacturing, (f) paper-from-pulp manufacturing, (g) pharmaceutical and medicine manufacturing and distribution of pharmaceuticals and medicines, (h) semiconductor manufacturing, (i) solar electricity generating materials manufacturing, (j) turbine manufacturing. A minimum investment of \$50 million in a low tier area and \$100 million in other areas is required.**Estimate (in millions):** \$0.7**Data Source:** Department of Revenue "Other Credit and Incentive Reports," 2011**Note:** This provision sunsets on January 1, 2013. The paper-from-pulp and turbine manufacturing provisions became effective July 1, 2010.

## Sales and Use Tax

### Preferential tax rates

#### 94. **Manufactured Homes**

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

**Description:** Tax rate of 2% on sales of manufactured homes, with a maximum of \$300. Each section of a manufactured home that is transported separately to the site where it is to be erected is a separate article.

**Estimate (in millions):** \$6.9

**Data Source:** Department of Revenue sales and use tax data for FY10-11; sales prices on manufactured homes from US Census Bureau

#### 95. **Aircraft and 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.

**Estimate (in millions):** \$10.0

**Data Source:** Department of Revenue sales and use tax data for FY10-11; National Marine Manufacturers Association

#### 96. **Electricity to Commercial Laundries**

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

**Description:** Tax rate of 2.83% for sale of electricity to commercial laundries or dry-cleaning establishments.

**Estimate (in millions):** \$0.1

**Data Source:** Department of Revenue sales and use tax data for FY10-11

#### 97. **Electricity to Aluminum Smelting Facility**

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

**Description:** Tax rate of 0.17% applies to sales of electricity to aluminum smelting facility.

**Estimate (in millions):** \$0.0

**Data Source:** Department of Revenue sales and use tax database

#### 98. **Various Real Estate Rentals**

**Citation:** G.S. 105-164.4(a)(3)

**Description:** No tax on any private residence or cottage that is rented for less than 15 days in a calendar year or to any room, lodging or accommodation supplied to the same person for a period of 90 or more continuous days.

**Estimate (in millions):** Unavailable



**99. Electricity to Commercial Businesses and Residences**

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

**Description:** Tax rate of 3% for gross receipts derived from sales of electricity, other than sales of electricity subject to tax under another subdivision of this section.

**Estimate (in millions):** \$180.1

**Data Source:** Department of Revenue sales and use tax data for FY10-11

**100. Modular Homes**

**Citation:** G.S. 105-164.4(a)(8)

**Description:** Tax rate of 2.5% on sales of modular homes.

**Estimate (in millions):** \$2.9

**Data Source:** Department of Revenue sales and use tax data for FY10-11

**Note:** The estimate includes the 20% of modular home sales tax revenues sent to local governments under G.S. 105-164.44G.

**Caps**

**101. 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.

**Estimate (in millions):** Unavailable

**Note:** There were six eligible call centers. Not enough information was available from tax returns to determine cost.

**102. Cap on Tax of Aviation Fuel for Interstate Passenger Air Carriers**

**Citation:** G.S. 105-164.14(a1)

**Description:** The maximum amount of sales tax paid on jet fuel by an interstate passenger air carrier in a calendar year is \$2,500,000.

**Estimate (in millions):** \$5.0

**Data Source:** Department of Revenue sales and use tax database; jet fuel prices from Energy Information Administration

**Note:** Refund requests are made annually, after the end of a calendar year. Therefore, Fiscal Year 11-12 refunds are based on sales tax paid during calendar year 2011, which would have an average State sales tax rate of 5.75%. This provision sunsets on January 1, 2013.

## Highway Use Tax

### Highway Use Tax (Article 5A)

#### Tax Base Information

The highway use tax is applied to retail sales or leases of motor vehicles in North Carolina. The tax rate on sales and long-term leases is 3%, while there is an 8% tax on short-term leases.

In Fiscal Year 2010-11, the total amount of tax collected was \$523 million, mostly from retail sales. Taxes collected at the rate of 8% are credited directly to the General Fund, while the remaining funds are credited to the Highway Trust Fund.

#### Expenditures

**1. Trade-In Allowance**

**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.

**Estimate (in millions):** \$86.3

**Data Source:** National Automobile Dealers Association; 2007 Economic Census

**2. Class A or Class B Commercial Motor Vehicles and Recreational Vehicles**

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

**Description:** The tax on Class A or Class B commercial motor vehicles is capped at \$1,000 and the tax on recreational vehicles is capped at \$1,500.

**Estimate (in millions):** \$12.4

**Data Source:** Highway use tax database, NC Department of Motor Vehicles

**3. 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.

**Estimate (in millions):** \$6.1

**Data Source:** NC Office of State Budget and Management, National Center for Health Statistics

**Note:** The estimate is based on the following assumptions: (1) 1/2 of deaths of individuals between the ages of 25 and 79 resulted in a transfer of vehicle and (2) the average value of transferred vehicles was \$10,000.

**4. 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.

**Estimate (in millions):** Unavailable

**5. 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.

**Estimate (in millions):** less than \$0.1

**Data Source:** NC Department of Education; local schools

**6. 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.

**Estimate (in millions):** \$0.3

**Data Source:** Highway use tax database, NC Department of Motor Vehicles

**7. 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.

**Estimate (in millions):** Unavailable

**8. 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.

**Estimate (in millions):** \$3.0

**Data Source:** Highway use tax database, NC Department of Motor Vehicles

**Note:** Includes item #9

## Highway Use Tax

### 9. 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.

**Estimate (in millions):** included in item #8

### 10. Vehicles Titled in Another State

**Citation:** G.S. 105-187.6(c)

**Description:** Maximum tax of \$150 if vehicle has been titled in another state for at least 90 days.

**Estimate (in millions):** \$1.9

**Data Source:** Highway use tax database, NC Department of Motor Vehicles

### 11. 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.

**Estimate (in millions):** Unavailable

### 12. 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.

**Estimate (in millions):** Unavailable

### 13. Return of Purchased Vehicle

**Citation:** G.S. 105-187.8

**Description:** Refund for return of purchased vehicle within 90 days of purchase.

**Estimate (in millions):** Unavailable

## **Scrap Tire Disposal Tax (Article 5B)**

### **Tax Base Information**

For tires with bead diameter less than 20 inches, the tax rate is 2%. For tires with bead diameter 20 inches or greater, the tax rate is 1%.

In Fiscal Year 2010-11, \$16.2 million was collected from this tax. Of this amount, \$11.1 million was transferred to local governments.

### **Expenditures**

#### **1. 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.

**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.

In Fiscal Year 2010-11, \$1.7 million was collected for State agencies from this tax. During this period, an additional \$2.5 million was raised for local government reserves.

#### **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.

**Estimate (in millions):** less than \$0.1

**Data Source:** Department of Revenue records

## **Piped Natural Gas Tax (Article 5E)**

### **Tax Base Information**

The tax is imposed on piped natural gas received for consumption in this State. The marginal tax rate declines as the monthly volume of piped gas consumed increases, as shown in the following schedule: \$.047 for the first 200 therms, \$.035 for therms between 201 and 15,000, \$.024 for 15,001 to 60,000 therms, \$.015 for 60,001 to 500,000 therms, and \$.003 for each therm over 500,000.

In Fiscal Year 2010-11, \$54.7 million was collected from this tax. Approximately \$23.7 million of this amount was distributed to municipalities. (Municipalities receive ½ the amount of tax collected from consumers in their jurisdictions.)

### **Expenditures**

#### **1. Gas Received by a Gas City**

**Citation:** G.S. 105-187.41(c)(1)&(2)

**Description:** Exemption for piped natural gas received by a gas city for consumption by that city or delivered by a gas city to a sales or transportation customer of that city. These cities are Bessemer City, Greenville, Kings Mountain, Lexington, Monroe, Rocky Mount, Shelby, and Wilson.

**Estimate (in millions):** \$2.2

**Data Source:** State revenues (net of municipal transfers) from piped natural gas tax from Department of Revenue; proportion of gas sold by gas cities calculated from NC Utilities Commission 2009 Report.

#### **2. Exemption for Manufacturers and Farmers**

**Citation:** G.S. 105-187.41(c)(3)&(4)

**Description:** Effective July 1, 2010, purchases of piped natural gas for a manufacturing industry or a farmer for non-household purposes are exempt from tax.

**Estimate (in millions):** \$12.9

**Data Source:** "Natural Gas Consumption by End Use," for NC, Energy Information Administration.

**Note:** The estimate does not include the reduced amount of tax that would be distributed to municipalities, which is assumed to be 45% of the total tax paid. This exemption is coincident with the sales tax exemptions on electricity and other fuels purchased by these entities.

## **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 basic tax rate is 1.9%. However, premiums on worker compensation plans are taxed at 2.5% and there are additional taxes on premiums related to fire and lightning insurance coverage.

In Fiscal Year 2010-11, \$501 million was collected from this tax.

### **Expenditures**

**1. 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.

**Estimate (in millions):** Unavailable

**2. 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.

**Estimate (in millions):** \$120.0

**Data Source:** Life and Annuity Business financial summary, "2010 Insurance Statistical Reports," Actuarial Services Division, North Carolina Department of Insurance, May 2011

**3. 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.

**Estimate (in millions):** \$23.2

**Data Source:** Life and Annuity Business financial summary, "2010 Insurance Statistical Reports," Actuarial Services Division, North Carolina Department of Insurance, May 2011



- 4. 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.  
**Estimate (in millions):** \$12.3  
**Data Source:** Life and Annuity Business financial summary, "2010 Insurance Statistical Reports," Actuarial Services Division, North Carolina Department of Insurance, May 2011  
**Note:** This provision was effective beginning January 1, 2008. Prior to that date, the provision did not tax automobile or marine property coverage. Also, homeowners policies were only taxed at 50% and farm owners policies were taxed at 30% of premium values. In addition, the tax rate was lowered from 1.33% prior to January 1, 2008, to 0.74% and an additional fire district tax of 0.5% was eliminated.
- 5. 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.  
**Estimate (in millions):** \$2.5  
**Data Source:** Life and Annuity Business financial summary, "2010 Insurance Statistical Reports," Actuarial Services Division, North Carolina Department of Insurance, May 2011  
**Note:** Includes an estimate for the additional 0.74% rate on property coverage contracts.
- 6. 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.  
**Estimate (in millions):** \$16.2  
**Data Source:** Department of Revenue Insurance Tax database

## Excise Stamp 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. The tax rate is \$1 on each \$500 of real property value or fractional part thereof.

This tax applies to timber deeds and contracts for the sale of standing timber as if these were transfers of real property.

Fifty percent of the taxes collected are deposited in county funds, and the counties may also retain an additional 2% for administrative costs.

In Fiscal Year 2010-2011, \$32 million was collected by the State from this tax. The proceeds are deposited into the Natural Heritage Trust Fund and the Parks and Recreation Trust Fund.

### 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.

**Estimate (in millions):** less than \$0.1

**Data Source:** County deed statistics

**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.

**Estimate (in millions):** \$2.7

**Data Source:** Data on revenues of Real Estate Lessors in North Carolina from 2002 Economic Census

**Note:** The estimate is based on the leased price of the property, not on the total value of the property.

**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.

**Estimate (in millions):** \$3.1

**Data Source:** NC Superior Court; Survey of Income and Program Participation, US Census Bureau

**Note:** Includes item #4.

**4. Transfers of Property by Intestacy**

**Citation:** G.S. 105-228.29(4)

**Description:** The tax does not apply to transfers by intestacy.

**Estimate (in millions):** included in item #3

**5. Transfers of Property by Gift**

**Citation:** G.S. 105-228.29(5)

**Description:** The tax does not apply to transfers by gift.

**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.

**Estimate (in millions):** less than \$0.1

**Note:** If no money is paid, the value of the real estate is likely to be low.

**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.

**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.

**Estimate (in millions):** \$0.7

**Data Source:** County deed statistics

## **Excise Tax on Motor Fuels (Article 36C) and Alternative Fuels (Article 36D)**

### **Tax Base Information**

The motor fuel excise tax rate consists of a per gallon flat rate (17.5¢) plus a variable wholesale component which is the greater of either 3.5¢ or 7% of the average wholesale price of motor fuel for an applicable 6-month base period.

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.

In Fiscal Year 2010-11, approximately \$1.6 billion was collected from the motor fuels excise tax.

### **Expenditures**

**1. Sales to Local Boards of Education**

**Citation:** G.S. 105-449.88(4)

**Description:** Exemption for motor fuel sales to local boards of education.

**Estimate (in millions):** \$6.8

**Data Source:** FY10-11 data from Motor Fuels Tax Division, Department of Revenue

**2. Sales to Charter Schools**

**Citation:** G.S. 105-449.88(6)

**Description:** Exemption for motor fuels sales to charter schools.

**Estimate (in millions):** \$0.1

**Data Source:** FY10-11 data from Motor Fuels Tax Division, Department of Revenue

**3. Sales to Community Colleges**

**Citation:** G.S. 105-449.88(7)

**Description:** Exemption for motor fuel sales to community colleges.

**Estimate (in millions):** \$0.1

**Data Source:** FY10-11 data from Motor Fuels Tax Division, Department of Revenue

- 4. Sales to County or Municipal Corporation**  
**Citation:** G.S. 105-449.88(8)  
**Description:** Exemption for motor fuel sales to county or municipal corporation.  
  
**Estimate (in millions):** \$23.7  
  
**Data Source:** FY10-11 data from Motor Fuels Tax Division, Department of Revenue
- 5. 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.  
  
**Estimate (in millions):** less than \$0.1  
  
**Note:** It is improbable that production in this manner would exceed 300,000 gallons in Fiscal Year 2012.
- 6. Discount for Timely Payment -- Distributors**  
**Citation:** G.S. 105-449.93(b)  
**Description:** 1% discount to licensed distributor for timely payment.  
  
**Estimate (in millions):** \$17.1  
  
**Data Source:** Motor Fuels Tax Division, Department of Revenue
- 7. Discount for Collection Expense -- Suppliers**  
**Citation:** G.S. 105-449.97(b)  
**Description:** 0.1% discount to supplier for timely payment.  
  
**Estimate (in millions):** \$1.0  
  
**Data Source:** Motor Fuels Tax Division, Department of Revenue
- 8. 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.  
  
**Estimate (in millions):** included in item #7

## Excise Tax on Motor and Alternative Fuels

### 9. **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.

**Estimate (in millions):** less than \$0.1

**Data Source:** FY08-09 data from Motor Fuels Tax Division, Department of Revenue

### 10. **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.

**Estimate (in millions):** less than \$0.1

**Data Source:** FY08-09 data from Motor Fuels Tax Division, Department of Revenue

### 11. **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) and the amount calculated by the following schedule: 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.

**Estimate (in millions):** \$0.5

**Data Source:** Motor Fuels Tax Division, Department of Revenue

### 12. **Refund for Certain Nonprofits**

**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.

**Estimate (in millions):** \$0.2

**Data Source:** FY10-11 data from Motor Fuels Tax Division, Department of Revenue

- 13. 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.  
**Estimate (in millions):** \$0.3  
**Data Source:** FY10-11 data from Motor Fuels Tax Division, Department of Revenue
- 14. 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.  
**Estimate (in millions):** \$0.1  
**Data Source:** FY10-11 data from Motor Fuels Tax Division, Department of Revenue
- 15. 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.  
**Estimate (in millions):** \$0.1  
**Data Source:** FY10-11 data from Motor Fuels Tax Division, Department of Revenue
- 16. Refunds for Taxicabs**  
**Citation:** G.S. 105-449.106(b)  
**Description:** Refunds of tax less 1¢ per gallon for taxicabs and local city transit systems.  
**Estimate (in millions):** \$0.1  
**Data Source:** FY10-11 data from Motor Fuels Tax Division, Department of Revenue  
**Note:** City-run transit systems receive the complete exemption under item #4
- 17. 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 sales 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; and a sweeper.  
**Estimate (in millions):** \$0.7  
**Data Source:** FY10-11 data from Motor Fuels Tax Division, Department of Revenue

## Appendix

### Appendix A: Major Federal Tax Expenditures

The tax bases for North Carolina income taxes are based on IRS definitions. As such, most federal exemptions and deductions “flow through” to State income taxes. The following table shows the twenty top federal tax expenditures in Fiscal Year 2011-12 as measured by the Joint Committee on Taxation. For each of these, we note whether the expenditure is passed through to North Carolina income taxes.

	<b>Federal Tax Expenditures</b>	<b>FY12 U.S. Total \$Billions</b>	<b>Passed through to State income taxes?</b>
1	Exclusion of employer contributions for health care, health insurance premiums, and long-term care insurance premiums	128.0	Y
2	Deduction for mortgage interest on owner-occupied residences	94.1	Y
3	Reduced rates of tax on dividends and long-term capital gains	65.9	N
4	Net exclusion of pension contributions and earnings: Defined benefit plans	62.0	Y
5	Earned income credit (EIC)	52.5	N
6	Deduction of non-business State and local government income, sales, and personal property taxes	50.6	N*
7	Net exclusion of pension contributions and earnings: Defined contributions plans	44.1	Y
8	Exclusion of capital gains at death	39.0	Y
9	Deduction for charitable contributions, other than for education and health	38.8	Y
10	Exclusion of untaxed social security and railroad retirement benefits	36.0	Y
11	Exclusion of Medicare benefits: Hospital insurance (Part A)	35.9	Y
12	Exclusion of benefits provided under cafeteria plans	32.3	Y
13	Exclusion of investment income on life insurance and annuity contracts	28.9	Y
14	Deduction for property taxes on real property	26.5	Y
15	Exclusion of Medicare benefits: Supplementary medical insurance (Part B)	24.4	Y
16	Exclusion of interest on public purpose State and local government bonds	23.1	N
17	Net exclusion of pension contributions and earnings: Individual retirement plans	19.1	Y
18	Exclusion of capital gains on sales of principal residences	17.5	Y
19	Net exclusion of pension contributions and earnings: Keogh plans	17.0	Y
20	Deduction for medical expenses and long-term care expenses	16.1	Y

\*The deduction for personal property taxes *are* passed through, but these are relatively small.

Note: The federal FY12 began October 1, 2011

Source: *Estimates of Federal Tax Expenditures for Fiscal Years 2010-2014*, Joint Committee on Taxation, December 2010. (Available on the internet: [www.jct.gov/publications.html](http://www.jct.gov/publications.html).)



## Appendix B: Other Tax Exclusions and Exemptions

These additional items are not estimated because they are necessary for the ordinary functioning of the tax system.

### Privilege Tax

#### 1. Amusements on Cherokee Indian Reservations

**Description:** Exemption from tax for all amusements offered or given on the Cherokee Indian Reservation when the person is authorized to do business on the reservation and pays the tribal gross receipts tax.

**Citation:** G.S. 105-40(9)

**Reason for Excluding from Tax Expenditure List:** Constitutional Restrictions

### Bank Annual Privilege Tax

#### 2. Assets of U.S. Banks Employed Outside N.C.

**Description:** Deduction for assets of U.S. banks that are employed outside the State of North Carolina.

**Citation:** G.S. 105-102.3

**Reason for Excluding from Tax Expenditure List:** Constitutional Restrictions

#### 3. Certain Assets of International Banks

**Description:** Deduction for assets of an international banking facility employed outside the United States.

**Citation:** G.S. 105-102.3

**Reason for Excluding from Tax Expenditure List:** Constitutional Restrictions

### Tobacco Tax

#### 4. 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

#### 5. 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

#### 6. 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

## Appendix

### 7. 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

### 8. Sales of Sample Tobacco Products Distributed without Charge

**Description:** Exemption for a sample tobacco product distributed without charge.

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

**Reason for Excluding from Tax Expenditure List:** Not Sales

## Alcoholic Beverage License and Excise Taxes

### 9. Unsalable Beverages

**Description:** Exemption if beverage is unsalable due to a major disaster.

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

**Reason for Excluding from Tax Expenditure List:** Not Sales

### 10. Sales to Ocean-Going Vessels

**Description:** Exemption if beverage is sold for use on an ocean-going vessel.

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

**Reason for Excluding from Tax Expenditure List:** Constitutional Restrictions

### 11. 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

### 12. 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

### 13. Free Tastings

**Description:** Exemption for tasting given free of charge on the manufacturer's licensed premises for consumption on the premises.

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

**Reason for Excluding from Tax Expenditure List:** Not Sales

## Franchise Tax

### 14. Adjustment for Capital Stock of International Banking Facility

**Description:** The capital base of international banking facilities may be reduced by the excess of the amount of all assets employed outside the U.S. over liabilities owed to foreign persons.

**Citation:** G.S. 105-122(b)(8)

**Reason for Excluding from Tax Expenditure List:** Constitutional Restrictions

### 15. 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

### 16. 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

### 17. Dividends Treated as Received from Outside the U.S.

**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.

**Citation:** G.S. 105-130.5(b)(3a)

**Reason for Excluding from Tax Expenditure List:** Constitutional Restrictions

### 18. Dividends Received from Outside the U.S.

**Description:** Deduction for any amount included in federal taxable income under Section 78 or Section 951 of the Code, net of related expenses.

**Citation:** G.S. 105-130.5(b)(3b)

**Reason for Excluding from Tax Expenditure List:** Constitutional Restrictions

**19. 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. If the taxpayer chooses to take the credit, she may deduct the alternative allowable Federal deduction when calculating North Carolina taxable income. This adjustment is needed to realign the North Carolina taxable income base with federal taxable income. Many of these deductions are related to the federal Work Opportunity, Welfare-to-Work, and fuel tax credits.

**20. Additional First-Year Depreciation**

**Description:** In each of the first five taxable years beginning in 2005, taxpayers may deduct 20% of the amount added to taxable income in a previous year as accelerated depreciation under subdivision (a)(15) of this section.

**Citation:** G.S. 105-130.5(b)(21)

**Reason for Excluding from Tax Expenditure List:** Not in Taxable Base: In 2002, 2003, and 2004, taxpayers were required to add back any bonus first-year depreciation allowed by the federal government to calculate their North Carolina taxable income. Thus this provision allows for a "normal" deduction for depreciation.

**21. 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

**22. Insurance Companies, Except for Unrelated Income**

**Description:** Insurance companies paying the tax on gross premiums as specified in G.S. 105-228.5 (These companies are not exempt from income tax on unrelated business income).

**Citation:** G.S. 105-130.11(a)(10)

**Reason for Excluding from Tax Expenditure List:** Avoid Double Taxation

**23. 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

- 24. 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
- 25. 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
- 26. 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
- 27. 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

- 28. 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. 105-134.6(b)(5)  
**Reason for Excluding from Tax Expenditure List:** Avoid Double Taxation
- 29. 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. 105-134.6(b)(9)  
**Reason for Excluding from Tax Expenditure List:** Constitutional Restrictions

**30. Additional First-Year Depreciation**

**Description:** In each of the first five taxable years beginning in 2005, taxpayers may deduct 20% of the amount added to taxable income in a previous year as accelerated depreciation under subdivision (a)(15) of this section.

**Citation:** G.S. 105-134.6(b)(17)

**Reason for Excluding from Tax Expenditure List:** Not in Taxable Base: In 2002, 2003, and 2004, taxpayers were required to add back any bonus first-year depreciation allowed by the federal government to calculate their North Carolina taxable income. Thus this provision allows for a "normal" deduction for depreciation

**31. Estate Taxes Included in Federal AGI**

**Description:** The amount of estate tax attributable to an item of income in respect of a decedent required to be included in gross income under the Code may be deducted in the year the item of income is included.

**Citation:** G.S. 105-134.6(d)(1)

**Reason for Excluding from Tax Expenditure List:** Double Taxation: This amount has been taxed under North Carolina's estate tax.

**32. Federal Tax Credit Allowance**

**Description:** Deductions not allowed under the Code because the taxpayer took a tax credit in lieu of deduction on federal income tax.

**Citation:** G.S. 105-134.6(d)(2)

**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. If the taxpayer chooses to take the credit, she may deduct the alternative allowable Federal deduction when calculating North Carolina taxable income. This adjustment is needed to realign the North Carolina taxable income base with federal taxable income. Examples of this type of deduction are (1) the deduction for higher educational expenses under Section 222 of the Code when taxpayers took a Lifetime Learning or Hope credit on their federal returns and (2) the additional deduction for home mortgage interest for those who took a Mortgage Interest Credit on their federal returns.

**33. 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**

- 34. 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
- 35. Baby Chicks or Poults Sold for Further Production**  
**Description:** Exemption for sales of baby chicks and poults sold for commercial poultry or egg production.  
**Citation:** G.S. 105-164.13(4a)  
**Reason for Excluding from Tax Expenditure List:** Purchase of Intermediate Good
- 36. 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
- 37. 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
- 38. Fuel for Small Power Production Facility**  
**Description:** Exemption for sales to a small power production facility of fuel used by the facility to generate electricity.  
**Citation:** G.S. 105-164.13(8a)  
**Reason for Excluding from Tax Expenditure List:** Purchase of Intermediate Good
- 39. 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 Sales
- 40. 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

## Appendix

- 41. 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
- 42. 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
- 43. 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
- 44. 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
- 45. 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.
- 46. Articles Donated by Retailer or Wholesaler**  
**Description:** Exemption for 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.  
**Citation:** G.S. 105-164.13(42)  
**Reason for Excluding from Tax Expenditure List:** Not Sales
- 47. 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



- 48. 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
- 49. 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

### Highway Use Tax

- 50. 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
- 51. 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
- 52. 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
- 53. 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

## Appendix

### **54. 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

### **55. 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**

### **56. 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**

### **57. 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

### **58. 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

### **59. 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

- 60. 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
- 61. 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
- 62. 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
- 63. 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.  
**Citation:** G.S. 105-449.106(c)  
**Reason for Excluding from Tax Expenditure List:** Not in Taxable Base
- 64. 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
- 65. 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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