

**North Carolina**

**Biennial Tax  
Expenditure Report**

**2005**



Tax Research Division

**North Carolina**

**Biennial Tax  
Expenditure Report**

**2005**

**Tax Research Division  
October 2005**

**275 copies of this report were printed at a cost of \$248.50, or \$0.90 per copy.**

## Table of Contents

<b>List of Tables .....</b>	<b>vi</b>
<b>Introduction.....</b>	<b>1</b>
Defining Tax Expenditures for This Study .....	1
Measuring the Fiscal Effects of Tax Expenditures.....	2
<b>Privilege Taxes (Article 2).....</b>	<b>7</b>
Tax Base Information .....	7
Exemptions from 3% gross receipts tax.....	7
Preferential rate for 3% gross receipts tax.....	10
Exemptions from license fee of \$50.00 for attorneys-at-law and other professionals.....	10
Exemptions from loan agency annual privilege tax of \$250 .....	11
Exemptions from \$15 per ton tax on unrecycled newsprint.....	11
<b>Tobacco Tax (Article 2A).....</b>	<b>12</b>
Tax Base Information .....	12
Expenditures .....	12
<b>Alcoholic Beverage License and Excise Taxes (Article 2C) .....</b>	<b>13</b>
Tax Base Information .....	13
Expenditures .....	13
<b>Franchise Tax (Article 3) .....</b>	<b>14</b>
Brief Background and Tax Base Information.....	14
Exemptions.....	17
Deductions.....	19
Tax Credits .....	21
Caps .....	21
<b>Corporation Income Tax (Article 4. Part 1).....</b>	<b>22</b>
Brief Description and Tax Base Information.....	22
Exemptions.....	26
Deductions.....	28
Tax Credits .....	33
<b>Tax Incentives for New and Expanding Businesses (Article 3A) .....</b>	<b>38</b>

Table of Contents

<b>Business and Energy Tax Credits (Article 3B)</b> .....	<b>41</b>
<b>Tax Incentives for Recycling Facilities (Article 3C)</b> .....	<b>43</b>
<b>Historic Rehabilitation Tax Credits (Article 3D)</b> .....	<b>44</b>
<b>Low-Income Housing Tax Credits (Article 3E)</b> .....	<b>45</b>
<b>Research and Development Tax Credits (Article 3F)</b> .....	<b>46</b>
<b>Tax Incentives for Major Computer Manufacturing Facilities (Article 3G)</b> .....	<b>47</b>
<b>Individual Income Tax (Article 4, Part 2)</b> .....	<b>48</b>
Brief Description and Tax Base Information.....	48
Exemptions .....	51
Deductions.....	51
Tax Credits .....	54
<b>Sales and Use Tax (Article 5)</b> .....	<b>59</b>
Tax Base Information .....	59
Exemptions.....	65
Preferential tax rates .....	82
Credits.....	83
<b>Highway Use Tax (Article 5A)</b> .....	<b>84</b>
Tax Base Information .....	84
Expenditures .....	84
<b>Scrap Tire Disposal Tax (Article 5B)</b> .....	<b>87</b>
Tax Base Information .....	87
Expenditures .....	87
<b>White Goods Disposal Tax (Article 5C)</b> .....	<b>88</b>
Tax Base Information .....	88
Expenditures .....	88
<b>Piped Natural Gas Tax (Article 5E)</b> .....	<b>89</b>
Tax Base Information .....	89
Expenditures .....	89
<b>Gift Taxes (Article 6)</b> .....	<b>90</b>
Tax Base Information .....	90
Expenditures .....	90

Table of Contents

**Taxes on Insurance Companies (Article 8B) ..... 91**  
    Tax Base Information ..... 91  
    Expenditures ..... 91

**Excise Stamp Tax on Conveyances (Article 8E) ..... 93**  
    Tax Base Information ..... 93  
    Expenditures ..... 93

**Excise Tax on Motor Fuels (Article 36C) and Alternative Fuels (Article 36D) ..... 95**  
    Tax Base Information ..... 95  
    Expenditures ..... 95

**Appendix: Tax Exclusions and Exemptions That Are Not Proper Tax Expenditures ..... 99**  
    Privilege Tax ..... 99  
    Bank Annual Privilege Tax ..... 99  
    Tobacco Tax ..... 99  
    Alcoholic Beverage License and Excise Taxes ..... 100  
    Franchise Tax ..... 101  
    Corporation Income Tax ..... 101  
    Individual Income Tax ..... 103  
    Sales and Use Tax ..... 104  
    Highway Use Tax ..... 107  
    Tax on Insurance Companies ..... 108  
    Excise Tax on Motor Fuels and Alternative Fuels ..... 108

**Index ..... 110**

## Table of Contents

### **List of Tables**

Table 1. Summary of Tax Expenditures.....	3
Table 2. Forty Largest Tax Expenditures .....	4
Table 3. Franchise Tax Expenditure Estimates .....	15
Table 4. Corporate Income Tax Expenditure Estimates.....	24
Table 5. Individual Income Tax Expenditure Estimates .....	49
Table 6. Carry-Over Provisions for Individual Income Tax.....	58
Table 7. Sales and Use Tax Expenditure Estimates .....	60

# North Carolina Biennial Tax Expenditure Report

2005

## 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 2005. 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.

## 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 which 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.

This report concentrates on those tax expenditures that the General Assembly can alter. There are some tax expenditures that are not subject to legislative action. For instance, Constitutional restrictions forbid taxing the federal government's purchases, as well as certain transactions involving interstate trade and trade on Indian Reservations. Also, specific exemptions or exclusions that are made in order to avoid duplicate taxation of an activity are not considered to be tax expenditures. 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 the Appendix.

There are several other important tax breaks that are not considered tax expenditures for this report. Some exemptions and exclusions are necessary to define the appropriate base that is being taxed. For example, North Carolina's choice of Federal Taxable Income (FTI) as the starting point for income tax calculations is not considered an expenditure, even though FTI is generally lower than other measures of income.

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 "retail" 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 machinery. Sales tax exemptions that are excluded from estimation are included in the Appendix.

## Introduction

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 gift tax. Also, no preferential status is acknowledged when distinctly different bases are taxed at different rates under the same tax schedule. 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 2002 and 2001 respectively to precisely measure the use of certain tax deductions and tax credits.

In some cases, we may not have data on tax returns for specific tax expenditures, but we do have good estimates for several expenditures combined. For example, retailers must list on their sales and use tax returns the amount of sales subject to the special 1% rate. Based on this, our estimates of several expenditures receiving this rate can be summed up and rescaled to get closer to the actual amounts.

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 far 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 2½% to 3%, which also corresponds to North Carolina’s share of population and gross domestic product (GDP). Therefore, national statistics are often multiplied by 2.75% 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.”

For a small number of credits, the provision was utilized by so few taxpayers that reporting the size of the expenditure would jeopardize taxpayer confidentiality. The estimates for these items were reported as a group.



**Table 1****Summary of Tax Expenditure Estimates for 2004 by Tax Category**

<b>Tax</b>	<b>Number of 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	19	11.9	9	1
Tobacco Products Tax	3	2.5	1	0
Alcoholic Beverage Tax	2	2.4	1	0
Franchise Tax	20	276.0	0	8
Corporation Income Tax	47	380.5	13	5
Various Tax Incentives (Articles 3A through 3G)	21	165.0	6	0
Individual Income Tax	27	765.0	6	1
Sales and Use Tax	77	1,754.1	6	18
Highway Use Tax	10	15.3	2	3
Scrap Tire Disposal Tax	1	0.0	0	1
White Goods Disposal Tax	1	0.0	1	0
Piped Natural Gas Tax	1	3.9	0	0
Gift Taxes	3	21.2	0	0
Taxes on Insurance Companies	5	127.6	0	1
Excise Stamp Tax on Conveyances	8	8.5	2	2
Excise Taxes on Motor Fuels	14	36.4	3	1
<b>Totals</b>	<b>259</b>	<b>3,570.3</b>	<b>50</b>	<b>41</b>

**Table 2****Forty Largest Tax Expenditures in North Carolina in 2004**

<b>Rank</b>	<b>Tax</b>	<b>Item</b>	<b>Citation</b>	<b>Short Title</b>	<b>2004 estimate (millions of dollars)</b>
1	Sales and Use Tax	65	164.13B	Food Exemption	416.8
2	Individual Income Tax	5	134.6(b)(5b)	Government Retirement Income under Bailey Settlement	246.0
3	Sales and Use Tax	32	164.13(13)	Prescription Drugs and Insulin	242.0
4	Franchise Tax	19	120.2(b)(1)	Cap for Holding Companies	200.0
5	Sales and Use Tax	68	164.14(b)	Refund of Sales Taxes to Nonprofits	183.0
6	Individual Income Tax	4	134.6(b)(3)	Social Security Benefits in Excess of Federal Limit	179.4
7	Individual Income Tax	22	151.24	Credit for Children	134.3
8	Sales and Use Tax	11	164.13(2a)a	Feeds, Litter and Medications for Farming	128.0
9	Corporation Income Tax	26	130.8	Net Economic Losses	127.4
10	Sales and Use Tax	76	164.4(4a)	Electricity to Commercial Businesses and Residences	107.1
11	Corporation Income Tax	47		Tax Expenditures Combined for Confidentiality	100.1*
12	Taxes on Insurance Companies	2	228.5(c)(2)	Premiums Received from Annuities	95.0
13	Individual Income Tax	6	134.6(b)(6)	Private Retirement Plans and Government Pensions	68.8

## Introduction

<b>Rank</b>	<b>Tax</b>	<b>Item</b>	<b>Citation</b>	<b>Short Title</b>	<b>2004 estimate (millions of dollars)</b>
14	Sales and Use Tax	77	164.21B	Credit for Local Cable Television Franchise Taxes	65.3
15	Corporation Income Tax	11	130.5(b)(1)	US Obligation Interest	63.7
16	Sales and Use Tax	69	164.14(c)	Refund of Sales Taxes to Local Government	62.5
17	Sales and Use Tax	7	164.4C(c)(13)	Internet Access Charges	53.5
18	Sales and Use Tax	40	164.13(23)a	Packaging Items for Manufacturers, Producers and Retailers	52.8
19	Sales and Use Tax	10	164.13(1) and (1a)	Items Sold to Farmers	51.1
20	Franchise Tax	1	125(a)(1)	Charitable Nonprofits	50.2
21	Corporation Income Tax	3	130.11(a)(3)	Certain Charitable Organizations	49.3
22	Low-Income Housing Tax Credits	2	129.42	Credit for Low-Income Housing	47.1
23	Sales and Use Tax	63	164.13(51)	Water Delivered Through Main Pipes	43.5
24	Tax Incentives for New and Expanding Businesses	2	129.9	Credit for Investing in Machinery and Equipment	42.9**
25	Individual Income Tax	15	151.11	Credit for Child Care and Certain Employment-Related Expenses	41.2
26	Sales and Use Tax	52	164.13(38)	Food Stamp Purchases	33.1
27	Sales and Use Tax	31	164.13(12)	Durable Medical Equipment	30.0
28	Sales and Use Tax	64	164.13A	Tips on Meals and Beverages	29.7

## Introduction

<b>Rank</b>	<b>Tax</b>	<b>Item</b>	<b>Citation</b>	<b>Short Title</b>	<b>2004 estimate (millions of dollars)</b>
29	Sales and Use Tax	6	164.4C(c)(12)	Information Services	26.1
30	Taxes on Insurance Companies	3	228.5(c)(3)	Premiums Related to Funding Agreements	26.0
31	Business and Energy Tax Credit	1	129.16	Credit for Investing in Business Property	24.6**
32	Sales and Use Tax	71	164.4(a)(1a)	Manufactured Homes	23.7
33	Individual Income Tax	24	151.26	Charitable Contributions by Nonitemizers	23.1
34	Sales and Use Tax	44	164.13(27)	Food Sold in Dining Rooms Operated by Educational Institution	22.0
35	Individual Income Tax	27		Carry-Over Provisions	21.0
36	Sales and Use Tax	74	164.4(1f)	Electricity to Farmers, Manufacturers and Commercial Laundries	20.6
37	Sales and Use Tax	4	164.4C(c)(9)	Sales, Installation, Repair of Telecommunications Property	19.7
38	Sales and Use Tax	53	164.13(39)	Components of Free Distribution Periodicals	19.4
39	Gift Taxes	1	188(d)	Annual Exclusion Amount	18.0
40	Individual Income Tax	16	151.12	Credit for Certain Real Property Donations	15.6

\* Includes items grouped to protect confidentiality of taxpayer information. See text for this item for more details.

\*\* 2003 value.

## 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.

### Exemptions from 3% gross receipts tax

**1. Low Admission Fee**

**Citation:** G.S. 105-37.1(a)(1)

**Description:** Giving, offering or managing dance or athletic contests with admissions below \$.50.

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

**Note:** There would have to be over 6.6 million tickets sold for this to be above \$100,000.

**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. North Carolina 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:** Estimate based on total budget of \$8.5 million reported by the North Carolina Symphony Society. A report from 2002 by the Symphony Orchestra Institute estimated that US symphonies in this budget range covered an average of 40% of their expenses from sales.

## Privilege Taxes

### 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):** \$1.2

**Data Source:** List of county fairs and attendance from North Carolina Association of Agricultural Fairs.

**Note:** Per person receipts based on average gate price of \$10 and additional \$10 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):** \$6.7

**Data Source:** Estimates based on 2002 data from the National Center for Educational Statistics. North Carolina's revenues from student activities were not directly available. Estimates were made by averaging revenues in nearby states (Alabama, South Carolina, and Tennessee) and adjusting by the number of schools and the number of students in North Carolina.

### 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 records

**Note:** Each event would receive a \$30 tax break. There would have to be over 3,300 events for the loss to exceed \$100,000.

**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 records

**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):** \$0.2

**Data Source:** Estimate based on expected receipts of major qualifying events and festivals. Expected receipts or attendance were obtained from *Southern Festivals* website (<http://southfest.com>), specific event's websites or local newspaper coverage of events.

**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.

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

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

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

**11. Arts Festivals**

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

**Description:** Arts festivals of less than 7 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. Expected receipts or attendance were obtained from *Southern Festivals* website (<http://southfest.com>), specific event's websites or local newspaper coverage of events.

## Privilege Taxes

### 12. 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 days, involving a variety of exhibitions, the majority of which are open to the public.

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

**Data Source:** Estimate based on expected receipts of major qualifying events and festivals. Expected receipts or attendance were obtained from *Southern Festivals* website (<http://southfest.com>), specific event's websites or local newspaper coverage of events.

### 13. 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.

## Preferential rate for 3% gross receipts tax

### 14. 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):** \$3.0

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

## Exemptions from license fee of \$50.00 for attorneys-at-law and other professionals

### 15. 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:** Derived from Department of Revenue list of licenses and US Census demographic data



**16. 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

**17. 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:** Derived from Department of Revenue list of licenses and US Census demographic data

**Exemptions from loan agency annual privilege tax of \$250**

**18. Savings Institutions**

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

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

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

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

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

**19. 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) lack of comparable quality or (3) time constraints.

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

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

## Tobacco Tax

### **Tobacco Tax (Article 2A)**

#### **Tax Base Information**

The tax rate on a pack of cigarettes increased from 5¢ to 30¢ on September 1, 2005 and will increase to 35¢ on July 1, 2006. Other tobacco products will be taxed at the rate of 3% of the price of the products as of September 1, 2005. (Prior to this date, the tax rate was 2%.)

During Fiscal Year 2004-05, \$43.0 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):** \$2.5

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

**Note:** This deduction was effective August 1, 2004. The estimate includes Item #3. The actual amount of \$0.2 million was inflated to provide an estimate at the tax rates that apply after September 1, 2005 and were also adjusted for a full calendar year.

##### **2. Unsalable Cigarettes and Cigars**

**Citation:** G.S. 105-113.21(b) and 105-113.39(b)

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

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

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

##### **3. Discount for Timely Reports — Other Tobacco Products**

**Citation:** G.S. 105-113.39

**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):** included in item #1

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

### **Tax Base Information**

An excise tax of 53.177¢ per gallon is levied on the sale of malt beverages.

An excise tax of 21¢ per liter is levied on the sale of unfortified wine and an excise tax of 24¢ per liter is levied on the sale of fortified wine.

An excise tax of 25% is levied on liquor sold in ABC stores.

During Fiscal Year 2004-05, \$189.7 million was collected from this tax.

### **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):** \$2.4

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

**Note:** This deduction was effective August 1, 2004. The actual amount of \$0.8 million was adjusted for a full calendar year.

#### **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 records

## Franchise Tax

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

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

The franchise tax is a privilege tax on corporations operating in North Carolina. The tax is currently \$1.50 for every \$1000 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 2002, 61% of C-corporations paying the franchise tax used the first of these measures as the taxable amount, while 26% of corporations used the second and 12% used the third.

For corporations doing business both in and outside North Carolina, the share of capital stock due 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 \$35.00. For tax year 2002, 40% of C-corporations and 47% of S-corporations paid the minimum amount.

In Fiscal Year 2004-05, North Carolina collected \$629.8 million in franchise taxes.

**Table 3****2004 NC Franchise Tax Expenditure Estimates**

<b>Item</b>	<b>Citation</b>	<b>Short Title</b>	<b>2004 Estimate (millions of dollars)</b>
1	114(b)(2)	Limited Liability Companies	Unavailable
2	125(a)(1)	Charitable Nonprofits	50.2
3	125(a)(3)	Local Mutual Nonprofits	2.2
4	125(a)(4)	Cooperative Marketing Associations	0.2
5	125(a)(5)	Production Credit Association	0.5
6	125(a)(6)	Nonprofit Clubs	2.0
7	125(a)(7)	Chambers of Commerce	0.9
8	125(a)(8)	Homeowners' Associations	2.3
9	125(a)(9)	Miscellaneous Nonprofits	2.3
10	125(a)	Real Estate Mortgage Investment Conduits	Unavailable
11	122(b)	Deduction from Capital Stock for Investments in Pollution Abatement	Unavailable
12	122(b)	Deduction from Capital Stock for Investments in Hazardous Waste Abatement	Unavailable

Franchise Tax

<b>Item</b>	<b>Citation</b>	<b>Short Title</b>	<b>2004 Estimate (millions of dollars)</b>
13	122(b)	Deduction from Capital Stock for Facilities Used for Residential Sewer Services	Unavailable
14	122(b)	Treasury Stock	8.0
15	122(d)	Deduction from Property Investment for Expenses Related to Purchases of Real Estate	Unavailable
16	122(d)	Deduction from Property Investment for Waste Abatement Investments	Unavailable
17	122(d)	Deduction from Property Investment for Investments in Rural Sewer Services	Unavailable
18	125(b)	Real Estate Investment Trusts and Regulated Investment Corporations	3.0
19	122(d1)	Piped Natural Gas Credit	4.4
20	120.2(b)(1)	Cap for Holding Companies	200.0

## Exemptions

### 1. Limited Liability Companies

**Citation:** G.S. 105-114(b)(2)

**Description:** Limited liability companies are exempt from the franchise tax because the definition for corporation in this Article explicitly excludes them. However, under G.S. 105-114.1(b), the assets of a limited liability company are included in the tax bases of corporations that own more than 50% of the LLC.

**Estimate (in millions):** Unavailable

### 2. Charitable Nonprofits

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

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

**Estimate (in millions):** \$50.2

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

### 3. Local Mutual Nonprofits

**Citation:** G.S. 105-125(a)(3)

**Description:** Mutual ditch or irrigation association, mutual or cooperative telephone association, mutual canning association, cooperative breeding association or similar corporation of a purely local character deriving receipts solely from assessments, dues, or fees collected from members for the sole purpose of meeting expenses.

**Estimate (in millions):** \$2.2

**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):** \$0.2

**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 under federal Farm Credit Act of 1933.

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

**Data Source:** Based on assets of the four 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):** \$2.0

**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):** \$0.9

**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):** \$2.3

**Data Source:** Based on IRS data compiled by the National Center for Charitable Statistics (NCCS) and additional information from Department of Revenue 2002 corporate income tax records



**9. Miscellaneous Nonprofits**

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

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

**Estimate (in millions):** \$2.3

**Data Source:** Estimate for credit unions from NC Department of Commerce, Credit Union Division Annual Report (2003). Share of assets taxable for franchise tax derived from comparison to savings banks in Department of Revenue records.

**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 Investments in Pollution Abatement**

**Citation:** G.S. 105-122(b)

**Description:** Deduction for cost of air-cleaning device or sewage or waste treatment plant and pollution abatement equipment.

**Estimate (in millions):** Unavailable

**12. Deduction from Capital Stock for Investments in Hazardous Waste Abatement**

**Citation:** G.S. 105-122(b)

**Description:** Deduction for cost of purchasing equipment or constructing facilities for the purpose of recycling or reducing hazardous wastes.

**Estimate (in millions):** Unavailable

**13. Deduction from Capital Stock for Facilities Used for Residential Sewer Services**

**Citation:** G.S. 105-122(b)

**Description:** Deduction for the cost of constructing facilities used to provide sewer services to residential and outlying areas.

**Estimate (in millions):** Unavailable

## Franchise Tax

### 14. Treasury Stock

**Citation:** G.S. 105-122(b)

**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):** \$8.0

**Data Source:** Department of Revenue 2001 C-Corp records

### 15. 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

### 16. 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 sewage or waste treatment plant.

**Estimate (in millions):** Unavailable

### 17. 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

### 18. Real Estate Investment Trusts and Regulated Investment Corporations

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

**Description:** Deduction for market value of a real estate investment trust or regulated investment corporation of investments in the stocks, bonds or debts of other entities.

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

**Data Source:** Department of Revenue 2002 C-Corp records

## Tax Credits

### 19. 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):** \$4.4

**Data Source:** Department of Revenue 2002 and 2003 C-Corp and S-Corp records

## Caps

### 20. 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):** \$200.0

**Data Source:** Department of Revenue 2001 and 2002 C-Corp and S-Corp records

## Corporation Income Tax

### **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.

For corporations doing business both in and outside North Carolina, the share of business income taxable to North Carolina is calculated by the following formula: the average of the corporation's ratios of capital stock, payroll and sales within North Carolina to the company's totals of these factors, with the sales factor double-weighted. For a few types of companies, the sales factor only is used. These companies include building or construction contractors, securities dealers, loan companies, or corporations that receive more than 50% of their ordinary gross income from intangible property.

The corporation tax's 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 2002 tax returns, two-thirds 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 negative incomes if they were not allowed that particular deduction. (The tax expenditure is non-binding for these companies.) In the measurement of tax expenditures in this section, attempts were made to include only companies for which the tax expenditure 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 Fiscal Year 2004-05, North Carolina collected \$1.27 billion in corporate income taxes.

**Table 4****2004 NC Corporate Income Tax Expenditure Estimates**

<b>Item</b>	<b>Citation</b>	<b>Short Title</b>	<b>2004 Estimate (millions of dollars)</b>
1	130.11(a)(1)	Fraternal Beneficiary Societies	less than 0.1
2	130.11(a)(2)	Certain Cooperative Companies	12.5
3	130.11(a)(3)	Certain Charitable Organizations	49.3
4	130.11(a)(4)	Nonprofit Business Associations	0.7
5	130.11(a)(5)	Nonprofit Promoters of Social Welfare	0.3
6	130.11(a)(6)	Nonprofit Clubs	0.6
7	130.11(a)(7)	Local Mutual Nonprofits	less than 0.1
8	130.11(a)(8)	Nonprofit Agricultural Marketing Memberships	0.1
9	130.11(a)(9)	Certain Agricultural Associations	included in item #8
10	130.11(a)(11)	Homeowners' Association	0.4
11	130.5(b)(1)	US Obligation Interest	63.7
12	130.5(b)(1a)	NC Obligation Interest	1.0
13	130.5(b)(7)	Depreciation of Certain Facilities	0.0
14	130.5(b)(8)	Net Capital Losses Not Deductible from Federal Taxable Income	3.0
15	130.5(b)(9)	Shareholders of a Regulated Investment Company	Unavailable
16	130.5(b)(12)	Reforestation and Cultivation of Trees	less than 0.1
17	130.5(b)(13)	Income from International Banking Facility	included in item #47
18	130.5(b)(14)	Basis Adjustment for Federal Tax Credit	Unavailable

Corporation Income Tax

<b>Item</b>	<b>Citation</b>	<b>Short Title</b>	<b>2004 Estimate (millions of dollars)</b>
19	130.5(b)(15)	Marketing Assessments on Tobacco	0.0
20	130.5(b)(16)	Natural Gas Expansion Surcharges	Unavailable
21	130.5(b)(18)	Earnings of Certain Trusts	included in item #47
22	130.5(b)(19)	Income from Hurricane Floyd Reserve Fund	less than 0.1
23	130.5(b)(22)	Disaster Relief Reserve Payments	1.5
24	130.5(c)(2)	Percentage Depletion over Cost Depletion	1.4
25	130.6A(e)	Expenses Related to Nontaxed Dividends for Bank Holding Company	included in item #47
26	130.8	Net Economic Losses	127.4
27	130.9(1)	Charitable Contributions Outside NC	4.6
28	130.9(1)-(3)	Charitable Contributions Within NC	4.0
29	130.10	Amortization of Pollution Abatement Facilities and Equipment	Unavailable
30	130.10A	Amortization of Equipment Mandated by OSHA	Unavailable
31	130.6A(f)	Credit for Bank Holding Companies Related to Expenses on Nontaxed Earnings	included in item #47
32	130.6A(g)	Credit for Electric Power Holding Companies Related to Expenses on Nontaxed Earnings	included in item #47
33	130.22	Rental Units for Handicapped Persons	0.0

Corporation Income Tax

Item	Citation	Short Title	2004 Estimate (millions of dollars)
34	130.25	Equipment for Cogenerating Power Plant	0.0
35	130.28	Construction of Renewable Energy Equipment Facility	0.0
36	130.34	Credit for Certain Real Property Donations	0.1
37	130.36	Conservation Tillage Equipment Credit	less than 0.1
38	130.37	Credit for Gleaned Crops	less than 0.1
39	130.39	Credit for Low-Income Residential Telephone Service	3.8
40	130.41	Credit for Costs at NC Ports	0.4
41	130.43	Credit for S&L Supervisory Fees	0.2
42	130.44	Credit for Poultry Composting Facility	0.0
43	130.45	Credit for Manufacturing Cigarettes for Exportation	included in item #47
44	130.46	Alternative Cigarette Export Credit	included in item #47
45	130.47	Film Industry Production Expenses	5.4
46	163.011	Credit for Qualified Investments	less than 0.1
47		Tax Expenditures Combined for Confidentiality	100.1

## Corporation Income Tax

### Exemptions

#### 1. 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, 2001,” Statistics on Income, IRS

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

#### 2. 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):** \$12.5

**Data Source:** National Center for Charitable Statistics; “2003 Annual Report of State Chartered Credit Unions,” Credit Union Division, NC Department of Commerce

**Note:** Based on data for IRC 501(c)(12) and 501(c)(14) organizations.

#### 3. 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):** \$49.3

**Data Source:** National Center for Charitable Statistics; “Charities and Other Tax-Exempt Organizations, 2001,” Statistics on Income, IRS

**Note:** Based on data for IRC 501(c)(3) and 501(c)(13) organizations



**4. 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):** \$0.7

**Data Source:** National Center for Charitable Statistics; "Charities and Other Tax-Exempt Organizations, 2001," Statistics on Income, IRS

**Note:** Based on data for IRC 501(c)(6) organizations.

**5. 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, 2001," Statistics on Income, IRS

**Note:** Based on data for IRC 501(c)(4) organizations.

**6. Nonprofit Clubs**

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

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

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

**Data Source:** National Center for Charitable Statistics; "Charities and Other Tax-Exempt Organizations, 2001," Statistics on Income, IRS

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

**7. Local Mutual Nonprofits**

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

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

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

**Data Source:** Data on county farm mutual insurance companies, NC Department of Insurance

## Corporation Income Tax

### 8. 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):** \$0.1

**Data Source:** National Center for Charitable Statistics; "Charities and Other Tax-Exempt Organizations, 2001," Statistics on Income, IRS

**Note:** Based on data for IRC 501(c)(5) organizations. The estimate includes Item #9.

### 9. Certain Agricultural Associations

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

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

**Estimate (in millions):** included in item #8

### 10. Homeowners' Association

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

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

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

**Data Source:** National Center for Charitable Statistics; "Charities and Other Tax-Exempt Organizations, 2001," Statistics on Income, IRS

## Deductions

### 11. US Obligation Interest

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

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

**Estimate (in millions):** \$63.7

**Data Source:** Department of Revenue 2001 and 2002 C-Corp and S-Corp records

**12. NC 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 2001 C-Corp sample records

**13. 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):** 0.0

**Data Source:** Department of Revenue 2001 C-Corp sample records

**14. 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):** \$3.0

**Data Source:** Department of Revenue 2001 C-Corp sample records

**15. 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

**16. 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 2001 C-Corp sample records

## Corporation Income Tax

### 17. 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):** included in item #47

**Data Source:** Department of Revenue 2001 C-Corp sample records

### 18. 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

### 19. 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 2001 and 2002 C-Corp records and USDA's Farm Service Agency (FSA) data through 2003

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

### 20. 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):** Unavailable

### 21. 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):** included in item #47

**22. 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 2004.

**23. 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):** \$1.5

**Data Source:** Fiscal Research Division fiscal note. The estimate is based on expected payments to compensate for lost crop income.

**Note:** The estimate includes the amount for similar provision in Individual Income Tax Item #12.

**24. 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):** \$1.4

**Data Source:** Department of Revenue 2001 and 2002 C-Corp and S-Corp records

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

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

**Description:** Cap for bank holding companies of \$11,000,000 as a result of the limitation of 105-130.6A(c).

**Estimate (in millions):** included in item #47

**Data Source:** Department of Revenue 2001 and 2002 C-Corp and S-Corp records

## Corporation Income Tax

### 26. 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):** \$127.4

**Data Source:** Department of Revenue 2001 and 2002 C-Corp and S-Corp records

### 27. Charitable Contributions Outside NC

**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.

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

**Data Source:** Department of Revenue 2001 and 2002 C-Corp and S-Corp records

**Note:** This estimate includes only contributions made to donees outside NC; see item #29 for deduction for donees in NC.

### 28. Charitable Contributions Within NC

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

**Description:** Deductions for 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. For companies with income allocable outside North Carolina, charitable contributions to donees inside NC may be deducted fully from taxable income allocated to North Carolina.

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

**Data Source:** Department of Revenue 2001 and 2002 C-Corp and S-Corp records

**Note:** Allowing companies with income allocable outside North Carolina to receive 100% deduction for contributions to NC donees (instead of their apportionment percentage) cost the State \$1.7 million of the \$4.0 million estimate.

### 29. 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

**30. 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**

**31. 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). See item #25.

**Estimate (in millions):** included in item #47

**32. 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):** included in item #47

**33. 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):** 0.0

**Data Source:** Department of Revenue 2001 and 2002 C-Corp and S-Corp records

**34. 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.

**Estimate (in millions):** 0.0

**Data Source:** Department of Revenue 2001 and 2002 C-Corp and S-Corp records

## Corporation Income Tax

### **35. Construction of Renewable Energy Equipment Facility**

**Citation:** G.S. 105-130.28

**Description:** Credit against corporate income tax for 25% of costs of construction of a renewable energy equipment facility.

**Estimate (in millions):** 0.0

**Data Source:** Department of Revenue 2001 and 2002 C-Corp and S-Corp records and information from the NC Solar Center

### **36. 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):** \$0.1

**Data Source:** Department of Revenue 2001 and 2002 C-Corp and S-Corp records

### **37. 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.

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

**Data Source:** Department of Revenue 2001 and 2002 C-Corp and S-Corp records

### **38. 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 2001 and 2002 C-Corp and S-Corp records



**39. 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):** \$3.8

**Data Source:** Department of Revenue 2001 and 2002 C-Corp and S-Corp records

**40. 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 2003 tax records

**41. 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):** \$0.2

**Data Source:** Department of Revenue 2001 and 2002 C-Corp and S-Corp records

**42. 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):** 0.0

**Data Source:** Department of Revenue 2001 and 2002 C-Corp and S-Corp records

## Corporation Income Tax

### 43. 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):** included in item #47

**Data Source:** Department of Revenue 2001 and 2002 C-Corp and S-Corp records

### 44. 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):** included in item #47

**Data Source:** Department of Revenue 2001 and 2002 C-Corp and S-Corp records

### 45. 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 15% of the qualifying expenses.

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

**Data Source:** Fiscal Research Division fiscal note based on Department of Commerce data on expenses of film companies. The estimate includes individual income tax item #25.

### 46. Credit for Qualified Investments

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

**Description:** A tax credit is allowed to corporations investing in the equity securities of a North Carolina Enterprise Corporation, a limited partnership in which a North Carolina Enterprise Corporation is the only general partner, or a qualified investment organization. The credit is equal to 25% of the amount invested, but may not exceed \$750,000. Unused credits may be carried forward 5 years.

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

**Data Source:** Department of Revenue 2001 and 2002 C-Corp and S-Corp records

**Note:** See Individual Income Tax, Item #26.

**47. Tax Expenditures Combined for Confidentiality**

**Citation:** G.S. 105-129.27; G.S. 105-129.28; G.S. 105-130.5(b)(13); G.S. 105-130.5(b)(18); G.S. 105-130.6A(e), (f), (g); G.S. 105-130.45; G.S. 105-130.46; G.S. 105-134.6(b)(15)

**Description:** All of these tax expenditures are utilized by a small enough number of taxpayers that it would compromise taxpayer confidentiality to report them separately.

**Estimate (in millions):** \$100.1

**Data Source:** Department of Revenue Corporate Income and Franchise Tax records

**Note:** Includes Corporate Income Tax Items 17, 21, 25, 31, 32, 43, 44; Individual Income Tax Item 10; and Tax Incentives for Recycling Facilities Items 1 and 2.

## **Tax Incentives for New and Expanding Businesses (Article 3A)**

The amounts of tax expenditures in this section are based on the figures published in the 2005 William S. Lee Act report from the NC Department of Revenue. That report covers returns processed in 2004, most of which were tax year 2003 forms.

### **1. Credit for Creating Jobs**

**Citation:** G.S. 105-129.8

**Description:** A taxpayer that meets the eligibility requirements set out in G.S. 105-129.4, has 5 or more full-time employees, and hires an additional full-time employee to fill a new position located in this State is allowed a credit for creating a new full-time job.

**Estimate (in millions):** \$10.6

**Data Source:** Department of Revenue NC-478 tax credit records

### **2. Credit for Investing in Machinery and Equipment**

**Citation:** G.S. 105-129.9

**Description:** A taxpayer that has purchased or leased eligible machinery and equipment and places them in service in this State is allowed a credit equal to the applicable percentage of the excess of the eligible investment amount over the applicable threshold.

**Estimate (in millions):** \$42.9

**Data Source:** Department of Revenue NC-478 tax credit records

### **3. Technology Commercialization Credit**

**Citation:** G.S. 105-129.9A

**Description:** A taxpayer may receive a 15% or 20% credit for machinery and equipment investments that are directly related to production based on technology developed by and licensed from a research university or are used to produce resources essential to the taxpayer's production based on technology developed by and licensed from a research university.

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

**Data Source:** Department of Revenue NC-478 tax credit records

**4. Research and Development Credit**

**Citation:** G.S. 105-129.10

**Description:** A taxpayer that claims a federal income tax credit under Section 41(a) of the Code for increasing research activities is allowed a credit equal to either 5% of the State's apportioned share of the taxpayer's expenditures for increasing research activities or 25% of the State's apportioned share of the federal credit.

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

**Data Source:** Department of Revenue NC-478 tax credit records

**5. Worker Training Credit**

**Citation:** G.S. 105-129.11

**Description:** A taxpayer that provides worker training for 5 or more of its employees is allowed a credit equal to the wages paid to the eligible employees during the training.

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

**Data Source:** Department of Revenue NC-478 tax credit records

**6. Credit for Investing in Central Office or Aircraft Facility Property**

**Citation:** G.S. 105-129.12

**Description:** If a taxpayer that has purchased or leased real property in this State begins to use the property as a central office or aircraft facility, the taxpayer is allowed a credit equal to 7% of the eligible investment amount.

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

**Data Source:** Department of Revenue NC-478 tax credit records

**7. Credit for Substantial Investment in Other Property**

**Citation:** G.S. 105-129.12A

**Description:** If a taxpayer that has purchased or leased real property in an enterprise tier 1 or 2 area begins to use the property in an eligible business, the taxpayer is allowed a credit equal to 30% of the eligible investment amount if all of the requirements of GS 105-129.4 are met.

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

**Data Source:** Department of Revenue NC-478 tax credit records

## Tax Incentives for New and Expanding Businesses

### 8. **Credit for Development Zone Projects**

**Citation:** G.S. 105-129.13

**Description:** A taxpayer who contributes cash or property to a development zone agency for an improvement project in a development zone is allowed a credit equal to 25% of the value of the contribution.

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

**Data Source:** Department of Revenue NC-478 tax credit records

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

The estimates for the following tax expenditures are based on reports produced by the NC Department of Revenue covering returns processed from April 1, 2004 through March 31, 2005, most of which were tax year 2003 forms.

**1. Credit for Investing in Business Property**

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

**Description:** If a taxpayer that has purchased or leased business property places it in service in this State, the taxpayer is allowed a credit equal to 4.5% of the cost of the property, up to a credit of \$4,500. This credit was repealed for activity after January 1, 2002.

**Estimate (in millions):** \$24.6

**Data Source:** Department of Revenue records

**Note:** The expenditure represents installments of previously-earned credits.

**2. 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.

**Estimate (in millions):** \$2.0 - \$5.0

**Data Source:** Department of Revenue records

**3. Credit for Investing in Dry-Cleaning Equipment That Does Not Use a Hazardous Substance**

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

**Description:** If a taxpayer that has purchased or leased qualified dry-cleaning equipment places it in service in this State for commercial purposes, the taxpayer is allowed a credit equal to 20% of the cost of the equipment.

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

**Data Source:** Department of Revenue records

## Business and Energy Tax Credits

### 4. **Credit for Constructing Renewable Fuel Facilities**

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

**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. The credit must be taken in 3 annual installments.

**Estimate (in millions):** 0.0

**Data Source:** Department of Revenue records; NC Legislative Fiscal Note for HB 1636 (2003-04 session)



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

Data for the estimates in this section were derived from evaluation of 2001 C-Corporation and S-Corporation tax returns.

### **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 recycling facility in this State is allowed a credit equal to 50% of the amount payable by the owner during the taxable year to purchase or lease the machinery and equipment.

**Estimate (in millions):** included in item #47 of Corporate Income Tax list

**Data Source:** Department of Revenue 2002 and 2003 records

### **2. Credit for Reinvestment**

**Citation:** G.S. 105-129.28

**Description:** A major recycling facility that is accessible by neither ocean barge nor ship and that transports materials to the facility or products away from the facility is allowed a credit against the income tax equal to its additional transportation and transloading expenses incurred due to its inability to use ocean barges or ships. The credit is capped at \$10.4 million for 2004 and is refundable.

**Estimate (in millions):** included in item #47 of Corporate Income Tax list

**Data Source:** Department of Revenue 2003 records

## Historic Rehabilitation Tax Credits (Article 3D)

Data for the estimates in this section were derived from evaluation of 2001 C-Corporation and S-Corporation tax returns, in addition to 2003 Individual income tax returns.

### 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.

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

**Data Source:** Department of Revenue records

### 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. To qualify for the credit, the taxpayer's expenses must exceed \$25,000 within a 24-month period.

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

**Data Source:** Department of Revenue records

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

The amounts of credits taken come from reports produced by the NC Department of Revenue

**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.

**Estimate (in millions):** included in next item

**2. Credit for Low-Income Housing Awarded 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.

**Estimate (in millions):** \$47.1

**Data Source:** Department of Revenue records

## Research and Development Tax Credits (Article 3F)

### 1. Credit for North Carolina Research and Development

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

**Description:** A taxpayer that has qualified North Carolina research expenses for the taxable year is allowed a credit equal to a percentage of the expenses, determined by the following criteria: (1) if the taxpayer is a small business, the applicable percentage is 3%; (2) for expenses with respect to research performed in an enterprise tier one, two, or three area, the percentage is 3%; (3) for expenses not covered under (1) or (2), the credit is 1% of expenses up to \$50 million, 2% of additional expenses up to \$200 million, and 3% of additional expenses above \$200 million.

**Estimate (in millions):** \$12.5

**Data Source:** NC Legislative Fiscal Note for HB 1631 or SB 1115 (2003-04 Session)

**Note:** This credit is effective for business activities occurring on or after May 1, 2005. The estimate is based on the expected amount if the credit had been in effect in 2004. This credit is a close substitute for Item #4 under "Tax Incentives for New and Expanding Businesses," and it is likely that some taxpayers that are currently taking that credit would prefer to switch to this one. However, the estimate above does not reflect any substitution away from the other credit.

### 2. Credit for NC University Research Expenses

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

**Description:** A taxpayer that has NC university research expenses for the taxable year is allowed a credit equal to 15% of the expenses.

**Estimate (in millions):** included in item #1

**Note:** This credit is effective for business activities occurring on or after May 1, 2005.

## **Tax Incentives for Major Computer Manufacturing Facilities (Article 3G)**

### **1. Tax Incentives for Major Computer Manufacturing Facilities**

**Citation:** G.S. 105-129.64

**Description:** A taxpayer that is expected to add at least 1,200 employees within five years to a computer manufacturing and distribution facility and invests, directly or indirectly, \$100 million in constructing the facility is eligible for a credit against its franchise and income taxes. The credit is \$10 million for 2005. For taxable years beginning in 2006, the amount of the credit is determined based on the levels of employment and production at the facility.

**Estimate (in millions):** 0.0

**Data Source:** NC Legislative Fiscal Note for SB 2 (2004 Extra Session)

**Note:** This credit is effective for tax years beginning on or after January 1, 2005. The estimate is based on the expected amount if the credit had been in effect in 2004. The Legislature's Fiscal Note estimated a \$10 million cost for 2005.

## 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 revenues. In fiscal year 2004-05, the State collected over \$8.4 billion from this tax.

There are currently four marginal tax rates: 6%, 7%, 7.75% and 8.25%. The highest tax rate is scheduled to expire beginning with the 2008 tax year. Tax brackets vary by marital status and by whether an individual is either (1) the head of a household, (2) elderly, or (3) blind.

The base of the individual income tax is federal taxable income. This implies that all federal tax deductions are passed on to the state. However, certain provisions have been "decoupled" from the federal Code. Specifically, the amounts of the personal deduction and exemptions allowable on North Carolina income are not adjusted for inflation, unlike the federal levels. In addition, there are different provisions for deductions for accelerated depreciation for the years 2002-2004.

Deductions and tax credits estimated in this report reduced North Carolina personal income taxes by \$780 million in 2004. This does not include the tax deductions available via the federal Code, such as the standard deduction and personal exemptions, deductions for mortgage interest payments, charitable deductions for itemizers, etc.

**Table 5****2004 NC Individual Income Tax Expenditure Estimates**

<b>Item</b>	<b>Citation</b>	<b>Short Title</b>	<b>2004 Estimate (millions of dollars)</b>
1	158	Certain Individuals upon Death	less than 0.1
2	134.6(b)(1)	US and NC Obligation Interest	13.4
3	134.6(b)(2)	Disposition of Certain Obligations	0.1
4	134.6(b)(3)	Social Security Benefits in Excess of Federal Limit	179.4
5	134.6(b)(5b)	Government Retirement Income under Bailey Settlement	246.0
6	134.6(b)(6)	Private Retirement Plans and Government Pensions	68.8
7	134.6(b)(10)	Basis Adjustment for Disposed Property	Unavailable
8	134.6(b)(11)	Severance Wages	9.7
9	134.6(b)(14)	Erroneous Conviction and Imprisonment	less than 0.1
10	134.6(b)(15)	Interest Earned on Certain Trusts	included in corporate income tax item #47
11	134.6(b)(16)	Hurricane Floyd Reserve Fund	less than 0.1
12	134.6(b)(18)	Disaster Relief Reserve Payments	included in corporate income tax item #23
13	134.7(a)(4)	Net Economic Losses	\$3.0 to \$5.0
14	151.1	Construction of Dwellings for Handicapped Persons	0.1
15	151.11	Credit for Child Care and Certain Employment-Related Expenses	41.2

Individual Income Tax

<b>Item</b>	<b>Citation</b>	<b>Short Title</b>	<b>2004 Estimate (millions of dollars)</b>
16	151.12	Credit for Certain Real Property Donations	15.6
17	151.13	Credit for Conservation Tillage Equipment	less than 0.1
18	151.14	Credit for Gleaned Crops	0.1
19	151.18	Credit for the Disabled	0.7
20	151.21	Credit for Property Taxes Paid on Farm Machinery	1.5
21	151.22	Use of North Carolina Ports	less than 0.1
22	151.24	Credit for Children	134.3
23	151.25	Construction of Poultry Composting Facility	less than 0.1
24	151.26	Charitable Contributions by Nonitemizers	23.1
25	151.29	Film Industry Production Expenses	included in corporate income tax item #45
26	163.011	Investments in Qualified Businesses	6.0
27		Carry-Over Provisions	21.0



## Exemptions

### 1. Certain Individuals upon Death

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

**Description:** Certain armed forces personnel and other individuals are exempted from taxation on all income for the year in which they died.

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

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

## Deductions

### 2. US and NC Obligation Interest

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

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

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

**Data Source:** Department of Revenue 2003 Individual Income Tax records

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

### 3. 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):** \$0.1

**Data Source:** Department of Revenue 2003 Individual Income Tax records

### 4. 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):** \$179.4

**Data Source:** Department of Revenue 2003 Individual Income Tax records

## Individual Income Tax

### 5. **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):** \$246.0

**Data Source:** Department of Revenue 2003 Individual Income Tax records

### 6. **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):** \$68.8

**Data Source:** Department of Revenue 2003 Individual Income Tax records

### 7. **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

### 8. **Severance Wages**

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

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

**Estimate (in millions):** \$9.7

**Data Source:** Department of Revenue 2002 Individual Income Tax records and NC Employment Security Commission data on unemployment insurance claims through 2004

**9. 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

**10. 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):** included in Corporation Income Tax item #47

**Data Source:** Department of Revenue 2003 Individual Income Tax records

**11. 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

**12. 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 by taxpayer.

**Estimate (in millions):** included in Corporate Income Tax item #23

**Data Source:** Fiscal Research Division fiscal note. The estimate is based on expected payments to compensate for lost crop income.

**13. Net Economic Losses**

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

**Description:** Deductions for net economic losses in last 5 years, arising from business transactions, business capital, or business property.

**Estimate (in millions):** \$3.0 to \$5.0

**Data Source:** Department of Revenue 2003 Individual Income Tax records

## Individual Income Tax

### Tax Credits

#### 14. 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 2002 and 2003 Individual Income Tax records

#### 15. 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 \$2,400 for one qualifying household member or \$4,800 for multiple qualifying members.

**Estimate (in millions):** \$41.2

**Data Source:** Department of Revenue 2002 and 2003 Individual Income Tax records

#### 16. 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.

**Estimate (in millions):** \$15.6

**Data Source:** Department of Revenue 2002 and 2003 Individual Income Tax records

#### 17. Credit for Conservation Tillage Equipment

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

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

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

**Data Source:** Department of Revenue 2002 and 2003 Individual Income Tax records

**18. 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):** \$0.1

**Data Source:** Department of Revenue 2002 and 2003 Individual Income Tax records

**19. 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):** \$0.7

**Data Source:** Department of Revenue 2002 and 2003 Individual Income Tax records

**20. 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):** \$1.5

**Data Source:** Department of Revenue 2002 and 2003 Individual Income Tax records

**21. 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 average of the current year and the two previous years. 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 2003 tax records

## Individual Income Tax

### 22. 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 and whose adjusted gross income (AGI) is less than a specified amount 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):** \$134.3

**Data Source:** Department of Revenue 2002 and 2003 Individual Income Tax records

**Note:** The credit prior to January 1, 2004 was \$75 per dependent.

### 23. 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 2003 tax records

### 24. 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):** \$23.1

**Data Source:** Department of Revenue 2002 and 2003 Individual Income Tax records

### 25. Film Industry Production Credits

**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 15% of qualifying expenses.

**Estimate (in millions):** included in Corporate Income Tax item #45

**Data Source:** Fiscal Research Division fiscal note. The estimate is based on Department of Commerce data on expenses of productions in North Carolina.

**26. Investments in Qualified Businesses**

**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):** \$6.0

**Data Source:** Department of Revenue 2002 and 2003 Individual Income Tax records

**Note:** The cap on total tax credits claimed for investments made prior to 2004 was \$6,000,000.

**Table 6**

**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	

**27. Carry-Over Provisions**

**Description:** Various individual income tax credits may be carried forward.

**Estimate (in millions):** \$21.0

**Data Source:** Department of Revenue 2002 and 2003 Individual Income Tax records



## **Sales and Use Tax (Article 5)**

### **Tax Base Information**

The sales tax in North Carolina is imposed on retail sales (including the value of leases and rentals) of tangible property occurring in the State and the use tax is imposed on purchases made outside the State if the property purchased is used in the State. Currently, the sales tax is 4½%. Local governments are allowed to add 2½% to the tax. Mecklenburg County has an additional ½% tax.

In addition to retail sales, the sales and use tax is imposed on several services, such as accommodation rentals and laundry and dry cleaning services.

Telecommunications services are taxed at 6% until November 2005 and 7% thereafter. All these funds are paid to the State. However, the Department of Revenue must distribute 18.26% of the taxes collected to local governments each quarter, less \$2,620,948. After January 1, 2006, the reimbursement rate to local governments changes to 18.03%. (See G.S. 105-164.44F.) Satellite services are taxed at 5% until November 2005 and 7% thereafter.

The sales tax rate on spirituous liquor is 7% as of October 1, 2005.

For Fiscal Year 2004-05, sales and use tax receipts for the State (excluding local receipts) were approximately \$4.6 billion.

**Table 7**  
**2004 NC Sales and Use Tax Expenditure Estimates**

Item	Citation	Short Title	2004 Estimate (millions of dollars)
1	164.4C(c)(5)	Pay Telephone Services	less than 0.1
2	164.4C(c)(7)	One-Way Paging Services	4.8
3	164.4C(c)(8)	Telephone Charges by a Hotel or Motel	1.2
4	164.4C(c)(9)	Sales, Installation, Repair of Telecommunications Property	19.7
5	164.4C(c)(10)	Directory and Yellow-Page Advertising	1.9
6	164.4C(c)(12)	Information Services	26.1
7	164.4C(c)(13)	Internet Access Charges	53.5
8	164.4C(c)(16)	Charges Related to NC Information Highway and Other Government Data Networks	1.0
9	164.4C(f)	Out-of-State Call Centers	14.1
10	164.13(1) and (1a)	Items Sold to Farmers	51.1
11	164.13(2a)a	Feeds, Litter and Medications for Farming	128.0
12	164.13(2a)b	Pesticides, Rodenticides and Related Products for Farming	10.7
13	164.13(2a)c	Defoliants for Commercial Use	included in item #12
14	164.13(2a)d	Plant Growth Inhibitors	included in item #12
15	164.13(2a)e	Semen for Artificial Insemination	less than 0.1

## Sales and Use Tax

<b>Item</b>	<b>Citation</b>	<b>Short Title</b>	<b>2004 Estimate (millions of dollars)</b>
16	164.13(3)	Certain Products of Forests and Mines by Producers	Unavailable
17	164.13(4b)	Farm Products Requiring Ice Preservation For Further Sale	Unavailable
18	164.13(4c)a	Manufactured Facilities for Commercial Housing of Animals	Unavailable
19	164.13(4c) b and c	Building Materials and Equipment for Animal Enclosures and Housing	Unavailable
20	164.13(4d)	Tobacco Farming Items	less than 0.1
21	164.13(4e)	Grain, Feed, or Soybean Storage Facilities	Unavailable
22	164.13(5b)	Telephone Equipment	2.8
23	164.13(5c)	Radio and Television Broadcast Equipment	1.3
24	164.13(5d)	Cable Service Broadcast Equipment	Unavailable
25	164.13(7)	Aquacultural Products in Raw State	Unavailable
26	164.13(9)	Tangible Property Purchased for Commercial Fishing	1.5
27	164.13(10)	Items Used by Laundries and Dry Cleaning Businesses	1.0
28	164.13(10a)a and b	Lubricants Used by Major Recycling Facility	Unavailable
29	164.13(10a)c	Electricity Used by Major Recycling Facility	Unavailable
30	164.13(11a)	Diesel Fuel for Railroads	Unavailable

Sales and Use Tax

<b>Item</b>	<b>Citation</b>	<b>Short Title</b>	<b>2004 Estimate (millions of dollars)</b>
31	164.13(12)	Durable Medical Equipment	30.0
32	164.13(13)	Prescription Drugs and Insulin	242.0
33	164.13(13c)	Chiropractors' Nutritional Supplements	0.2
34	164.13(14)	Public School Books	2.6
35	164.13(15)	Accounts of Sales Charged Off for Income Purposes	Unavailable
36	164.13(20)	Sales by Blind Merchants	0.5
37	164.13(21)	Lease or Rental of Films for Exhibition	2.8
38	164.13(22)	Lease or Rental of Films, Transcriptions and Recordings to Broadcasters	Unavailable
39	164.13(22a)	Audiovisual Masters	0.2
40	164.13(23)a	Packaging Items for Manufacturers, Producers and Retailers	52.8
41	164.13(23)b	Packaging Returned to Seller	0.1
42	164.13(26)	Food Sold by a Public or Private School Cafeteria	11.1
43	105.164.13(26a)	Food Sold by a Public School Cafeteria to Certain Child Care Centers	included in item #42
44	164.13(27)	Food Sold in Dining Rooms Operated by Educational Institutions	22.0
45	164.13(28)	Certain Sales of Newspapers	11.8

## Sales and Use Tax

<b>Item</b>	<b>Citation</b>	<b>Short Title</b>	<b>2004 Estimate (millions of dollars)</b>
46	164.13(30)	Vending Machine One-Cent Sales	less than 0.1
47	164.13(31)	Meals for the Elderly	less than 0.1
48	164.13(31a)	Food Sold by a Church or Religious Organization	Unavailable
49	164.13(34)	Sales by Nonprofits Whose Proceeds Go to the State	Unavailable
50	164.13(35)	Sales by Nonprofits Conducted Annually	1.0
51	164.13(36)	Advertising Supplements Sold with Newspapers	4.0
52	164.13(38)	Food Stamp Purchases	33.1
53	164.13(39)	Components of Free Distribution Periodicals	19.4
54	164.13(41)	Mobile Classrooms Purchased by Boards of Education or Community Colleges	0.5
55	164.13(43)	Custom Computer Software	5.0
56	164.13(43a)	Software Delivered Electronically	Unavailable
57	164.13(45)	Items Purchased by Interstate Air Carriers	included in item #58
58	164.13(45a)	Lubricants Used in Maintenance of Commercial Aircraft	4.0
59	164.13(45b)	Items Purchased by Interstate Air Couriers	Unavailable
60	164.13(46)	Electricity to Municipalities Supplied by Federal Agency	Unavailable
61	164.13(49a)	Delivery Charges of Direct Mail	0.3

Sales and Use Tax

<b>Item</b>	<b>Citation</b>	<b>Short Title</b>	<b>2004 Estimate (millions of dollars)</b>
62	164.13(50)	Goods Sold Through Vending Machines	4.5
63	164.13(51)	Water Delivered Through Main Pipes	43.5
64	164.13A	Tips on Meals and Beverages	29.7
65	164.13B	Food Exemption	416.8
66	164.13C	Sales and Use Tax Holiday	11.0
67	164.14(a1)	Cap on Tax of Aviation Fuel for Interstate Air Carriers	5.0
68	164.14(b)	Refund of Sales Taxes to Nonprofits	183.0
69	164.14(c)	Refund of Sales Taxes to Local Government	62.5
70	164.14(k)	Motor Sports Events Refunds	Unavailable
71	164.4(a)(1a)	Manufactured Homes	23.7
72	164.4(a)(8)	Modular Homes	6.6
73	164.4(a)(1b)	Aircraft and Boats	12.7
74	164.4(1f)	Electricity to Farmers, Manufacturers and Commercial Laundries	20.6
75	164.4(1h)	Electricity to Aluminum Smelting Facility	0.0
76	164.4(4a)	Electricity to Commercial Businesses and Residences	107.1
77	164.21B	Credit for Local Cable Television Franchise Taxes	65.3

## Exemptions

### 1. Pay Telephone Services

**Citation:** G.S. 105-164.4C(c)(5)

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

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

**Note:** Volume of sales is not likely to exceed the level for a tax revenue loss of \$100,00 or more.

### 2. One-Way Paging Services

**Citation:** G.S. 105-164.4C(c)(7)

**Description:** Paging service, unless the service provides two-way communication.

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

**Data Source:** 2002 Economic Census data for telecommunications

**Note:** The estimate has been adjusted to take into account the tax rates on telecommunications that apply after January 1, 2006. Consequently, the estimate uses an effective State tax rate of 5.74% (that is, the 7% rate less the 18.03% share distributed to the local governments).

### 3. Telephone Charges by a Hotel or Motel

**Citation:** G.S. 105-164.4C(c)(8)

**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):** \$1.2

**Data Source:** 2002 Economic Census data for accommodations

**Note:** See the note on Item #2.

### 4. Sales, Installation, Repair of Telecommunications Property

**Citation:** G.S. 105-164.4C(c)(9)

**Description:** Receipts from the sale, installation, maintenance or repair of tangible personal property.

**Estimate (in millions):** \$19.7

**Data Source:** 2002 Economic Census data for telecommunications

**Note:** See the note on Item #2.

## Sales and Use Tax

### 5. **Directory and Yellow-Page Advertising**

**Citation:** G.S. 105-164.4C(c)(10)

**Description:** Directory advertising and yellow-page classified listings.

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

**Data Source:** 2003 Economic Census data for telecommunications

**Note:** See the note on Item #2.

### 6. **Information Services**

**Citation:** G.S. 105-164.4C(c)(12)

**Description:** An information service is a service that can generate, acquire, store, transform, process, retrieve, use, or make available information through a communications service.

**Estimate (in millions):** \$26.1

**Data Source:** 2002 Economic Census data for telecommunications and internet service providers

**Note:** Includes data transmission services, data storage services and data management services. See the note on Item #2.

### 7. **Internet Access Charges**

**Citation:** G.S. 105-164.4C(c)(13)

**Description:** Internet access service, electronic mail service, electronic bulletin board service, or similar on-line services.

**Estimate (in millions):** \$53.5

**Data Source:** 2002 Economic Census data for internet service providers

**Note:** Includes web hosting services. See the note on Item #2.

### 8. **Charges Related to NC Information Highway and Other Government Data Networks**

**Citation:** G.S. 105-164.4C(c)(16)

**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):** \$1.0

**Data Source:** ITS telecommunications revenues in 2003-05 Certified Budget, Office of State Budget and Management; State Controller's 2004 IT report



**9. 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):** \$14.1

**Data Source:** 1997 and 2002 Economic Census data for Telephone Call Centers, US Census Bureau

**Note:** The cap effectively eliminates taxes on company revenues over \$833,333. See the note on Item #2.

**10. Items Sold to Farmers**

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

**Description:** Various items sold for agricultural purposes: (a) commercial fertilizer, lime, land plaster, plastic mulch, plant bed covers, potting soil, and seeds (b) farm machinery, attachment and repair parts for farm machinery, and lubricants applied to farm machinery, (c) horse or mule, (d) fuel other than electricity, (e) containers sold to a farmer used to transport or package products.

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

**Data Source:** Department of Revenue sales tax records; North Carolina Department of Agriculture and Consumer Services (NCDACS); 2002 Economic Census; USDA Economic Research Service

**11. Feeds, Litter and Medications for Farming**

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

**Description:** Remedies, vaccines, medications, litter materials, and feeds for animals raised for commercial purposes.

**Estimate (in millions):** \$128.0

**Data Source:** National Agriculture Statistics Service (NSS), USDA; North Carolina Department of Agriculture and Consumer Services (NCDACS)

**12. Pesticides, Rodenticides and Related Products for Farming**

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

**Description:** Rodenticides, insecticides, herbicides, fungicides and pesticides for use on plants grown for commercial purposes.

**Estimate (in millions):** \$10.7

**Data Source:** National Agriculture Statistics Service (NSS), USDA; North Carolina Department of Agriculture and Consumer Services (NCDACS)

**Note:** Includes Items #13 and 14.

## Sales and Use Tax

### 13. Defoliants for Commercial Use

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

**Description:** Defoliants for use on cotton or other crops grown from commercial purposes.

**Estimate (in millions):** included in item #12

### 14. Plant Growth Inhibitors

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

**Description:** Plant growth inhibitors, regulators, or stimulators, including systemic and contact or other sucker control agents for tobacco and other crops grown for commercial purposes.

**Estimate (in millions):** included in item #12

### 15. Semen for Artificial Insemination

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

**Description:** Sale of semen for artificial insemination.

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

**Note:** Although no direct information on semen sales were found, North Carolina is not a major cattle or dairy producer; the cost of artificial insemination of poultry and hogs is not likely to be large. Comparable estimates from other states were used to support estimate.

### 16. 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.

**17. 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.

**18. Manufactured Facilities for Commercial Housing of Animals**

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

**Description:** Sales of commercially manufactured facilities for commercial purposes in housing, raising or feeding animals or for housing related equipment.

**Estimate (in millions):** Unavailable

**19. Building Materials and Equipment for Animal Enclosures and Housing**

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

**Description:** Buildings, materials, supplies, fixtures, and equipment that become a part of and are used in the construction, repair, or improvement of an enclosure or a structure as specified in this subsection. Commercially manufactured equipment, and parts and accessories for the equipment, used in a facility that is exempt from tax in this subsection.

**Estimate (in millions):** Unavailable

**20. Tobacco Farming Items**

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

**Description:** (a) lease or rental of tobacco sheets used in handling tobacco in the warehouse and transporting tobacco to and from the warehouse, (b) 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) 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, (4e) a grain, feed, or soybean storage facility, and parts and accessories attached to the facility.

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

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

## Sales and Use Tax

### 21. Grain, Feed, and Soybean Storage Facilities

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

**Description:** Sales of grain, feed, or soybean storage facilities and attached parts and accessories.

**Estimate (in millions):** Unavailable

### 22. 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):** \$2.8

**Data Source:** Department of Revenue sales tax records; 2002 Economic Census

### 23. 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):** \$1.3

**Data Source:** Department of Revenue sales tax records; 2002 Economic Census

### 24. 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):** Unavailable

### 25. Aquacultural Products in Raw State

**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.

**Citation:** G.S. 105-164.13(7)

**Estimate (in millions):** Unavailable

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

**26. 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):** \$1.5

**Data Source:** NC Fisheries Association, NC Division of Marine Fisheries; sample of NC corporate income tax returns

**27. 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.

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

**Data Source:** 2002 Economic Census, US Census Bureau; sample of NC corporate income tax returns

**28. Lubricants Used by Major Recycling Facility**

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

**Description:** Sales to major recycling facility of lubricants and other additives for motor vehicles or machinery and supplies used at the facility and accessories.

**Estimate (in millions):** Unavailable

**29. Electricity Used by Major Recycling Facility**

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

**Description:** Sales to a major recycling facility of electricity used at the facility.

**Estimate (in millions):** Unavailable

**30. 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):** Unavailable

## Sales and Use Tax

### 31. 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):** \$30.0

**Data Source:** Centers for Medicare & Medicaid Services, US Department of Health and Human Services ([www.cms.gov](http://www.cms.gov))

### 32. 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):** \$242.0

**Data Source:** Centers for Medicare & Medicaid Services, US Department of Health and Human Services ([www.cms.gov](http://www.cms.gov))

### 33. 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):** \$0.2

**Data Source:** Department of Revenue sales and use tax records; 1997 and 2002 Economic Census data for Health Care and Social Assistance Industries

### 34. 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):** \$2.6

**Data Source:** State revenue from sales of textbooks from 2003-04 Statistical Report, NC Department of Public Instruction

**35. 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

**36. 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

**37. 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):** \$2.8

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

**38. 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):** Unavailable

## Sales and Use Tax

### 39. 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):** \$0.2

**Data Source:** Department of Revenue Sales and Use Tax records; NC Film Office

### 40. 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):** \$52.8

**Data Source:** Packaging costs from 1997 economic census (manufacturers) and 2002 Business Expenses Survey (retailers, wholesalers)

### 41. Packaging Returned to Seller

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

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

**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.

### 42. 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):** \$11.1

**Data Source:** Common Core of Data, National Center for Education Statistics; statistical report from NC Dept. of Public Instruction

**Note:** Includes Item #43.



- 43. Food Sold by a Public School Cafeteria to Certain Child Care Centers**  
**Citation:** G.S. 105-105.164.13(26a)  
**Description:** sales of food sold not for profit by a public school cafeteria to a child care center that participates in the Child and Adult Care Food Program.  
**Estimate (in millions):** included in item #42
- 44. Food Sold in Dining Rooms Operated by Educational Institution**  
**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):** \$22.0  
**Data Source:** *Statistical Abstract of Higher Education in North Carolina*, University of North Carolina
- 45. 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 and sales of magazines by magazine vendors making door-to-door sales.  
**Estimate (in millions):** \$11.8  
**Data Source:** Department of Revenue Sales and Use Tax records
- 46. 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  
**Note:** Volume is not likely to exceed the level for a \$100,000 loss.
- 47. 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:** Sales of Meals on Wheels data from Wake, Buncombe and Forsyth Counties

## Sales and Use Tax

### 48. 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

### 49. 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

### 50. 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):** \$1.0

**Data Source:** Annual reports of Girl Scout Councils

### 51. 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):** \$4.0

**Data Source:** 2002 Economic Census, US Census Bureau

**52. Food Stamp Purchases**

**Citation:** G.S. 105-164.13(38)

**Description:** Food and other items lawfully purchased under the Food Stamp Program and supplemental foods lawfully purchased with a food instrument issued under the Special Supplemental Food Program and supplemental foods purchased for direct distribution by the Special Supplemental Food Program.

**Estimate (in millions):** \$33.1

**Data Source:** Food Stamp Program, US Department of Agriculture estimates of NC food stamps receipts through 2003. Estimate for 2004 based on the reported 14% increase in the number of Food Stamp recipients in NC between July 2003 and July 2004.

**53. 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):** \$19.4

**Data Source:** Estimate derived by Fiscal Research Division of the NC Legislature for HB 1149 (2003-04 session)

**54. 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):** \$0.5

**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 4.5% State tax rate, although these purchases would also be exempt under G.S. 105-164.14(c). No information on community college use of mobile classrooms was obtained.

## Sales and Use Tax

### 55. 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):** \$5.0

**Data Source:** 2002 and 2003 revenues of software publishers from "customization and integration of packaged software," from 2003 Service Annual Survey, US Census Bureau

### 56. Software Delivered Electronically

**Citation:** G.S. 105-164.13(43a)

**Description:** Computer software delivered electronically or delivered by load and leave.

**Estimate (in millions):** Unavailable

### 57. Items Purchased by Interstate Air Carriers

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

**Description:** Sales to an interstate air carrier of (a) aircraft lubricants, repair parts and accessories, (b) aircraft simulators for flight crew training.

**Estimate (in millions):** included in item #58

### 58. 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):** \$4.0

**Data Source:** Estimate derived by Fiscal Research Division of the NC Legislature for HB 1414 (2003-04 session)

**Note:** Includes Item #57

### 59. Items Purchased by Interstate Air Couriers

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

**Description:** Sales to an interstate air courier of (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

**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):** Unavailable

**61. 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):** \$0.3

**Data Source:** Estimate derived by Fiscal Research Division of the NC Legislature for HB 1414 (2003-04 session)

**62. 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):** \$4.5

**Data Source:** 2002 Retail Economic Census data on vending machine companies

**63. 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):** \$43.5

**Data Source:** Amount of water used derived from 2000 estimate by NC Department of Energy and Natural Resources. Average water rates were estimated from a sample of April 2005 municipal rates.

## Sales and Use Tax

### 64. Tips 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.

**Estimate (in millions):** \$29.7

**Data Source:** Receipts at full-service restaurants and drinking places in North Carolina were obtained from the 2002 Economic Census.

**Note:** Receipts were inflated to 2003 and 2004 by considering both the increase in employment and the increase in prices of food and beverages. It was assumed that tips represented 15% of total receipts.

### 65. Food Exemption

**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) alcoholic beverages, (2) dietary supplements, (3) food sold through a vending machine, (4) prepared food, (5) soft drinks, (6) candy.

**Estimate (in millions):** \$416.8

**Data Source:** Department of Revenue 2% local food sales tax records

### 66. 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) computers with a sales price of \$3,500 or less, (3a) computer supplies with a sales price of \$250 or less per item, (4) sport or recreational equipment with a sales price of \$50 or less. The exemption does not apply to sales of clothing accessories or equipment, sales of protective equipment, sales of furniture, sales of items for use in trade or business, rentals.

**Estimate (in millions):** \$11.0

**Data Source:** National Income and Product Accounts, Bureau of Economic Analysis, US Department of Commerce; National Retail Federation survey on back-to-school spending in 2003

**67. Cap on Tax of Aviation Fuel for Interstate Air Carriers**

**Citation:** G.S. 105-164.14(a1)

**Description:** Interstate passenger air carriers are allowed refunds on the amount of sales and use tax paid on aviation fuel in a calendar year in excess of \$2.5 million.

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

**Data Source:** Department of Revenue sales tax and motor fuel tax records; US Energy Information Administration

**68. 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.

**Estimate (in millions):** \$183.0

**Data Source:** Department of Revenue sales and use tax records

**69. Refund of Sales Taxes to Local Government**

**Citation:** G.S. 105-164.14(c)

**Description:** Refunds for sales taxes paid on purchases, other than electricity and telecommunications, by local government entities and indirect purchases of building materials.

**Estimate (in millions):** \$62.5

**Data Source:** Department of Revenue sales and use tax records

**Note:** The estimate does not include refunds for schools, which were repealed as of July 1, 2005.

**70. Motor Sports Events Refunds**

**Citation:** G.S. 105-164.14(k)

**Description:** A motor sports racing team or sanctioning body is allowed a refund on sales taxes paid on aviation fuel used in conjunction with travel to and from motor sports events.

**Estimate (in millions):** Unavailable

## Sales and Use Tax

### Preferential tax rates

#### 71. 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):** \$23.7

**Data Source:** Department of Revenue sales and use tax records; sales prices on manufactured homes from US Housing and Urban Development (HUD)

#### 72. Modular Homes

**Citation:** G.S. 105-164.4(a)(8)

**Description:** Tax rate of 2½% on sales of modular homes.

**Estimate (in millions):** \$6.6

**Data Source:** Department of Revenue sales and use tax records

**Note:** Assumes State would recapture the 20% of revenues currently sent to local governments due to the tax exemption (see G.S. 105-164.44G).

#### 73. Aircraft and Boats

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

**Description:** Tax rate of 3%, up to a maximum of \$1,500, on sales of aircraft and boats.

**Estimate (in millions):** \$12.7

**Data Source:** Department of Revenue sales and use tax records; National Marine Manufacturers Association

#### 74. Electricity to Farmers, Manufacturers and Commercial Laundries

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

**Description:** Tax rate of 2.83% for sale of electricity to (a) farmers for farm-related purposes, (b) manufacturing industries and plants, and (c) commercial laundries or dry-cleaning establishments.

**Estimate (in millions):** \$20.6

**Data Source:** Department of Revenue sales and use tax records



**75. Electricity to Aluminum Smelting Facility**

**Citation:** G.S. 105-164.4(1h)

**Description:** Tax rate of 0.17% applies to sales of electricity to an aluminum smelting facility.

**Estimate (in millions):** 0.0

**Data Source:** Department of Revenue sales and use tax records

**76. Electricity to Commercial Businesses and Residences**

**Citation:** G.S. 105-164.4(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):** \$107.1

**Data Source:** Department of Revenue sales and use tax records; State Electricity Profiles 2002, Energy Information Administration, US Department of Energy

**Credits**

**77. Credit for Local Cable Television Franchise Taxes**

**Citation:** G.S. 105-164.21B

**Description:** Cable service providers are allowed a credit equal to the amount of local franchise tax payable on gross receipts.

**Estimate (in millions):** \$65.3

**Data Source:** National Cable and Telecommunications Association (NCTA); J.D. Power and Associates 2003 Residential Cable/Satellite TV Customer Satisfaction Study

## 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 2004-05, the total amount of tax collected was \$623.9 million, mostly from retail sales. A large percentage of these funds are deposited into the Highway Trust Fund.

#### Expenditures

**1. Class A or Class B Commercial Motor Vehicles and Recreational Vehicles**

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

**Description:** Cap of 3% tax of \$1,000 on Class A or Class B commercial motor vehicles or \$1,500 for recreational vehicles.

**Estimate (in millions):** \$10.7

**Data Source:** Highway use tax records, NC Department of Motor Vehicles

**Note:** \$4.8 for commercial vehicles; \$5.9 million for RVs.

**2. Vehicles Modified for Disabled Individuals**

**Citation:** G.S. 105-187.6(a)(7)

**Description:** Full exemption when a certificate of title is issued to a handicapped person from DHHS after the vehicle has been equipped by DHHS for use by handicapped.

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

**Data Source:** NC Department of Health and Human Services

**3. 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

**4. Volunteer Fire and Rescue Squad Vehicles**

**Citation:** G.S. 105-187.6(a)(9)

**Description:** Full exemption for volunteer fire department or rescue squad.

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

**Data Source:** Highway use tax records, NC Department of Motor Vehicles

**5. 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):** \$2.6

**Data Source:** Highway use tax records, NC Department of Motor Vehicles

**Note:** Includes Item #6.

**6. 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 #5

**7. 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):** \$1.7

**Data Source:** Highway use tax records, NC Department of Motor Vehicles

**8. 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

## Highway Use Tax

### **9. 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

### **10. Return of Purchased Vehicle**

**Citation:** G.S. 105-187.8

**Description:** Refund for return of purchased vehicle.

**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 2004-05, \$4.1 million was collected from this tax.

### **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 2004-05, \$1.7 million was collected from this tax.

#### **Expenditures**

**1. Refund for Large Purchases**

**Citation:** G.S. 105-187.23

**Description:** Refund of 60% for person who buys at least 50 new white goods of any kind in the same sale.

**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 amount of piped gas consumed increases. For the first 200 therms used in a month, the tax rate is 4.7%. The rate declines to 0.3% for therms over 500,000.

In Fiscal Year 2004-05, \$60.5 million was collected from this tax.

### **Expenditures**

#### **1. Gas Received from a Gas City**

**Citation:** G.S. 105-187.41(c)

**Description:** Exemption for gas received from a gas city.

**Estimate (in millions):** \$3.9

**Data Source:** State revenues from piped natural gas tax from Department of Revenue; proportion of gas provided by gas cities calculated from NC Utilities Commission report and 2000 US Census

## Gift Taxes

### Gift Taxes (Article 6)

#### Tax Base Information

A tax is imposed on transfers of real or personal property located in the State. Tax rates differ by the relationship between the donor and donee and the amount of the net gift.

In Fiscal Year 2004-05, \$18.9 million was collected from this tax.

#### Expenditures

**1. Annual Exclusion Amount**

**Citation:** G.S. 105-188(d)

**Description:** Annual exclusion amount equal to the IRS exclusion — \$11,000 per donee in 2004.

**Estimate (in millions):** \$18.0

**Data Source:** Gift Tax Statistics, Statistics of Income Division, Internal Revenue Service

**Note:** The estimate was available for only those taxpayers that filed a federal gift tax return.

**2. Lifetime Exemption Amount**

**Citation:** G.S. 105-188(g)

**Description:** Lifetime exemption of \$100,000 to donees in family.

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

**Data Source:** Calculations based on Gift Tax Statistics, Statistics of Income Division, Internal Revenue Service

**3. Gifts to State and Nonprofits**

**Citation:** G.S. 105-188(h)

**Description:** Exemption for gifts to State, nonprofits in NC, nonprofits in other States if certain conditions are met.

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

**Data Source:** Gift Tax Statistics, Statistics of Income Division, Internal Revenue Service



## **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 2004-05, \$463.6 million was collected from this tax and related regulatory fees.

### **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 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):** \$95.0

**Data Source:** Life and Annuity Business financial summary for 2003, North Carolina Department of Insurance

#### **3. Premiums Related to Funding Agreements**

**Citation:** G.S. 105-228.5(c)(3)

**Description:** Excludes premiums if connected with funding agreements defined in GS 58-7-16.

**Estimate (in millions):** \$26.0

**Data Source:** Life and Annuity Business financial summary for 2003, North Carolina Department of Insurance

## Taxes on Insurance Companies

### 4. **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):** \$3.3

**Data Source:** North Carolina Department of Insurance

**Note:** Based on 1.9% tax rate; does not include exemption from additional fire and lightning rate.

### 5. **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):** \$3.3

**Data Source:** Department of Revenue Insurance Tax records

## **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 2004-05, \$59.7 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. None go directly to the General Fund.

### **Expenditures**

**1. Transfers of Property by Operation of Law**

**Citation:** G.S. 105-228.29(1)

**Description:** 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:** Does not apply to a transfer by lease for a term of years.

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

**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.

## Excise Stamp Tax on Conveyances

### 3. Transfers of Property Pursuant to a Will

**Citation:** G.S. 105-228.29(3)

**Description:** Does not apply to transfers pursuant to a will.

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

**Data Source:** NC Superior Court data on estate cases; 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:** 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:** Does not apply to transfers by gift.

**Estimate (in millions):** Unavailable

### 6. Transfers Involving No Payments

**Citation:** G.S. 105-228.29(6)

**Description:** 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:** 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:** Does not apply if transfer is by an instrument securing indebtedness.

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

**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 base period.

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 2004-05, \$1.36 billion was collected from this tax.

All information on tax expenditure amounts comes from Department of Revenue records, unless otherwise noted.

### **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):** \$7.5

**Data Source:** Motor Fuels Tax Division, Department of Revenue

#### **2. Diesel Sold to an Airport**

**Citation:** G.S. 105-449.88(5)

**Description:** Exemption for sales of diesel that is kerosene and sold to an airport.

**Estimate (in millions):** Unavailable

#### **3. Sales to Charter Schools**

**Citation:** G.S. 105-449.88(6)

**Description:** Exemption of motor fuels sales to charter schools.

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

**Data Source:** Motor Fuels Tax Division, Department of Revenue

## Excise Tax on Motor and Alternative Fuels

### 4. Sales to Community Colleges

**Citation:** G.S. 105-449.88(7)

**Description:** Exemption of motor fuel sales to community colleges.

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

**Data Source:** Motor Fuels Tax Division, Department of Revenue

### 5. Sales to County or Municipal Corporation

**Citation:** G.S. 105-449.88(8)

**Description:** Exemption for motor fuel sales to a county or municipal corporation.

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

**Data Source:** Motor Fuels Tax Division, Department of Revenue

### 6. Discount for Timely Payment – Distributors

**Citation:** G.S. 105-449.93(b)

**Description:** 1% discount to a licensed distributor for timely payment.

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

**Data Source:** Calculations based on summary tax collection data, Department of Revenue

### 7. Hold Harmless Refunds to Distributors and Some Importers

**Citation:** G.S. 105-449.95

**Description:** Distributors are allowed a 2% discount for the first 150,000 gallons of gasoline purchased, 1.5% for the next 100,000 gallons and 1% for the amount over 250,000 gallons. If the amount of refund received under G.S. 105-449.93(b) is less than the amount the distributor or importer would have received under the above schedule, the Secretary of Revenue must send a check to the distributor or importer for the difference.

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

**Data Source:** Motor Fuels Tax Division, Department of Revenue

### 8. Discount for Timely Payment – Suppliers

**Citation:** G.S. 105-449.97(b)

**Description:** 0.1% discount to supplier for timely payment, not to exceed \$8,000 per month.

**Estimate (in millions):** \$0.9

**Data Source:** Motor Fuels Tax Division, Department of Revenue

**9. Discount for Timely Filing and Payment – Sales to Unlicensed Distributors or Bulk-End Users**

**Citation:** G.S. 105-449.97(c)

**Description:** 1% discount to supplier for timely filing and payment.

**Estimate (in millions):** \$2.1

**Data Source:** Motor Fuels Tax Division, Department of Revenue

**10. 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):** 0.0

**Data Source:** Motor Fuels Tax Division, Department of Revenue

**11. 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):** \$0.1

**Data Source:** Motor Fuels Tax Division, Department of Revenue

**12. Certain Government-Related Entities**

**Citation:** G.S. 105-449.106(a)

**Description:** Refunds of tax less 1¢ per gallon for nonprofits and local government entities in the following list: (1) private nonprofit organization that transports passengers under contract with or at the express designation of a unit of local government, (2) a volunteer fire department, (3) a volunteer rescue squad, (4) a sheltered workshop recognized by the Department of Health and Human Services.

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

**Data Source:** Motor Fuels Tax Division, Department of Revenue

## Excise Tax on Motor and Alternative Fuels

### 13. 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):** \$0.2

**Data Source:** Motor Fuels Tax Division, Department of Revenue

**Note:** City-run transit systems receive the complete exemption under item #5.

### 14. 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; 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; commercial vehicles that use a power takeoff to remove and dispose of septage and for which an annual fee is required; or a sweeper.

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

**Data Source:** Motor Fuels Tax Division, Department of Revenue; Fiscal Research Division fiscal note: estimates for pumps and sweepers are based on information from the Department of Environment and Natural Resources and industry representatives



## **Appendix: Tax Exclusions and Exemptions That Are Not Proper Tax Expenditures**

### **Privilege Tax**

#### **1. Amusements on Cherokee Indian Reservations**

**Description:** 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 Exclusion from Tax Expenditure List:** Constitutional Restrictions

### **Bank Annual Privilege Tax**

#### **2. Assets of US Banks Employed Outside NC**

**Description:** Assets of US banks that are employed outside the State of North Carolina.

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

**Reason for Exclusion from Tax Expenditure List:** Constitutional Restrictions

#### **3. Certain Assets of International Banks**

**Description:** Assets of international banking facility employed outside the United States.

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

**Reason for Exclusion from Tax Expenditure List:** Constitutional Restrictions

### **Tobacco Tax**

#### **4. 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 Exclusion from Tax Expenditure List:** Constitutional Restrictions

#### **5. Sales to Distributors**

**Description:** Manufacturers shipping cigarettes to other distributors are exempt.

**Citation:** G.S. 105-113.10

**Reason for Exclusion from Tax Expenditure List:** Double Taxation

#### **6. Out-of-State Sales**

**Description:** Exemption for tobacco products sold outside the State.

**Citation:** G.S. 105-113.35(a)(1)

**Reason for Exclusion 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 Exclusion from Tax Expenditure List:** Constitutional Restrictions

### 8. Distribution of Sample Tobacco Products

**Description:** Exemption for a sample tobacco product distributed without charge.

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

**Reason for Exclusion from Tax Expenditure List:** Not in Taxable Base

## 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 Exclusion from Tax Expenditure List:** Not in Taxable Base

### 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 Exclusion from Tax Expenditure List:** Constitutional Restrictions

### 11. Sales to US Armed Forces

**Description:** Exemption if beverage is sold to the US Armed Forces.

**Citation:** G.S. 105-113.81(c)

**Reason for Exclusion 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 Exclusion 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 Exclusion from Tax Expenditure List:** Not in Taxable Base

**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 US over liabilities owed to foreign persons.

**Citation:** G.S. 105-122(b)

**Reason for Exclusion 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 Exclusion from Tax Expenditure List:** 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 Exclusion from Tax Expenditure List:** Double Taxation

**Corporation Income Tax****17. 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 Exclusion from Tax Expenditure List:** Double Taxation

**18. 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 Exclusion from Tax Expenditure List:** Double Taxation

## Appendix

### 19. Dividends Treated as Received from Outside the US

**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 Exclusion from Tax Expenditure List:** Constitutional Restrictions

### 20. Dividends Received from Outside the US

**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 Exclusion from Tax Expenditure List:** Constitutional Restrictions

### 21. 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 Exclusion from Tax Expenditure List:** Not in Taxable Base

### 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 Exclusion from Tax Expenditure List:** 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 Exclusion from Tax Expenditure List:** 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 Exclusion from Tax Expenditure List:** Double Taxation

### 25. S-Corporation Shareholders

**Description:** Credits shall be given to prevent double taxation of S-corporation shareholders.

**Citation:** G.S. 105-131.8

**Reason for Exclusion from Tax Expenditure List:** Double Taxation

**Individual Income Tax****26. 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 Exclusion from Tax Expenditure List:** Double Taxation

**27. 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 Exclusion from Tax Expenditure List:** Constitutional Restrictions

**28. Inheritance or Estate Taxes Included in Federal AGI**

**Description:** The amount of inheritance or 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 Exclusion from Tax Expenditure List:** Double Taxation

**29. 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 Exclusion from Tax Expenditure List:** Not in Taxable Base

**30. Income Taxes Paid to Other States**

**Description:** Individuals residing in North Carolina may receive a tax credit for income taxes paid to other states.

**Citation:** G.S. 105-151

**Reason for Exclusion from Tax Expenditure List:** Double Taxation

## Appendix

### Sales and Use Tax

**31. Telecommunications Services That Are Integrated Into Another Service**

**Description:** Exemption of charges for telecommunications services that are a component part of or are integrated into a telecommunications service that is resold.

**Citation:** G.S. 105-164.4C(c)(1)

**Reason for Exclusion from Tax Expenditure List:** Double Taxation

**32. Telecommunications Services That Are Part of Prepaid Telephone Calling Service**

**Description:** Exemption for telecommunications services that are resold as part of a prepaid telephone calling service.

**Citation:** G.S. 105-164.4C(c)(2)

**Reason for Exclusion from Tax Expenditure List:** Double Taxation

**33. One-Way Video and Audio Services**

**Description:** Charges for commercial, cable, mobile, broadcast, or satellite video or audio service unless the service provides two-way communication, other than the customer's interactive communication in connection with the customer's selection or use of the video or audio service.

**Citation:** G.S. 105-164.4C(c)(6)

**Reason for Exclusion from Tax Expenditure List:** Double Taxation

**34. Telecommunications Billing and Collection Services**

**Description:** Exemption for billing and collection services.

**Citation:** G.S. 105-164.4C(c)(14)

**Reason for Exclusion from Tax Expenditure List:** Not in Taxable Base

**35. Telecommunications Charges for Nonpayment**

**Description:** Exemption for charges for bad checks or late payments.

**Citation:** G.S. 105-164.4C(c)(15)

**Reason for Exclusion from Tax Expenditure List:** Not in Taxable Base

**36. 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 Exclusion from Tax Expenditure List:** Purchase of Intermediate Good

**37. 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 Exclusion from Tax Expenditure List:** Purchase of Intermediate Good

- 38. 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 Exclusion from Tax Expenditure List:** Purchase of Intermediate Good
- 39. 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 Exclusion from Tax Expenditure List:** Purchase of Intermediate Good
- 40. 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 Exclusion from Tax Expenditure List:** Purchase of Intermediate Good
- 41. 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 Exclusion from Tax Expenditure List:** Not in Taxable Base
- 42. 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 Exclusion from Tax Expenditure List:** Sales for Use Outside North Carolina
- 43. 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 Exclusion from Tax Expenditure List:** Constitutional Restrictions
- 44. Sales of Motor Vehicles**  
**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.  
**Citation:** G.S. 105-164.13(32)  
**Reason for Exclusion from Tax Expenditure List:** Double Taxation

## Appendix

### 45. Articles Purchased for Resale

**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 Exclusion from Tax Expenditure List:** Sales for Use Outside North Carolina

### 46. Purchases Delivered Outside NC

**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 Exclusion from Tax Expenditure List:** Not in Taxable Base

### 47. 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 Exclusion from Tax Expenditure List:** Not in Taxable Base

### 48. 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 Exclusion from Tax Expenditure List:** Not in Taxable Base

### 49. 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 Exclusion from Tax Expenditure List:** Not in Taxable Base

### 50. Installation Charges

**Description:** Installation charges when separately stated.

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

**Reason for Exclusion from Tax Expenditure List:** Not in Taxable Base



**Highway Use Tax****51. 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 Exclusion from Tax Expenditure List:** Double Taxation

**52. 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 Exclusion from Tax Expenditure List:** Double Taxation

**53. 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 Exclusion from Tax Expenditure List:** Double Taxation

**54. Title Issued by Will or Intestacy**

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

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

**Reason for Exclusion from Tax Expenditure List:** Double Taxation

**55. Change in Title Due to Gift Between Close Family Members**

**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.

**Citation:** G.S. 105-187.6(a)(5)

**Reason for Exclusion from Tax Expenditure List:** Double Taxation

**56. 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 Exclusion from Tax Expenditure List:** Double Taxation

**57. 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 Exclusion from Tax Expenditure List:** Not in Taxable Base

## **Tax on Insurance Companies**

### **58. 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 Exclusion from Tax Expenditure List:** Constitutional Restrictions

## **Excise Tax on Motor Fuels and Alternative Fuels**

### **59. 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 Exclusion from Tax Expenditure List:** Not in Taxable Base

### **60. 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 Exclusion from Tax Expenditure List:** Not in Taxable Base

### **61. 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 Exclusion from Tax Expenditure List:** Constitutional Restrictions

### **62. Sales to the State Government**

**Description:** The tax does not apply to motor fuel sold to the State government for its use.

**Citation:** G.S. 105-449.88(3)

**Reason for Exclusion from Tax Expenditure List:** Expenditure savings cancels out tax revenue loss

**63. 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 Exclusion from Tax Expenditure List:** Not in Taxable Base

**64. 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.

**Citation:** G.S. 105-449.105A(a)(1)

**Reason for Exclusion from Tax Expenditure List:** Not in Taxable Base

**65. 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 marked "Undyed, Untaxed Kerosene, Nontaxable Use Only" or if it has a dispensing device that is not suitable for fueling a highway vehicle.

**Citation:** G.S. 105-449.105A(a)(2)

**Reason for Exclusion from Tax Expenditure List:** Not in Taxable Base

**66. 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 Exclusion from Tax Expenditure List:** Not in Taxable Base

**67. 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 Exclusion from Tax Expenditure List:** Not in Taxable Base

**68. 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 Exclusion from Tax Expenditure List:** Constitutional Restrictions

## Index

### A

agriculture, 18, 27, 28, 34, 35, 55, 56, 58, 67, 68, 69, 98, 104, 106, 109  
air transportation, 39, 78, 81, 82, 95  
aluminum smelting facility, 83

### B

boats, 71, 82

### C

capital stock, 14, 20, 22, 26  
charities, 7, 8, 17, 26, 32, 48, 56, 58, 75, 76, 81  
child care, 54, 58, 75  
computers, 47  
conservation, 19, 20, 32, 34, 35, 54, 56, 58  
contributions, 32, 34, 54, 56, 58, 90

### D

development zone, 40  
disabled individuals, 11, 33, 48, 54, 55, 58, 73, 84  
dividends, 1, 33, 102  
dry cleaning, 41, 71

### E

economic losses, 32, 53  
education, 7, 8, 17, 26, 29, 32, 51, 72, 74, 75, 76, 77, 80, 81, 84, 95, 96

### F

federal tax credit, 102, 103  
festivals, 9, 10  
film, television and radio, 10, 36, 56, 70, 73, 74  
financial institutions, 11, 30, 31, 33, 35, 99, 101  
food, 75, 77, 80  
fuels, 1, 42, 67, 71, 81, 95, 96, 97, 98, 105, 108, 109

### H

health care, 72  
historic structures, 44  
holding companies, 21, 31, 33

### I

internet, 66

### M

machinery and equipment, 1, 19, 32, 33, 34, 35, 38, 41, 42, 43, 54, 55, 56, 58, 67, 69, 70, 71, 72, 78, 80, 109  
manufacturing, 2, 104  
military, 51, 100

### N

newspapers and printing, 9, 10, 11, 75, 76  
nonprofit, 9, 17, 18, 26, 27, 28, 29, 51, 76, 81, 90, 92, 97  
North Carolina Enterprise Corporation, 36, 57  
North Carolina Information Highway, 66

### P

packaging, 71, 74  
public transit, 98

### R

R & D, 38, 39, 46  
railroads, 71  
real estate, 19, 20, 48, 82, 94, 102  
recreational vehicles, 84  
reforestation, 29  
religious institutions, 7, 11, 13, 17, 26, 75, 76, 81  
retailer, 1, 2, 12, 59, 69, 74, 84, 88, 105, 106, 107  
retirement plans, 51, 52, 55, 58, 81, 91

**S**

software, 78

**T**

telecommunications, 17, 26, 27, 35, 65, 66,  
67, 70, 81, 104  
tobacco, 12, 30, 36, 68, 69, 79, 99, 100, 104  
Treasury stock, 20

**U**

utilities  
electricity, 26, 33, 67, 71, 73, 79, 81,  
83, 105  
natural gas, 21, 30, 89  
recycling, 19, 32, 43, 71  
renewable energy, 34, 41  
water and sewer, 19, 20, 32, 34, 54, 79,  
98

**W**

wholesaler, 12, 13, 74, 79, 95, 105, 106  
worker training, 39