

North Carolina

**Biennial Tax
Expenditure Report**

2009



**Policy Analysis and
Statistics Division**

North Carolina

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2009**

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December 2009

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North Carolina Biennial Tax Expenditure Report

2009

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 2009. The listing of expenditures and measurements of their respective costs will allow legislative review of their impact on the State's economy and on government revenues.

The estimates in this report are derived for the Fiscal Year 2009-10 (FY10). As in past publications, each type of State-level tax is presented in a chapter of this report. At the beginning of each chapter, some basic information of the tax base and normal State tax rates for FY10 is presented. For each tax expenditure, we have provided a General Statutes citation, a short description of the tax expenditure, and a "Data Source" that briefly describes the source of the data used for the estimate. Also, many of the tax expenditures have a "Note" that details some additional information pertinent to that particular tax expenditure. New this year, several of the tax expenditures have a "Distributional Note" that provides information on the income levels of the taxpayers using the tax expenditure.

Defining Tax Expenditures for this Study

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

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

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 commerce on Indian Reservations. Also, specific exemptions or exclusions that are made in order to avoid duplicate taxation of an activity are not considered in the main body of this report. For example, S-corporations are not taxed on profits that are transferred to shareholders, who subsequently pay income taxes on these dividends. These types of tax expenditures are listed in Appendix B.

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.

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

The term “preferential tax rate” has been interpreted to mean any rate that is less than the basic rate that applies to the largest number of taxpayers. In some instances higher rates are used on a relatively small number of taxpayers. In such cases, the lower general rates are not listed as preferential. Nor are graduated tax rates, such as those contained in the individual income tax, the estate tax, and the piped natural gas tax. Also, no preferential status is acknowledged when distinctly different bases are taxed at different rates under the same tax category. For example, under the alcoholic beverage taxes, different rates and bases are used to tax beer, wine, and spirituous liquor.

Measuring the Fiscal Effects of Tax Expenditures

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

The most accurate source of information comes from actual tax returns that provide direct evidence of when certain expenditures are taken and the amounts of those expenditures. For example, we are able to use personal income tax and corporate income tax returns from 2007 and 2006 respectively to precisely measure the use of certain tax deductions and tax credits.

Sometimes, needed data are more timely and extensive at the national level than at the state level. When this occurs, the state-level data are estimated by determining North Carolina’s share of national activity. In these cases, several assumptions must be made to derive the final estimates. Therefore, these estimates are 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 3% to 3.5%, which also corresponds to North Carolina’s share of population and gross domestic product (GDP). Therefore, national statistics are often multiplied by 3.3% to estimate North Carolina’s value. However, when it is apparent that North Carolina’s data are not typical of national activity, such as textile or pharmaceutical manufacturing, attempts are made to use more representative proportions.

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

Table 1**Summary of Tax Expenditure Estimates for FY 2009-10 by Tax Category**

Tax	Number of Tax Expenditures	Sum of Estimates of \$100,000 and Over (Millions of Dollars)	Number Estimated to Be Less than \$100,000	Number with Unavailable Estimate
Privilege Tax	20	15.3	8	1
Tobacco Products Tax	4	6.5	0	0
Alcoholic Beverage Tax	2	2.7	1	0
Franchise Tax	22	188.9	2	7
Corporation Income Tax	49	295.1	19	3
Various Tax Incentives (Articles 3B through 3K)	22	120.6	4	1
Individual Income Tax	39	1,505.5	14	2
Sales and Use Tax	100	3,356.0	11	12
Highway Use Tax	12	91.3	1	4
Scrap Tire Disposal Tax	1	0.0	0	1
White Goods Disposal Tax	1	0.0	1	0
Piped Natural Gas Tax	2	18.0	0	0
Taxes on Insurance Companies	6	197.9	0	1
Excise Stamp Tax on Conveyances	8	11.5	2	2
Excise Taxes on Motor Fuels	14	47.0	5	0
Totals	302	5,856.3[†]	68	34

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

Table 2**Forty Largest Tax Expenditures in North Carolina in FY 2009-10**

Rank	Tax	Item	Citation (G.S. § 105)	Short Title	FY 2010 Estimate (\$ millions)
1	Sales and Use Tax	69	164.13B	Food for Home Consumption	722.6
2	Sales and Use Tax	25	164.13(13)	Prescription Drugs and Insulin	436.7
3	Sales and Use Tax	43	164.13(32)	Motor Vehicle Exemption Less Highway Use Tax	430.0
4	Individual Income Tax	5	134.6(b)(5b)	Government Retirement Income under Bailey Settlement	401.7
5	Individual Income Tax	4	134.6(b)(3)	Social Security Benefits in Excess of Federal Limit	375.4
6	Sales and Use Tax	76	164.14(b)	Refund of Sales Taxes to Nonprofits	248.5
7	Sales and Use Tax	91	164.4(a)(4a)	Electricity to Commercial Businesses and Residences	223.0
8	Individual Income Tax	15	134.6(c)(4a)	Higher Personal Exemption for Low and Middle-Income Taxpayers	215.9
9	Sales and Use Tax	13	164.13(5a)	Items Taxed by Article 5F	213.2
10	Sales and Use Tax	2	164.13(2a)a	Feeds, Litter and Medications for Farming	194.5
11	Taxes on Insurance Premiums	2	228.5(c)(2)	Premiums Received from Annuities	153.0
12	Individual Income Tax	28	151.24	Credit for Children	147.3
13	Sales and Use Tax	33	164.13(23)a	Packaging Items for Manufacturers, Producers and Retailers	126.6
14	Sales and Use Tax	54	164.13(44)	Piped Natural Gas Taxed by Article 5E	105.0

Rank	Tax	Item	Citation (G.S. § 105)	Short Title	FY 2010 Estimate (\$ millions)
15	Corporation Income Tax	30	130.8	Net Economic Losses	100.0
16	Franchise Tax	21	120.2(b)(1)	Cap for Holding Companies	92.2
17	Sales and Use Tax	77	164.14(c)	Refund of Sales Taxes to Sub-State Government Entities Except Schools	91.8
18	Individual Income Tax	6	134.6(b)(6)	Private Retirement Plans and Government Pensions	89.2
19	Sales and Use Tax	1	164.13(1) and (1a)	Various Items Sold to Farmers	88.3
20	Individual Income Tax	33	151.31	Earned Income Tax Credit	81.2
21	Highway Use Tax	1	187.3(b)	Trade-In Allowance	72.0
22	Franchise Tax	2	125(a)(1)	Charitable Nonprofits	61.3
23	Sales and Use Tax	58	164.13(51)	Water Delivered Through Main Pipes	56.2
24	Individual Income Tax	21	151.11	Credit for Child Care and Certain Employment-Related Expenses	53.6
25	Sales and Use Tax	89	164.4(a)(1j)	Electricity to Manufacturers and Farmers	43.9
26	Corporation Income Tax	1	130.4	Double-Weighting of Sales Factor in Apportionment Formula	41.8
27	Corporation Income Tax	5	130.11(a)(3)	Certain Charitable Organizations	41.0
28	Sales and Use Tax	14	164.13(5b)	Telephone Equipment	36.9

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Rank	Tax	Item	Citation (G.S. § 105)	Short Title	FY 2010 Estimate (\$ millions)
29	Corporation Income Tax	13	130.5(b)(1)	U.S. Obligation Interest	35.0
30	Sales and Use Tax	24	164.13(12)	Durable Medical Equipment	35.0
31	Sales and Use Tax	37	164.13(27)	Food Sold in Dining Rooms Operated by Educational Institutions	34.6
32	Low-Income Housing Tax Credits	2	129.42	Credit for Low-Income Housing Awarded on or after Jan. 1, 2003	34.0
33	Individual Income Tax	30	151.26	Charitable Contributions by Nonitemizers	26.5
34	Individual Income Tax	22	151.12	Credit for Certain Real Property Donations	25.7
35	Corporation & Individual Income Taxes	48	130.47 151.29	Film Industry Production Expenses	22.5
36	Individual Income Tax	38	N/A	Carry-Over Provisions	22.5
37	Individual Income Tax	2	134.6(b)(1)	U.S. and N.C. Obligation Interest	20.9
38	Excise Taxes on Motor Fuels	4	449.88(8)	Sales to County or Municipal Corporation	19.7
39	Credit for Research and Development	1	129.55(a)	Credit for N.C. Research and Development	19.5
40	Sales and Use Tax	35	164.13(26)	Food Sold by a Public or Private School Cafeteria	17.2

Updates to the Expenditure Report Since 2007

This section highlights changes to this report since the last publication in November 2007. These changes are listed in five separate categories:

1. tax expenditures that have been substantially altered since 2007
2. tax expenditures that have had their sunset dates extended since 2007
3. new tax expenditures enacted since 2007
4. tax expenditures that have sunsetted or been repealed since 2007.

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

Tax Expenditures That Have Been Substantially Changed Since 2007

1. Expand Renewable Energy Credit and Extend Sunset
 Tax Category: Business and Energy Tax Credit
 Citation: G.S. 105-129.16A
 Description of Changes: Effective January 1, 2009: Extends credit to installation of a geothermal heat pump or related equipment, up to \$8,400. The sunset was extended from January 1, 2011 to January 1, 2016.
2. Work Opportunity Tax Credit
 Tax Category: Business and Energy Tax Credit
 Citation: G.S. 105-129.16G
 Description of Changes: Effective for tax years beginning on or after January 1, 2008: The credit is only available for wages paid during the taxable year for positions located in NC. The credit sunsets for taxable years beginning on or after January 1, 2012.
3. Credit for Donations for Acquisition of Renewable Energy Property
 Tax Category: Business and Energy Tax Credit
 Citation: G.S. 105-129.16H
 Description of Changes: Extended to donations to units of local or State governments.
4. Expand Film Industry Credit and Extend Sunset
 Tax Category: Corporation Income Tax and Individual Income Tax
 Citation: G.S. 105-130.47 and G.S. 105-151.29
 Description of Changes: A production company may include as qualifying expenses compensation paid to a highly compensated individual up to \$1 million. The cost of production-related insurance coverage constitutes a qualifying expense as long as the coverage is not purchased from a related member. The sunset was extended to taxable periods beginning prior to January 1, 2014 (from 2010). Effective January 1, 2010, there is an alternative credit of up to 25% of expenses.
5. Increase Earned Income Tax Credit
 Tax Category: Individual Income Tax
 Citation: G.S. 105-151.31
 Description of Changes: Effective for tax years beginning on or after January 1, 2009: The credit was increased from 3.5% to 5% of the taxpayer's Federal Earned Income Credit.

Report Updates

6. Increase Qualified Business Venture Tax Credit Cap
Tax Category: Individual Income Tax
Citation: G.S. 105-163.012(b)
Description of Changes: The total amount of all tax credits allowed to taxpayers under G.S. 105-163.011 for investments made in a calendar year is increased from \$7 million to \$7.5 million. Effective January 1, 2008.
7. Remove Door-to-Door Magazine Sales from Exemption
Tax Category: Sales and Use Tax
Citation: G.S. 105-164.13(28)
Description of Changes: Effective January 1, 2010: the exemption for sales of magazines by magazine vendors making door-to-door sales is deleted from this provision.
8. Change Computer Software Exemption
Tax Category: Sales and Use Tax
Citation: G.S. 105-164.13(43a)
Description of Changes: Effective January 1, 2010: the exemption for software delivered electronically or by load and leave was replaced by a more detailed list of conditions.
9. Refunds for Certain Nonprofits
Tax Category: Sales and Use Tax
Citation: G.S. 105-164.14(b)
Description of Changes: Clarification of the types of organizations eligible for semiannual refunds. Effective July 1, 2008, an organization is eligible for refunds if it is exempt from income tax under section 501(c)(3) of the IRS Code and is not classified in any of the following areas of the National Taxonomy of Exempt Entities: Community Improvement and Capacity Building, Public and Societal Benefit, or Mutual and Membership Benefit. Effective January 1, 2004, the refund provision applies to a university-affiliated nonprofit organization that provides facilities to, or for use by, a constituent institution of The University of North Carolina. Effective July 1, 2008, volunteer fire and EMS services were added to this group.
10. Refunds to Certain Industrial Facilities
Tax Category: Sales and Use Tax
Citation: G.S. 105-164.14(j)
Description of Changes: Expands provision to solar electricity generating materials manufacturer.
11. Privilege Tax on Manufacturing Fuel
Tax Category: Sales and Use Tax (via Article 5F exemption)
Citation: G.S. 105-187.51A
Description of Changes: Effective July 1, 2008, the tax rate on fuel purchased by a manufacturer was reduced from 0.7% to 0.5%. The rate is further reduced to 0.3% effective July 1, 2009 and fuel purchases become exempt from tax on July 1, 2010.
12. Equipment Purchased by Machinery Refurbishers
Tax Category: Sales and Use Tax (via Article 5F exemption)
Citation: G.S. 105-187.51B
Description of Changes: Effective July 1, 2008, the 1% privilege tax with a maximum of \$80 per article applies to purchases of equipment or an attachment or repair part for equipment by an industrial machinery refurbishing company that is included in industry group 811310 of the North American Industry Classification System.

Extended Sunset Dates

13. Sunset Extended for Small Business Employee Health Benefits
Tax Category: Business and Energy Tax Credit
Citation: G.S. 105-129.16E(d)
Description of Changes: The sunset has been extended from January 1, 2009, to January 1, 2010.
14. Low-Income Housing Tax Credits Extended
Tax Category: Low-Income Housing Tax Credits
Citation: G.S. 105-129.45
Description of Changes: The sunset has been extended to taxable years beginning on or after January 1, 2015 instead of January 1, 2010. The sunset applies to developments to which federal credits are allocated on or after that date.
15. Research and Development Tax Credit Extended
Tax Category: Credit for Research and Development
Citation: G.S. 105-129.51(b)
Description of Changes: Extends sunset of Article 3F to taxable years beginning on or after January 1, 2014 instead of January 1, 2009.
16. Mill Rehabilitation Tax Credit Extended
Tax Category: Mill Rehabilitation Tax Credit
Citation: G.S. 105-129.75
Description of Changes: Extends sunset to projects for which an application for an eligibility certification is submitted on or after January 1, 2011, instead of sunsetting for expenditures incurred on or after Jan 1, 2011.
17. State Ports Tax Credit Extended
Tax Category: Corporation Income Tax & Individual Income Tax
Citation: G.S. 105-130.41 & G.S. 105-151.22
Description of Changes: The sunset has been extended from January 1, 2009 to taxable years beginning on or after January 1, 2014.
18. Refunds to Interstate Passenger Air Carriers Extended
Tax Category: Sales and Use Tax
Citation: G.S. 105-164.14(a1)
Description of Changes: The sunset has been extended from January 1, 2009 to taxable years beginning on or after January 1, 2011.
19. Refunds to Motorsports Racing Teams or Sanctioning Bodies Extended
Tax Category: Sales and Use Tax
Citation: G.S. 105-164.14(l)
Description of Changes: The sunset has been extended from January 1, 2009 to taxable years beginning on or after January 1, 2011.

Report Updates

New Tax Expenditure Provisions Since 2007

20. Refund of Unsaleable Other Tobacco Products
Tax Category: Tobacco Products Tax
Citation: G.S. 105-113.39(b)
21. Deductions from Capital Stock for Billings in Excess of Costs
Tax Category: Franchise Tax
Citation: G.S. 105-122(b)(1a)
22. Sales-Only Apportionment for Capital-Intensive Corporations
Tax Category: Corporation Income Tax
Citation: G.S. 105-130.4(s1)
23. Deduction for Sale of a Manufactured Home Community to Manufactured Home Owners
Tax Category: Corporation Income Tax & Individual Income Tax
Citation: G.S. 105-130.5(b)(24) & G.S. 105-134.6(b)(19)
24. Deduction for Special Accelerated Depreciation Addback
Tax Category: Individual Income Tax
Citation: G.S. 105-134.6(b)(17a)
25. Exemption of Electricity Sold to Farmers
Tax Category: Sales and Use Tax
Citation: G.S. 105-164.13(1b)
Note: Effective July 1, 2010 – this item is not in the main body of this report
26. Exemption of Certain Software or Digital Property
Tax Category: Sales and Use Tax
Citation: G.S. 105-164.13(43b)
Note: Effective January 1, 2010
27. Exemption of Fuel and Electricity Sold to Manufacturers
Tax Category: Sales and Use Tax
Citation: G.S. 105-164.13(57)
Note: Effective July 1, 2010 – this item is not in the main body of this report
28. Disaster Assistance Debit Card Purchases
Tax Category: Sales and Use Tax
Citation: G.S. 105-164.13(58)
29. Exemption for Interior Design Services
Tax Category: Sales and Use Tax
Citation: G.S. 105-164.13(59)
30. Exemption for Certain Bakery Items
Tax Category: Sales and Use Tax
Citation: G.S. 105-164.13B(a)

31. Energy Star Sales Tax Hoiday
Tax Category: Sales and Use Tax
Citation: G.S. 105-164.13D

Repealed and Sunsetting Tax Expenditures

32. Credit for Non-Hazardous Dry-Cleaning Equipment
Tax Category: Business and Energy Tax Credits
Citation: G.S. 105-129.16C
Description of Changes: Sunsetting January 1, 2006. This provision allowed a 20% income tax credit for the purchase or lease of qualified dry-cleaning equipment placed in service in this State.
33. Credit for Reinvestment
Tax Category: Tax Incentives for Recycling Facilities
Citation: G.S. 105-129.28
Description of Changes: A major recycling facility was 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 was available only for taxable years 1998-2007.
34. Refund for Nonprofit Insurance Companies
Tax Category: Sales and Use Tax
Citation: G.S. 105-164.14(i)
Description of Changes: Sunsetting January 1, 2008. This provision allowed an eligible nonprofit insurance company to take a refund of sales taxes paid on building materials, building supplies, fixtures, and equipment that became part of its real property.
35. Motor Fuel Tax Rate Cap
Tax Category: Excise Taxes on Motor Fuels
Citation: G.S. 105-449.80(a)
Description of Changes: Sunsetting July 1, 2009. This provision had limited the variable wholesale component of the motor fuel excise tax to 12.4 cents per gallon.
36. Vehicles Modified for Disabled Individuals
Tax Category: Excise Taxes on Motor Fuels
Citation: G.S. 105-187.6(a)(7)
Description of Changes: Repealed effective August 7, 2009. This provision had allowed a full exemption from the Highway Use Tax when a certificate of title was issued to a handicapped person from DHHS after the vehicle was equipped by DHHS for use by handicapped.
37. Gift Tax Expenditures
Tax Category: Gift Tax
Citation: G.S. 105-188
Description of Changes: The gift tax was repealed effective January 1, 2009. There were three tax expenditures related to the gift tax that were eliminated.

Privilege Taxes (Article 2)

Tax Base Information

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

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

In Fiscal Year 2008-09, approximately \$37.5 million was collected from this tax.

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 charges of 50 cents or less.

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. NC Symphony Society

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

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

Estimate (in millions): \$0.2

Data Source: Estimate based on total budget of \$13 million reported by the North Carolina Symphony Society. A report from 2002 by the Symphony Orchestra Institute estimated that U.S. symphonies in this budget range earned on average 40% of their expenses.

4. Agricultural Fairs

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

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

Estimate (in millions): \$1.5

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

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

5. Outdoor Historical Dramas

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

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

Estimate (in millions): \$0.1

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

6. Events at Primary and Secondary Schools

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

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

Estimate (in millions): \$8.3

Data Source: Estimates based on 2008 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 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 data

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

Privilege Taxes

8. Youth Athletic Contests

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

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

Estimate (in millions): less than \$0.1

Data Source: Department of Revenue amusement tax data

9. Amusements at Nonprofit Arts Centers

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

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

Estimate (in millions): \$0.6

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

10. Amusements Promoted by Nonprofit Arts Organization

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

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

Estimate (in millions): \$0.2

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

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

11. Amusements by Teen Centers

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

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

Estimate (in millions): less than \$0.1

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

12. Arts Festivals

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

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

Estimate (in millions): \$0.2

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

13. Community Festivals

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

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

Estimate (in millions): \$0.1

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

14. Farm-Related Amusements

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

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

Estimate (in millions): \$0.1

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

Preferential rate for 3% gross receipts tax

15. 1% Tax on Motion Pictures

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

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

Estimate (in millions): \$3.7

Data Source: Department of Revenue amusement tax data

Privilege Taxes

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

16. Professionals over 75 Years Old

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

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

Estimate (in millions): less than \$0.1

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

17. Individuals Practicing Art of Healing

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

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

Estimate (in millions): less than \$0.1

Data Source: Derived from Department of Revenue list of licenses

18. Blind Individuals

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

Description: Exemption from license fee for blind individuals.

Estimate (in millions): less than \$0.1

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

Exemptions from loan agency annual privilege tax of \$250

19. Savings Institutions

Citation: G.S. 105-102.3

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

Estimate (in millions): \$0.3

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

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

Exemptions from \$15 per ton tax on unrecycled newsprint

20. Unavailability of Recycled Newsprint

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

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

Estimate (in millions): less than \$0.1

Data Source: Department of Revenue tax data

Tobacco Tax (Article 2A)

Tax Base Information

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

During Fiscal Year 2008-09, approximately \$227 million was collected from this tax.

Expenditures

1. Discount for Timely Reports -- Cigarettes

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

Description: A distributor who files a timely report and sends a timely payment may deduct from the amount due a discount of 2%.

Estimate (in millions): \$5.6

Data Source: Department of Revenue tax data

2. Refund for Unsalable Cigarettes and Cigars

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

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

Estimate (in millions): \$0.4

Data Source: Department of Revenue tax data

3. Discount for Timely Reports -- Other Tobacco Products

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

Description: A wholesale dealer or retail dealer who files a timely report and sends a timely payment may deduct from the amount due a discount of 2%.

Estimate (in millions): \$0.5

Data Source: Department of Revenue tax data

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

4. Refund for Unsalable Tobacco Products

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

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

Estimate (in millions): Included in item #2

Alcoholic Beverage License and Excise Taxes (Article 2C)

Tax Base Information

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

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

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

During Fiscal Year 2008-09, \$262.8 million was collected from this tax. Of this amount, \$33.4 million was distributed to local governments.

Expenditures

1. Discount for Timely Reports

Citation: G.S. 105-113.85

Description: A wholesaler or importer who files a timely report and sends a timely payment may deduct from the amount due a discount of 2%.

Estimate (in millions): \$2.7

Data Source: Department of Revenue tax data

2. Sacramental Wine

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

Description: Refund for wine used for sacramental purposes.

Estimate (in millions): less than \$0.1

Data Source: Department of Revenue tax data

Franchise Tax

Franchise Tax (Article 3)

Brief Background and Tax Base Information

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

The general business franchise tax is a privilege tax on corporations operating in North Carolina. The tax is currently \$1.50 for every \$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 2005, 44% of C-corporations filing tax returns used the first of these measures as the taxable amount, while 17% of corporations used the second and 8% used the third. Thirty-one percent of the returns listed no assets for various reasons: (1) the taxpayer was exempt from the franchise tax; (2) the 2003 tax year return was a final return; or (3) the taxpayer incorrectly completed the form.

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

The minimum franchise tax is \$35. For tax year 2005, 48% of C-corporations and 53% of S-corporations paid the minimum amount.

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

In Fiscal Year 2008-09, North Carolina collected approximately \$490 million in general business franchise taxes.

Table 3**Franchise Tax Expenditure Estimates for FY 2009-10**

Item	Citation (G.S. § 105)	Short Title	FY10 Estimate (millions of dollars)
1	122(c)(1)	Double-Weighting of Sales Factor in Apportionment of Capital Stock	4.2
2	125(a)(1)	Charitable Nonprofits	61.3
3	125(a)(3)	Local Mutual Nonprofits	2.3
4	125(a)(4)	Cooperative Marketing Associations	0.2
5	125(a)(5)	Production Credit Association	0.5
6	125(a)(6)	Nonprofit Clubs	3.0
7	125(a)(7)	Chambers of Commerce	1.0
8	125(a)(8)	Homeowners' Associations	2.6
9	125(a)(9)	Miscellaneous Nonprofits	2.9
10	125(a)	Real Estate Mortgage Investment Conduits	Unavailable
11	122(b)(1a)	Deduction from Capital Stock for Billings in Excess of Costs	less than 0.1
12	122(b)(4)	Deduction from Capital Stock for Investments in Pollution Abatement	Unavailable
13	122(b)(5)	Deduction from Capital Stock for Investments in Hazardous Waste Abatement	Unavailable
14	122(b)(6)	Deduction from Capital Stock for Facilities Used for Residential Sewer Services	Unavailable
15	122(b)(7)	Treasury Stock	13.2
16	122(d)	Deduction from Property Investment for Expenses Related to Purchases of Real Estate	Unavailable
17	122(d)	Deduction from Property Investment for Waste Abatement Investments	Unavailable
18	122(d)	Deduction from Property Investment for Investments in Rural Sewer Services	Unavailable
19	125(b)	Real Estate Investment Trusts and Regulated Investment Corporations	2.0
20	122.1	Tax Credit for LLCs Subject to Franchise Tax	less than 0.1
21	122(d1)	Piped Natural Gas Credit	3.5
22	120.2(b)(1)	Cap for Holding Companies	92.2

Franchise Tax

Exemptions

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

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

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

Estimate (in millions): \$4.2

Data Source: Department of Revenue tax data

Note: There are several types of companies that do not use the double-weighted sales factor to calculate their apportionment percentage. These include building or construction contractors, several types of financial companies, motor carriers, etc.

2. Charitable Nonprofits

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

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

Estimate (in millions): \$61.3

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): \$2.3

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)

5. Production Credit Association

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

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

Estimate (in millions): \$0.5

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): \$3.0

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): \$1.0

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

8. Homeowners' Associations

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

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

Estimate (in millions): \$2.6

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 data.

Franchise Tax

9. Miscellaneous Nonprofits

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

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

Estimate (in millions): \$2.9

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 database.

10. Real Estate Mortgage Investment Conduits

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

Description: An entity that qualifies as a real estate mortgage investment conduit, as defined in section 860D of the Code, is exempt from franchise taxes.

Estimate (in millions): Unavailable

Deductions

11. Deduction from Capital Stock for Billings in Excess of Costs

Citation: G.S. 105-122(b)(1a)

Description: Effective January 1, 2010 (Tax Year 2009 returns): Deduction for billings in excess of costs that are considered a deferred liability under the percentage of completion method of revenue recognition.

Estimate (in millions): less than \$0.1

Data Source: Department of Revenue tax records

12. Deduction from Capital Stock for Investments in Pollution Abatement

Citation: G.S. 105-122(b)(4)

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

Estimate (in millions): Unavailable

13. Deduction from Capital Stock for Investments in Hazardous Waste Abatement

Citation: G.S. 105-122(b)(5)

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

Estimate (in millions): Unavailable

14. Deduction from Capital Stock for Facilities Used for Residential Sewer Services

Citation: G.S. 105-122(b)(6)

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

Estimate (in millions): Unavailable

15. Treasury Stock

Citation: G.S. 105-122(b)(7)

Description: Treasury stock shall not be considered in computing the capital stock, surplus and undivided profits as the basis for franchise tax, but shall be excluded proportionately.

Estimate (in millions): \$13.2

Data Source: Department of Revenue 2001 and 2003 C-Corp sample database

16. 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

17. Deduction from Property Investment for Waste Abatement Investments

Citation: G.S. 105-122(d)

Description: Deduction from tangible property investments of cost of air-cleaning device or sewerage or waste treatment plant.

Estimate (in millions): Unavailable

18. 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

19. 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): \$2.0

Data Source: Department of Revenue 2005 C-Corp database

Franchise Tax

Tax Credits

20. Tax Credit for LLCs Subject to Franchise Tax

Citation: G.S. 105-122.1

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

Estimate (in millions): less than \$0.1

Data Source: Department of Revenue 2006 C-corp and S-corp databases

Note: This credit was effective January 1, 2007 (Tax Year 2006 returns). Prior to this, all LLCs were exempt from the franchise tax, but paid the higher reporting fee.

21. 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): \$3.5

Data Source: Department of Revenue 2005 and 2006 C-Corp and S-Corp databases

Note: The amount of piped natural gas excise taxes collected in a year is generally around \$60 million. This credit is much less than half because companies cannot take a larger credit than their franchise tax liability. There is no carry-forward provision for this credit.

Caps

22. 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): \$92.2

Data Source: Department of Revenue 2005 C-Corp and S-Corp databases

Note: Approximately 60 companies were subject to this cap in 2005.

Corporation Income Tax (Article 4, Part 1)

Brief Description and Tax Base Information

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

The corporation tax base is net income, or profits, since most operating costs can be deducted. There is no minimum tax, so that corporations with negative profits pay no corporation income taxes. Based on 2005 tax returns, 65% of corporations filing North Carolina C-corporation tax returns had no tax liability. This creates a special problem in measuring individual tax expenditures since some companies that claim them would still have zero tax liability if they were not allowed a particular deduction. In the measurement of tax expenditures in this section, attempts were made to include only companies for which the tax expenditure actually reduces tax liability.

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

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

For tax years 2009 and 2010, there is a surcharge of 3% on income tax due before credits for corporate income taxpayers. The surcharge will have an impact on tax expenditure estimates in the "Deductions" section of this chapter. **However, because the surcharge is temporary, we have not estimated the effect of the surcharge on tax expenditures.**

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

In Fiscal Year 2008-09, North Carolina collected approximately \$836 million in corporate income taxes.

Corporation Income Tax

Table 4

Corporate Income Tax Expenditure Estimates for FY 2009-10

Item	Citation (G.S. § 105)	Short Title	FY10 Estimate (\$ Millions)
1	130.4	Double-Weighting of Sales Factor in Apportionment Formula	41.8
2	130.4(s1)	Sales-Only Apportionment for Capital-Intensive Corporations	0.0
3	130.11(a)(1)	Fraternal Beneficiary Societies	less than 0.1
4	130.11(a)(2)	Certain Cooperative Companies	3.5
5	130.11(a)(3)	Certain Charitable Organizations	41.0
6	130.11(a)(4)	Nonprofit Business Associations	0.7
7	130.11(a)(5)	Nonprofit Promoters of Social Welfare	0.3
8	130.11(a)(6)	Nonprofit Clubs	0.5
9	130.11(a)(7)	Local Mutual Nonprofits	less than 0.1
10	130.11(a)(8)	Nonprofit Agricultural Marketing Memberships	0.2
11	130.11(a)(9)	Certain Agricultural Associations	included above
12	130.11(a)(11)	Homeowners' Association	0.4
13	130.5(b)(1)	U.S. Obligation Interest	35.0
14	130.5(b)(1a)	N.C. Obligation Interest	3.0
15	130.5(b)(7)	Depreciation of Certain Facilities	less than 0.1

Corporation Income Tax

Item	Citation (G.S. § 105)	Short Title	FY10 Estimate (\$ Millions)
16	130.5(b)(8)	Net Capital Losses Not Deductible from Federal Taxable Income	15.0
17	130.5(b)(9)	Shareholders of a Regulated Investment Company	Unavailable
18	130.5(b)(12)	Reforestation and Cultivation of Trees	less than 0.1
19	130.5(b)(13)	Income from International Banking Facility	0.1
20	130.5(b)(14)	Basis Adjustment for Federal Tax Credit	Unavailable
21	130.5(b)(15)	Marketing Assessments on Tobacco	0.0
22	130.5(b)(16)	Natural Gas Expansion Surcharges	less than 0.1
23	130.5(b)(17)	911 Charges	less than 0.1
24	130.5(b)(18)	Earnings of Certain Trusts	less than 0.1
25	130.5(b)(19)	Income from Hurricane Floyd Reserve Fund	0.0
26	130.5(b)(22)	Disaster Relief Reserve Payments	0.0
27	130.5(b)(24)	Deduction for Sale of a Manufactured Home Community to Manufactured Home Owners	less than 0.1
28	130.5(c)(2)	Percentage Depletion over Cost Depletion	2.2
29	130.6A(e)	Expenses Related to Nontaxed Dividends for Bank Holding Company	0.0
30	130.8	Net Economic Losses	100.0
31	130.9(1)	Charitable Contributions Outside N.C.	3.4
32	130.9(1)-(3)	Charitable Contributions Within N.C.	6.0

Corporation Income Tax

Item	Citation (G.S. § 105)	Short Title	FY10 Estimate (\$ Millions)
33	130.10	Amortization of Pollution Abatement Facilities and Equipment	2.0
34	130.10A	Amortization of Equipment Mandated by OSHA	Unavailable
35	130.6A(f)	Credit for Bank Holding Companies Related to Expenses on Nontaxed Earnings	0.0
36	130.6A(g)	Credit for Electric Power Holding Companies Related to Expenses on Nontaxed Earnings	1.2
37	130.22	Rental Units for Handicapped Persons	less than 0.1
38	130.25	Equipment for Cogenerating Power Plant	less than 0.1
39	130.34	Credit for Certain Real Property Donations	0.1
40	130.36	Conservation Tillage Equipment Credit	less than 0.1
41	130.37	Credit for Gleaned Crops	less than 0.1
42	130.39	Credit for Low-Income Residential Telephone Service	5.9
43	130.41	Credit for Costs at NC Ports	0.3
44	130.43	Credit for S&L Supervisory Fees	0.3
45	130.44	Credit for Poultry Composting Facility	less than 0.1
46	130.45	Credit for Manufacturing Cigarettes for Exportation	0.0
47	130.46	Alternative Cigarette Export Credit	9.1
48	130.47	Film Industry Production Expenses	22.5
49	130.48	Tax Credit for Recycling Oyster Shells	less than 0.1

Exemptions

1. Double-Weighting of Sales Factor in Apportionment Formula

Citation: G.S. 105-130.4

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

Estimate (in millions): \$41.8

Data Source: Department of Revenue 2006 C-Corp database

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

2. Sales-Only Apportionment for Capital-Intensive Corporations

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

Description: All apportionable income of a qualified capital intensive corporation shall be apportioned by multiplying the income by the sales factor only. A capital-intensive corporation is one where the property factor exceeds 75% of the combined factors, with the sales factor double-weighted. The corporation must also invest at least \$1 billion over 9 years in constructing a facility.

Estimate (in millions): \$0.0

Data Source: Legislative Fiscal Note for SB 575(2009): reports a potential loss of \$3 million annually beginning in FY 2011-12

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

3. Fraternal Beneficiary Societies

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

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

Estimate (in millions): less than \$0.1

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

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

Corporation Income Tax

4. **Certain Cooperative Companies**

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

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

Estimate (in millions): \$3.5

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

Note: Based on data for IRC 501(c)(12) organizations

5. **Certain Charitable Organizations**

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

Description: Exemption for cemetery corporations and corporations organized for religious, charitable, scientific, literary, or educational purposes, or for the prevention of cruelty to children or animals.

Estimate (in millions): \$41.0

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

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

6. **Nonprofit Business Associations**

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

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

Estimate (in millions): \$0.7

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

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

7. **Nonprofit Promoters of Social Welfare**

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

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

Estimate (in millions): \$0.3

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

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

8. Nonprofit Clubs

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

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

Estimate (in millions): \$0.5

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

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

9. Local Mutual Nonprofits

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

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

Estimate (in millions): less than \$0.1

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

10. Nonprofit Agricultural Marketing Memberships

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

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

Estimate (in millions): \$0.2

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

Note: Based on data for IRC 501(c)(5) organizations. The estimate includes Item #11

11. Certain Agricultural Associations

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

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

Estimate (in millions): included above

Corporation Income Tax

12. Homeowners' Associations

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

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

Estimate (in millions): \$0.4

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

Deductions

13. U.S. Obligation Interest

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

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

Estimate (in millions): \$35.0

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

14. N.C. Obligation Interest

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

Description: Deductions for interest on the obligations of this State, a political subdivision of this State, or a commission, an authority, or another agency of this State or of a political subdivision of this State, or a nonprofit educational institution.

Estimate (in millions): \$3.0

Data Source: Department of Revenue 2005 C-Corp database

15. Depreciation of Certain Facilities

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

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

Estimate (in millions): less than \$0.1

Data Source: Department of Revenue 2001 C-Corp sample database

16. Net Capital Losses Not Deductible from Federal Taxable Income

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

Description: Deduction for the amount of losses realized on the sale or disposition of assets not allowed under section 1211(a) of the Code.

Estimate (in millions): \$15.0

Data Source: Department of Revenue 2003 C-Corp sample database

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

17. Shareholders of a Regulated Investment Company

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

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

Estimate (in millions): Unavailable

18. Reforestation and Cultivation of Trees

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

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

Estimate (in millions): less than \$0.1

Data Source: Department of Revenue 2003 C-Corp sample database

19. Income from International Banking Facility

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

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

Estimate (in millions): \$0.1

Data Source: Department of Revenue 2005 tax returns

20. Basis Adjustment for Federal Tax Credit

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

Description: Deduction for the amount that the basis of a depreciable asset is reduced due to Federal tax credit.

Estimate (in millions): Unavailable

21. Marketing Assessments on Tobacco

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

Description: Deduction for the amount paid, pursuant to 7 U.S.C. 1445-2, as marketing assessments on tobacco grown by a corporation in North Carolina.

Estimate (in millions): \$0.0

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

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

Corporation Income Tax

22. Natural Gas Expansion Surcharges

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

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

Estimate (in millions): less than \$0.1

Data Source: North Carolina Utilities Commission; Department of Revenue 2005 tax returns

Note: There are four natural gas local distribution companies.

23. 911 Charges

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

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

Estimate (in millions): less than \$0.1

Data Source: Department of Revenue 2005 tax returns

24. Earnings of Certain Trusts

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

Description: Deduction of earnings on a trust for settlement of an agreement by two or more manufacturers with the State for potential claims against the manufacturers.

Estimate (in millions): less than \$0.1

25. Income from Hurricane Floyd Reserve Fund

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

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

Estimate (in millions): less than \$0.1

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

26. Disaster Relief Reserve Payments

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

Description: Deduction for amounts paid to taxpayers for hurricane relief from the Disaster Relief Reserve Fund, not to include amounts paid for goods and services provided.

Estimate (in millions): \$0.0

Data Source: Legislative fiscal note

Note: Eligible expenses only involved payments for crops destroyed by hurricanes in 2004.

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

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

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

Estimate (in millions): less than \$0.1

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

28. Percentage Depletion over Cost Depletion

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

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

Estimate (in millions): \$2.2

Data Source: Department of Revenue 2005 and 2006 C-Corp databases

29. 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): \$0.0

Data Source: Department of Revenue 2007 tax returns

Note: The entities that have used this deduction in recent years are not expected to be eligible for this deduction as of tax year 2009.

30. Net Economic Losses

Citation: G.S. 105-130.8

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

Estimate (in millions): \$100.0

Data Source: Department of Revenue 2005 and 2006 C-Corp databases

Note: Approximately 19,000 C-corporations took this deduction in 2005. In practice, S-corporations cannot take this deduction; their shareholders may deduct their share of net economic losses in the corporation through the individual income tax. (See 105-134.7(a)(4).)

Corporation Income Tax

31. Charitable Contributions Outside N.C.

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

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

Estimate (in millions): \$3.4

Data Source: Department of Revenue 2006 C-Corp database

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

32. Charitable Contributions Within N.C.

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

Description: Most deductions are limited to 5% of the taxpayer's net income. Contributions to the State of North Carolina, its counties and municipalities and any agency or instrumentality of these institutions, in addition to contributions made to educational institutions located in North Carolina are fully deductible. For companies with income allocable outside North Carolina, charitable contributions to donees inside NC are not reduced by multiplying by the taxpayer's apportionment factor.

Estimate (in millions): \$6.0

Data Source: Department of Revenue 2006 C-Corp database

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

33. Amortization of Pollution Abatement Facilities and Equipment

Citation: G.S. 105-130.10

Description: In lieu of any depreciation allowance, a corporation may opt to deduct amortization of air-cleaning devices, waste treatment facilities, recycling facilities, equipment or plant used to provide sewer service to residential and outlying areas.

Estimate (in millions): \$2.0

Data Source: Department of Revenue 2005 tax returns

34. Amortization of Equipment Mandated by OSHA

Citation: G.S. 105-130.10A

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

Estimate (in millions): Unavailable

Tax Credits

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

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

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

Estimate (in millions): \$0.0

Data Source: Department of Revenue 2007 tax returns

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

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

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

Estimate (in millions): \$1.2

Data Source: Department of Revenue 2007 tax returns

37. Rental Units for Handicapped Persons

Citation: G.S. 105-130.22

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

Estimate (in millions): less than \$0.1

Data Source: Department of Revenue 2004 C-Corp and S-Corp databases

38. Equipment for Cogenerating Power Plant

Citation: G.S. 105-130.25

Description: Credit of 10% of the costs to purchase and install electrical or mechanical equipment for a cogenerating power plant. The total amount of tax credits for all taxpayers for qualifying payments in a calendar year may not exceed \$5,000,000.

Estimate (in millions): less than \$0.1

Data Source: Department of Revenue 2005 C-Corp and S-Corp databases

Corporation Income Tax

39. 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 2005 and 2006 C-Corp and S-Corp databases

40. Conservation Tillage Equipment Credit

Citation: G.S. 105-130.36

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

Estimate (in millions): less than \$0.1

Data Source: Department of Revenue 2006 C-Corp and S-Corp databases

41. 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 2006 C-Corp and S-Corp databases

42. 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): \$5.9

Data Source: Department of Revenue 2005 C-Corp and S-Corp databases

43. 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): \$0.3

Data Source: Department of Revenue "Other Credit and Incentive Reports," 2009

Note: This provision sunsets January 1, 2014.

44. Credit for S&L Supervisory Fees

Citation: G.S. 105-130.43

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

Estimate (in millions): \$0.3

Data Source: Department of Revenue 2006 tax returns

45. Credit for Poultry Composting Facility

Citation: G.S. 105-130.44

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

Estimate (in millions): less than \$0.1

Data Source: Department of Revenue 2005 C-Corp and S-Corp databases

46. Credit for Manufacturing Cigarettes for Exportation

Citation: G.S. 105-130.45

Description: Credit of up to \$6,000,000 is allowed a company that exports cigarettes to a foreign country through the North Carolina State Ports. The amount of the credit depends on the volume of cigarettes exported compared to the volume in a base year.

Estimate (in millions): \$0.0

Data Source: Department of Revenue C-Corp and S-Corp databases (2007 is the latest year)

47. 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): \$9.1

Data Source: Department of Revenue C-Corp and S-Corp databases (2007 is the latest year)

Note: This provision sunsets January 1, 2018

48. Film Industry Production Expenses

Citation: G.S. 105-130.47

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

Estimate (in millions): \$22.5

Data Source: Department of Revenue "Other Credit and Incentive Reports," 2009. It is assumed that all of the credits paid during FY09-10 will be based on the 15% credit rate. See also future estimates made by NC Legislative fiscal note for Senate Bill 943 (2009).

Note: This tax credit is refundable if it exceeds income tax liability. The maximum credit for a feature film production is \$7.5 million. No credit is allowed for productions related to political advertising, news programs, sporting events, or obscene material.

49. Tax Credit for Recycling Oyster Shells

Citation: G.S. 105-130.48

Description: Taxpayers are allowed a credit of \$1 per bushel of oyster shells donated to the Division of Marine Fisheries of the NC Department of Environmental and Natural Resources. The credit is not refundable. Any unused credit can be carried forward for the succeeding five years. A taxpayer who claims this credit must add back to taxable income any amount deducted under the Code for the donation of oyster shells. Effective for taxable years beginning on or after January 1, 2006 and expires for taxable years beginning on or after January 1, 2011.

Estimate (in millions): less than \$0.1

Data Source: NC Division of Marine Fisheries

Business and Energy Tax Credits (Article 3B)

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

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

Unless otherwise noted, the FY10 estimates used in this report for Articles 3B through 3K are the expected amount of credits actually taken (used) by taxpayers for Tax Year 2009.

The estimates are based on reports produced by the N.C. Department of Revenue covering returns up through those processed in 2008, most of which were tax year 2007 forms. These reports are available on the North Carolina Department of Revenue website under “Reports and Statistics.” The reports provide detailed information on credits generated and credits taken by taxpayer and by Development Tier when applicable.

1. Credit for Investing in Renewable Energy Property

Citation: G.S. 105-129.16A

Description: If a taxpayer that has constructed, purchased, or leased renewable energy property places it in service in this State, the taxpayer is allowed a credit equal to 35% of the cost of the property. The credits may not exceed (1) \$2,500,000 for nonresidential property, (2) \$1,400 for solar energy equipment for residential water heating, (3) \$3,500 for residential space heating, (4) \$10,500 per installation for all other residential renewable energy property, (5) \$8,400 per installation of a geothermal heat pump or geothermal equipment.

Estimate (in millions): \$4.0

Data Source: Department of Revenue database

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

The following three tax credits sunset for facilities placed into service on or after January 1, 2011. The term “renewable fuels” refers to biodiesel, biodiesel mixes, and ethanol mixes that contain at least 70% ethanol by volume (G.S. 105-129.15).

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

2. Credit for Renewable Fuel Dispensing Facilities

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

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

Estimate (in millions): less than \$0.1

Data Source: Department of Revenue database; e85prices.com/north-carolina.html, accessed in October 2009, lists fewer than 20 E85 stations in North Carolina.

3. Credit for Constructing Renewable Fuel Processing Facilities

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

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

Estimate (in millions): less than \$0.1

Data Source: Department of Revenue database; Biofuels Center of North Carolina; Biodiesel Magazine

4. Alternative Credit for Constructing Renewable Fuel Processing Facilities

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

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

Estimate (in millions): \$0.0

Data Source: Department of Revenue database; news reports

5. Small Business Health Insurance Tax Credit

Citation: G.S. 105-129.16E

Description: Effective January 1, 2007, a small business (a business that employs no more than 25 eligible employees throughout the taxable year) that provides health benefits for all of its eligible employees during the taxable year is allowed a credit to offset its costs in providing these benefits. The credit is equal to \$250 per employee whose annual wages or salary from the business does not exceed \$40,000.

Estimate (in millions): \$5.0

Data Source: Department of Revenue database; NC Legislative Fiscal Notes for HB 20 and SB 364 (2005-06 Session); 2004 Medical Expenditure Panel Survey-Insurance Component, US Dept. of Health and Human Services; Kaiser Family Foundation/Health Research and Educational Trust 2005 Annual Employer Health Benefits Survey.

Note: This provision sunsets January 1, 2010.

6. Tax Credit to Refund Motor Fuel Excise Tax for Biodiesel

Citation: G.S. 105-129.16F

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

Estimate (in millions): \$1.2

Data Source: According to the National Biodiesel Board, there are 8 current Biodiesel producers in North Carolina; production capacity sample from Biodiesel Magazine (Plant List)

Note: The estimate assumes that 4 million gallons of pure biodiesel fuel will be purchased from NC taxpayers in 2009, not including government purchases that are exempt from the motor fuels tax. This provision sunsets January 1, 2010.

Business and Energy Tax Credits

7. **Work Opportunity Tax Credit**

Citation: G.S. 105-129.16G

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

Estimate (in millions): \$0.4

Data Source: Department of Revenue tax return data for 2007; IRS data on size of federal credit and industries most affected; Congressional Budget Office estimate of credit amounts in 2008

Note: The wages pertaining to this credit were previously deductible from NC taxable income under G.S. 105-130.5(b)(11) and G.S. 105-134.6(d)(2). The elimination of this deduction has been netted out of the estimate. This provision sunsets January 1, 2012.

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

Citation: G.S. 105-129.16G

Description: Effective for tax years beginning January 1, 2008, a taxpayer who donates money to a tax-exempt organization may claim a tax credit equivalent to that given under G.S. 105-129.16A. The donation cannot be deducted as a charitable donation from the taxable income of the taxpayer.

Estimate (in millions): \$0.5

Data Source: Extrapolation of estimate from 2007 Legislative budget bill (S.L. 07-323)

Tax Incentives for Recycling Facilities (Article 3C)

See Methodology Note under Article 3B.

1. Credit for Investing in Large or Major Recycling Facility

Citation: G.S. 105-129.27

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

Estimate (in millions): \$7.0

Data Source: Department of Revenue database

Historic Rehabilitation Tax Credits (Article 3D)

See Methodology Note under Article 3B.

1. Credit for Rehabilitating Income-Producing Historic Structure

Citation: G.S. 105-129.35

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

Estimate (in millions): \$3.0

Data Source: Department of Revenue database

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

2. Credit for Rehabilitating Nonincome-Producing Historic Structure

Citation: G.S. 105-129.36

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

Estimate (in millions): \$5.0

Data Source: Department of Revenue database

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

Low-Income Housing Tax Credits (Article 3E)

See Methodology Note under Article 3B.

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

Citation: G.S. 105-129.41

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

Estimate (in millions): \$7.6

Data Source: Department of Revenue database

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

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

Citation: G.S. 105-129.42

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

Estimate (in millions): \$34.0

Data Source: Department of Revenue database

Note: This provision sunsets January 1, 2015.

Research and Development Tax Credits (Article 3F)

See Methodology Note under Article 3B.

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 conditions: (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 3.25%; (3) for expenses not covered under (1) or (2), the credit is 1.25% of expenses up to \$50 million, 2.25% of additional expenses up to \$200 million, and 3.25% of additional expenses above \$200 million.

Estimate (in millions): \$19.5

Data Source: Department of Revenue database; 2007 Legislative budget bill

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 20% of the expenses.

Estimate (in millions): \$2.5

Data Source: Department of Revenue database

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

See Methodology Note under Article 3B.

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 amount of the credit taken in a given year is **not** limited to 50% of franchise or income tax liability. Any unused credits may be carried forward for the succeeding 25 years.

For taxable years beginning in 2006, the amount of the credit is determined based on the levels of employment and production at the facility.

For taxable years 2006 through 2009, the maximum credit is \$10 million per year. For taxable years 2010 through 2014, the maximum credit is \$15 million per year if employment reaches 1,500. Otherwise, the maximum remains \$10 million.

Estimate (in millions): Unavailable

Note: The eligibility of certain taxpayers to take this credit was under review at the time of this report's publication.

Mill Rehabilitation Tax Credit (Article 3H)

See Methodology Note under Article 3B.

1. Credit for Income-Producing Rehabilitated Mill Property

Citation: G.S. 105-129.71

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

Estimate (in millions): \$1.0

Data Source: Department of Revenue 2007 Individual Income Tax database; see also NC Legislative Fiscal Note for HB 474 (2005-06 Session)

Note: This provision sunsets January 1, 2011.

2. Credit for Nonincome-Producing Rehabilitated Mill Property

Citation: G.S. 105-129.72

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

Estimate (in millions): \$5.0

Data Source: Department of Revenue 2007 Individual Income Tax database; see also NC Legislative Fiscal Note for HB 474 (2005-06 Session)

Note: This provision sunsets January 1, 2011.

Tax Credits for Growing Businesses (Article 3J)

See Methodology Note under Article 3B.

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

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

1. Credit for Creating Jobs

Citation: G.S. 105-129.87

Description: A taxpayer that meets certain eligibility requirements for new job creation is allowed a credit for creating jobs. The amount of the credit is dependent on the development tier of the county in which the jobs are located.

Estimate (in millions): \$8.0

Data Source: Department of Revenue data and Legislative Fiscal Note

2. Credit for Investing in Business Property

Citation: G.S. 105-129.88

Description: A taxpayer that meets certain eligibility requirements for placing business property in service in this State is allowed a credit. The amount of the credit is dependent on the development tier of the county in which the property is located.

Estimate (in millions): \$16.5

Data Source: Department of Revenue data and Legislative Fiscal Note

3. Credit for Investing in Real Property

Citation: G.S. 105-129.89

Description: A taxpayer that meets certain eligibility requirements for purchasing or leasing real property in this State is allowed a credit equal to 30% of the eligible investment amount. The credit is applicable only for investments in a development tier 1 area.

Estimate (in millions): \$0.4

Data Source: Department of Revenue data and Legislative Fiscal Note

Tax Incentives for Railroad Intermodal Facilities (Article 3K)

See Methodology Note under Article 3B.

1. Credit for Constructing a Railroad Intermodal Facility

Citation: G.S. 105-129.96

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

Estimate (in millions): less than \$0.1

Data Source: Department of Revenue tax records; news reports

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

Individual Income Tax (Article 4, Part 2)

Brief Description and Tax Base Information

The individual income tax is the largest component of the State's General Fund revenues. In fiscal year 2008-09, the State collected nearly \$9.5 billion from this tax.

For taxable years beginning January 1, 2008, there are three marginal tax rates: 6%, 7%, and 7.75%. (The highest tax rate was 8.0% for taxable year 2007.) Tax brackets vary by marital status and by whether an individual is (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.

Deductions and tax credits estimated in this report do 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. A summary of the largest federal tax expenditures is provided in Appendix A.

For tax years 2009 and 2010, there is a surcharge on income tax due before credits for certain taxpayers whose income levels are above a limit. For "married filing jointly" taxpayers, there is a 2% surcharge if North Carolina taxable income (NCTI) is between \$100,001 and \$250,000 and a 3% surcharge if NCTI is above \$250,000. For other types of filers, the AGI limits are lower. The surcharge will have an impact on tax expenditure estimates in the "Deductions" section of this chapter. **However, because the surcharge is temporary, we have not estimated the effect of the surcharge on tax expenditures.**

Table 5**Individual Income Tax Expenditure Estimates for FY 2009-10**

Item	Citation (G.S. § 105)	Short Title	FY10 Estimate (\$ Millions)
1	158	Certain Individuals Upon Death	less than 0.1
2	134.6(b)(1)	U.S. and N.C. Obligation Interest	20.9
3	134.6(b)(2)	Disposition of Certain Obligations	less than 0.1
4	134.6(b)(3)	Social Security Benefits in Excess of Federal Limit	375.4
5	134.6(b)(5b)	Government Retirement Income under Bailey Settlement	401.7
6	134.6(b)(6)	Private Retirement Plans and Government Pensions	80.9
7	134.6(b)(10)	Basis Adjustment for Disposed Property	Unavailable
8	134.6(b)(11)	Severance Wages	15.5
9	134.6(b)(14)	Erroneous Conviction and Imprisonment	less than 0.1
10	134.6(b)(15)	Interest Earned on Certain Trusts	less than 0.1
11	134.6(b)(16)	Hurricane Floyd Reserve Fund	less than 0.1
12	134.6(b)(17a)	Deduction for Special Accelerated Depreciation Addback	Unavailable
13	134.6(b)(18)	Disaster Relief Reserve Payments	0.0
14	134.6(b)(19)	Deduction for Sale of a Manufactured Home Community to Manufactured Home Owners	less than 0.1
15	134.6(c)(4a)	Higher Personal Exemption for Low and Middle-Income Taxpayers	215.9
16	134.6(d)(4)	Parental Savings Trust Fund Deduction	5.0
17	134.6(d)(6)	Volunteer Fire and Rescue Squad Deduction	1.0
18	134.7(a)(4)	Net Economic Losses Incurred Prior to January 1, 1989	0.0
19	151.1	Construction of Dwellings for Handicapped Persons	less than 0.1

Individual Income Tax

Item	Citation (G.S. § 105)	Short Title	FY10 Estimate (\$ Millions)
20	151.3	Tax Credit for Recycling Oyster Shells	less than 0.1
21	151.11	Credit for Child Care and Certain Employment-Related Expenses	53.6
22	151.12	Credit for Certain Real Property Donations	25.7
23	151.13	Credit for Conservation Tillage Equipment	0.1
24	151.14	Credit for Gleaned Crops	less than 0.1
25	151.18	Credit for the Disabled	1.5
26	151.21	Credit for Property Taxes Paid on Farm Machinery	1.6
27	151.22	Use of North Carolina Ports	less than 0.1
28	151.24	Credit for Children	147.3
29	151.25	Construction of Poultry Composting Facility	less than 0.1
30	151.26	Charitable Contributions by Nonitemizers	26.5
31	151.28	Long-Term Care Credit	4.7
32	151.29	Film Industry Production Expenses	included in Corporate Income Tax for Citation 130.47
33	151.30	Credit for Oyster Shells	less than 0.1
34	151.31	Earned Income Tax Credit	81.2
35	151.32	Credit for Adoption Expenses	5.9
36	159.1	Political Parties Financing Fund Designation	2.0
37	159.2	Public Campaign Fund Designation	1.3
38	163.011	Credit for Qualified Business Investments	7.0
39	N/A	Carry-Over Provisions	22.5

Individual Income Tax

Exemptions

1. Certain Individuals Upon Death

Citation: G.S. 105-158

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

Estimate (in millions): less than \$0.1

Data Source: Number of military deaths from Department of Defense

Deductions

2. U.S. and N.C. Obligation Interest

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

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

Estimate (in millions): \$20.9

Data Source: Department of Revenue Individual Income Tax database (Tax Year 2007 is latest available)

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

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): less than \$0.1

Data Source: Department of Revenue 2006 Individual Income Tax database

4. Social Security Benefits in Excess of Federal Limit

Citation: G.S. 105-134.6(b)(3)

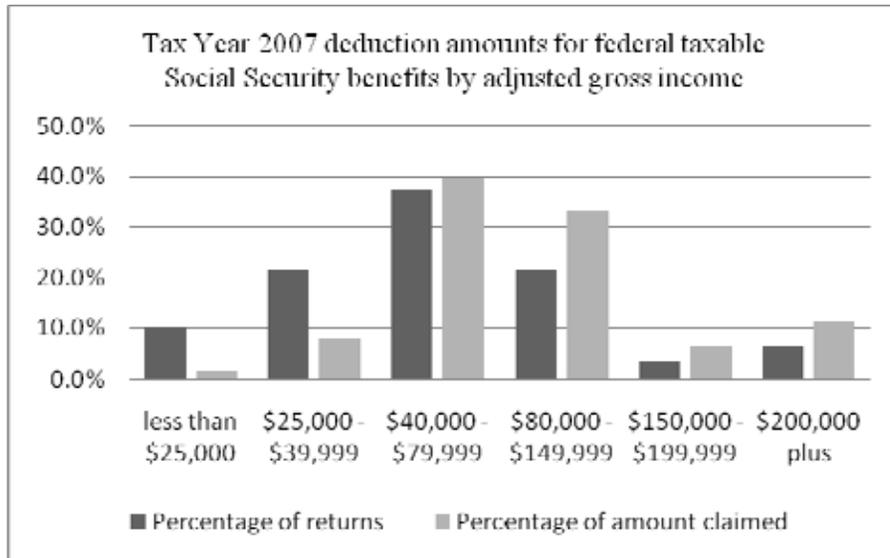
Description: Deduction for benefits received under Title II of the Social Security Act and amounts received from retirement annuities or pensions paid under the provisions of the Railroad Retirement Act of 1937.

Estimate (in millions): \$375.4

Data Source: Department of Revenue Individual Income Tax database (Tax Year 2007 is latest available)

Note: Federal taxation of Social Security benefits occurs when modified AGI exceeds \$25,000 for single filers or \$32,000 for married filing jointly. These limits are not increased each year for inflation and have not been adjusted since 1983. Consequently, the taxable portion of Social Security benefits has been growing at an annual rate above 10% in the last few years.

Distributional Note: As shown in the following graph, taxpayers with AGI between \$40,000 and \$79,999 were the largest users of this deduction. Taxpayers in higher income categories will derive a larger benefit from their deductions since they typically have a higher marginal tax rate.



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): \$401.7

Data Source: Department of Revenue Individual Income Tax database (Tax Year 2007 is latest available)

Individual Income Tax

- 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): \$80.9
Data Source: Department of Revenue Individual Income Tax database (Tax Year 2007 is latest available)
- 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 taxpayers' permanent termination from employment through no fault of their own. The amount of wages deducted may not exceed \$35,000 for any one termination.
Estimate (in millions): \$15.5
Data Source: Department of Revenue Individual Income Tax database (Tax Year 2007 is latest available)
- 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): less than \$0.1
Data Source: Department of Revenue Individual Income Tax database

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. Deduction for Special Accelerated Depreciation Addback

Citation: G.S. 105-134.6(b)(17a)

Description: A taxpayer may deduct 20% of the total amount of accelerated depreciation added to federal taxable income in the tax year 2008 in each of the first five taxable years beginning on or after January 1, 2009.

Estimate (in millions): Unavailable

13. Disaster Relief Reserve Payments

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

Description: Deduction for amounts paid to taxpayers for hurricane relief from the Disaster Relief Reserve Fund, not to include amounts paid for goods and services provided.

Estimate (in millions): \$0.0

Data Source: Legislative fiscal note

Note: The only eligible expenses were payments for crops destroyed by hurricanes in 2004.

14. Deduction for Sale of a Manufactured Home Community to Manufactured Home Owners

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

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

Estimate (in millions): less than \$0.1

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

Individual Income Tax

15. Higher Personal Exemption for Low and Middle-Income Taxpayers

Citation: G.S. 105-134.6(c)(4a)

Description: The amount of add-back to the federal standard exemption amounts is reduced by \$500 for each personal exemption if the taxpayer's federal AGI is less than certain limits: \$60,000 for single filers; \$100,000 for married filers, filing jointly; \$80,000 for head-of-household filers; \$50,000 for married filers, filing separately.

Estimate (in millions): \$215.9

Data Source: Department of Revenue Individual Income Tax database (Tax Year 2007 is latest available)

Note: Even with this \$500 deduction, the exemption amount for low and middle-income households is still less than the Federal exemption amount. The Federal personal exemption amount increases annually, based on inflation. North Carolina has kept the same exemption level since 1996.

16. Parental Savings Trust Fund Deduction

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

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

Estimate (in millions): \$5.0

Data Source: College Savings Plan Network website; NC Department of Revenue database

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

Distributional Note: Based on Tax Year 2007 returns, 22,637 taxpayers took the credit. Of these, 2,528 had AGI less than \$40,000; 8,446 had AGI between \$40,000 and \$100,000; 4,074 had AGI between \$100,000 and \$200,000; and 3,515 had AGI of \$200,000 or more.

17. Volunteer Fire and Rescue Squad Deduction

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

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

Estimate (in millions): \$1.0

Data Source: 2007 Legislative budget

18. Net Economic Losses Incurred Prior to January 1, 1989

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

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

Estimate (in millions): \$0.0

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

Tax Credits

19. 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): less than \$0.1

Data Source: Department of Revenue Individual Income Tax database (Tax Year 2007 is latest available)

20. Tax Credit for Recycling Oyster Shells

Citation: G.S. 105-151.3

Description: Taxpayers are allowed a credit of \$1 per bushel of oyster shells donated to the Division of Marine Fisheries of the NC Department of Environmental and Natural Resources. The credit is not refundable. Any unused credit can be carried forward for the succeeding five years. A taxpayer who claims this credit must add back to taxable income any amount deducted under the Code for the donation of oyster shells. Effective for taxable years beginning on or after January 1, 2006 and expires for taxable years beginning on or after January 1, 2011

Estimate (in millions): less than \$0.1

Data Source: Department of Revenue Individual Income Tax database (Tax Year 2007 is latest available)

Individual Income Tax

21. Credit for Child Care and Certain Employment-Related Expenses

Citation: G.S. 105-151.11

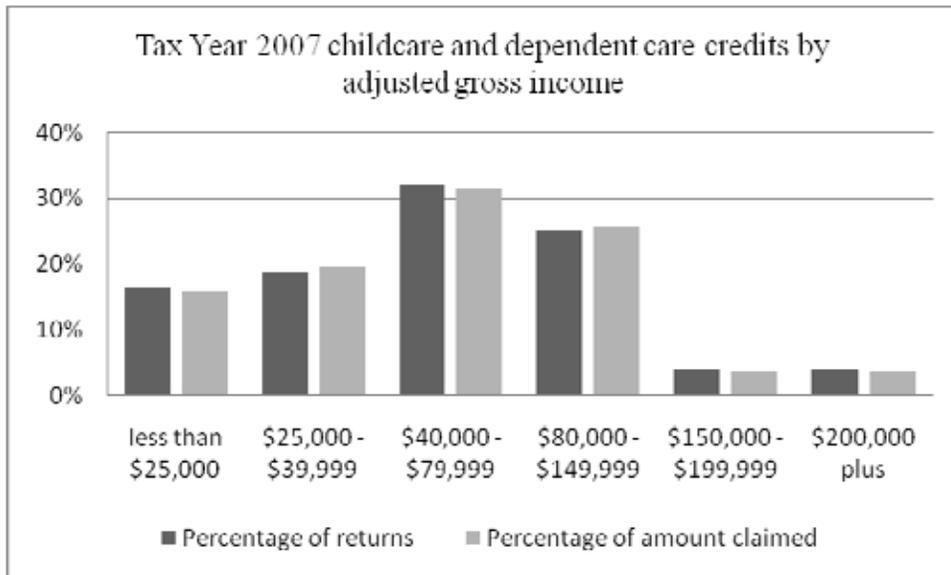
Description: A person who is allowed a credit against federal income tax for a percentage of employment-related expenses under Section 21 of the Code shall be allowed a proportional credit on State income taxes. The amount of expenses for which a credit is claimed may not exceed \$3,000 for one qualifying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

Estimate (in millions): \$53.6

Data Source: Department of Revenue Individual Income Tax database (Tax Year 2007 is latest available)

Note: The estimates do not include tax credits that were claimed but could not be taken due to nonrefundability constraints. It was estimated that 7% of credits claimed could not be taken for this reason.

Distributional Note: The following graph shows the percentage of child care and dependent care credits claimed for tax year 2007 by income classes.



22. Credit for Certain Real Property Donations

Citation: G.S. 105-151.12

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

Estimate (in millions): \$25.7

Data Source: Department of Revenue Individual Income Tax database (Tax Year 2007 is latest available)

Note: The estimates do not include tax credits that were claimed but could not be taken due to nonrefundability constraints. It was estimated that 7% of credits claimed could not be taken for this reason.

23. Credit for Conservation Tillage Equipment

Citation: G.S. 105-151.13

Description: Credit for conservation tillage equipment.

Estimate (in millions): \$0.1

Data Source: Department of Revenue Individual Income Tax database (Tax Year 2007 is latest available)

24. Credit for Gleaned Crops

Citation: G.S. 105-151.14

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

Estimate (in millions): less than \$0.1

Data Source: Department of Revenue Individual Income Tax database (Tax Year 2007 is latest available)

Individual Income Tax

25. Credit for the Disabled

Citation: G.S. 105-151.18

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

Estimate (in millions): \$1.5

Data Source: Department of Revenue Individual Income Tax database (Tax Year 2007 is latest available)

Note: The estimates do not include tax credits that were claimed but could not be taken due to nonrefundability constraints. It was estimated that 35% of credits claimed could not be taken for this reason.

26. 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): \$1.6

Data Source: Department of Revenue Individual Income Tax database (Tax Year 2007 is latest available)

27. Use of North Carolina Ports

Citation: G.S. 105-151.22

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

Estimate (in millions): less than \$0.1

Data Source: Department of Revenue 2004 and 2003 tax returns

Note: This provision sunsets January 1, 2014.

28. Credit for Children

Citation: G.S. 105-151.24

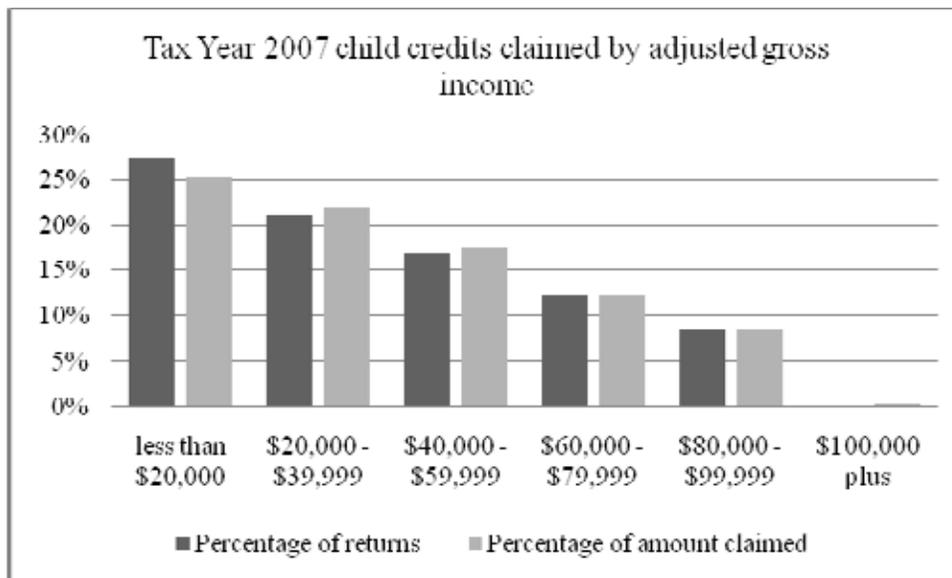
Description: An individual who is allowed a federal child tax credit under Section 24 of the Code (qualifying children must be under the age of 17 at the end of the calendar year) and whose adjusted gross income (AGI) is less than a specified amount (\$100,000 for married filers, filing jointly; \$80,000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

Estimate (in millions): \$147.3

Data Source: Department of Revenue Individual Income Tax database (Tax Year 2007 is latest available)

Note: The estimates do not include tax credits that were claimed but could not be taken due to nonrefundability constraints. It was estimated that 15% of credits claimed could not be taken for this reason.

Distributional Note: The following graph shows the percentage of child credits claimed for tax year 2007 by income classes.



29. Construction of Poultry Composting Facility

Citation: G.S. 105-151.25

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

Estimate (in millions): less than \$0.1

Data Source: Department of Revenue Individual Income Tax database (Tax Year 2007 is latest available)

Individual Income Tax

30. Charitable Contributions by Nonitemizers

Citation: G.S. 105-151.26

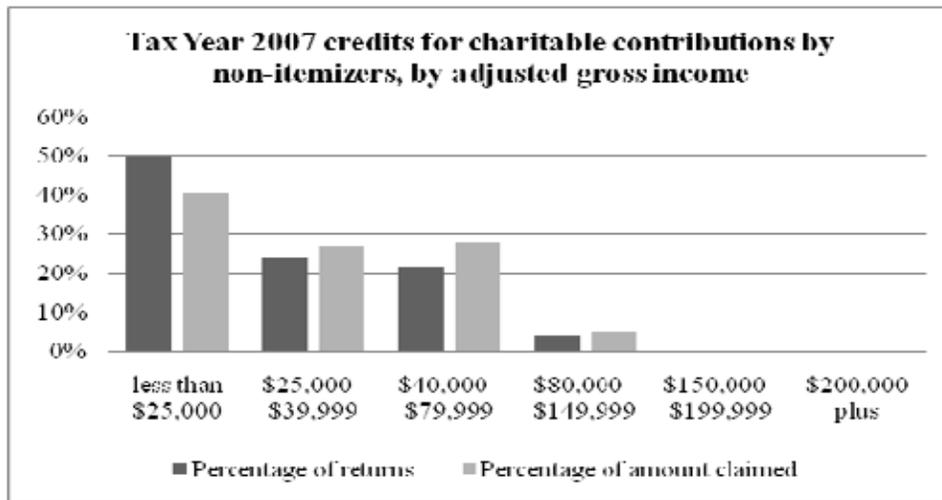
Description: A taxpayer who elects the standard deduction on their Federal income tax is allowed a credit of 7% of the taxpayer's excess charitable contributions. Excess contributions are those over 2% of the taxpayer's federal adjusted gross income.

Estimate (in millions): \$26.5

Data Source: Department of Revenue Individual Income Tax database (Tax Year 2007 is latest available)

Note: The estimates do not include tax credits that were claimed but could not be taken due to nonrefundability constraints. It was estimated that 12% of credits claimed could not be taken for this reason.

Distributional Note: The following graph shows the percentage of credits for charitable contributions by non-itemizers claimed for Tax Year 2007 by income classes.



31. Long-Term Care Credit

Citation: G.S. 105-151.28

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

Estimate (in millions): \$4.7

Data Source: Department of Revenue Individual Income Tax database (Tax Year 2007 is latest available)

Note: This provision sunsets January 1, 2013. The estimates do not include tax credits that were claimed but could not be taken due to nonrefundability constraints. It was estimated that 15% of credits claimed could not be taken for this reason.

32. Film Industry Production Expenses

Citation: G.S. 105-151.29

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

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

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

33. Tax Credit for Recycling Oyster Shells

Citation: G.S. 105-151.30

Description: Taxpayers are allowed a credit of \$1 per bushel of oyster shells donated to the Division of Marine Fisheries of the NC Department of Environmental and Natural Resources. Effective for taxable years beginning on or after January 1, 2006 and expires for taxable years beginning on or after January 1, 2011.

Estimate (in millions): less than \$0.1

Data Source: NC Division of Marine Fisheries

34. Earned Income Tax Credit

Citation: G.S. 105-151.31

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

Estimate (in millions): \$81.2

Data Source: Joint Committee on Taxation estimate of federal EITC amounts (Oct 2008), adjusted to North Carolina; Legislative Fiscal Note for HB2642 (2007 Session).

Note: This provision sunsets January 1, 2013. The estimate was calculated on the assumption that participation in the State EIC would be 90% of the federal participation since the state program is relatively new.

Individual Income Tax

35. **Credit for Adoption Expenses**

Citation: G.S. 105-151.32

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

Estimate (in millions): \$5.9

Data Source: Department of Revenue Individual Income Tax database (Tax Year 2007 is latest available)

Note: This provision sunsets January 1, 2013.

36. **Political Parties Financing Fund Designation**

Citation: G.S. 105-159.1

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

Estimate (in millions): \$2.0

Data Source: Department of Revenue FY09 data

37. **Public Campaign Fund Designation**

Citation: G.S. 105-159.2

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

Estimate (in millions): \$1.3

Data Source: Department of Revenue FY09 data

38. **Credit for Qualified Business Investments**

Citation: G.S. 105-163.011

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

Estimate (in millions): \$7.0

Data Source: Department of Revenue Individual Income Tax database (Tax Year 2007 is latest available)

Note: This provision sunsets January 1, 2011. 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	
Credit for qualified business investments	5 years	
Earned Income Tax Credit	none	Refundable

39. Carry-Over Provisions

Citation: See General Statutes text for each credit

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

Estimate (in millions): \$22.5

Data Source: Department of Revenue Individual Income Tax database (Tax Year 2007 is latest available)

Sales and Use Tax

Sales and Use Tax (Article 5)

Tax Base Information

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

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

The State sales tax rate has changed several times in the last few years. The applicable rates during certain time periods are summarized in the following table:

General State sales tax rate	Time period of sales
4.25%	December 1, 2006 – September 30, 2008
4.50%	October 1, 2008 – August 31, 2009
5.50%	September 1, 2009 – September 30, 2009
5.75%	October 1, 2009 – June 30, 2011

The State sales tax rate on telecommunication services and spirituous liquor is equal to the combined State and local tax rate. This rate was 7% from April 1, 2008 (when several counties adopted the 0.25% local option sales tax) through August 31, 2009 and 8% from September 1, 2009 through June 30, 2011.

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

For this report, we have used an effective tax rate for FY10 of 5.40%. This is the average rate for the period June 1, 2009 through May 31, 2010. (Note that this is lagged one month from the normal fiscal year due to the usual one-month lag in collections.) For comparative purposes, the effective tax rate used for FY08 in the “2007 Tax Expenditure Report” was 4.25%.

For Fiscal Year 2008-09, sales and use net tax receipts to the General Fund were approximately \$4.7 billion.

Table 7**Sales and Use Tax Expenditure Estimates for FY 2009-10**

Item	Citation (G.S. § 105)	Short Title	FY10 Estimate (\$ Millions)
1	164.13(1) and (1a)	Various Items Sold to Farmers	88.3
2	164.13(2a)a	Feeds, Litter and Medications for Farming	194.5
3	164.13(2a)b	Pesticides, Rodenticides and Related Products for Farming	12.1
4	164.13(2a)c	Defoliants for Commercial Use	included in item #3
5	164.13(2a)d	Plant Growth Inhibitors	included in item #3
6	164.13(2a)e	Semen for Artificial Insemination	less than 0.1
7	164.13(3)	Certain Products of Forests and Mines by Producers	Unavailable
8	164.13(4b)	Farm Products Requiring Ice Preservation For Further Sale	Unavailable
9	164.13(4c)a	Manufactured Facilities for Commercial Housing of Animals	9.2
10	164.13(4c)b and c	Building Materials and Equipment for Animal Enclosures and Housing	included in above item
11	164.13(4d)	Tobacco Farming Items	less than 0.1
12	164.13(4f)	Commercial Logging Machinery	7.8
13	164.13(5a)	Items Taxed by Article 5F	213.2
14	164.13(5b)	Telephone Equipment	36.9
15	164.13(5c)	Radio and Television Broadcast Equipment	2.8
16	164.13(5d)	Cable Service Broadcast Equipment	12.5
17	164.13(7)	Aquacultural Products in Raw State	Unavailable
18	164.13(9)	Tangible Property Purchased for Commercial Fishing	2.5
19	164.13(10)	Items Used by Laundries and Dry Cleaning Businesses	1.9
20	164.13(10a)a	Lubricants Used by Major Recycling Facility	0.1

Sales and Use Tax

Item	Citation (G.S. § 105)	Short Title	FY10 Estimate (\$ Millions)
21	164.13(10a)b	Materials Used by Major Recycling Facility	14.0
22	164.13(10a)c	Electricity Used by Major Recycling Facility	1.0
23	164.13(11)	Motor Fuel or Alternative Fuel Taxed by Articles 36C or 36D	0.0
24	164.13(11a)	Diesel Fuel for Railroads	11.5
25	164.13(12)	Durable Medical Equipment	35.0
26	164.13(13)	Prescription Drugs and Insulin	410.0
27	164.13(13c)	Chiropractors' Nutritional Supplements	0.4
28	164.13(14)	Public School Books	4.0
29	164.13(15)	Accounts of Sales Charged Off for Income Purposes	Unavailable
30	164.13(20)	Sales by Blind Merchants	0.5
31	164.13(21)	Lease or Rental of Films for Exhibition	3.7
32	164.13(22)	Lease or Rental of Films, Transcriptions and Recordings to Broadcasters	8.4
33	164.13(22a)	Audiovisual Masters	6.7
34	164.13(23)a	Packaging Items for Manufacturers, Producers and Retailers	126.6
35	164.13(23)b	Packaging Returned to Seller	0.1
36	164.13(26)	Food Sold by a Public or Private School Cafeteria	17.2
37	105.164.13(26a)	Food Sold by a Public School Cafeteria to Certain Childcare Centers	included above
38	164.13(27)	Food Sold in Dining Rooms Operated by Educational Institutions	34.6
39	164.13(27a)	Bread Sold at a Bakery Thrift Store	0.1
40	164.13(28)	Certain Sales of Newspapers	7.5
41	164.13(30)	Vending Machine One-Cent Sales	less than 0.1
42	164.13(31)	Meals for the Elderly	less than 0.1

Sales and Use Tax

Item	Citation (G.S. § 105)	Short Title	FY10 Estimate (\$ Millions)
43	164.13(31a)	Food Sold by a Church or Religious Organization	Unavailable
44	164.13(32)	Motor Vehicle Exemption Less Highway Use Tax	430.0
45	164.13(34)	Sales by Nonprofits Whose Proceeds Go to the State	Unavailable
46	164.13(35)	Sales by Nonprofits Conducted Annually	1.4
47	164.13(36)	Advertising Supplements Sold with Newspapers	3.5
48	164.13(39)	Components of Free Distribution Periodicals	7.0
49	164.13(40)	Sales to the Department of Transportation	0.0
50	164.13(41)	Mobile Classrooms Purchased by Boards of Education or Community Colleges	0.6
51	164.13(43)	Custom Computer Software	8.8
52	164.13(43a)	Certain Computer Software	Unavailable
53	164.13(43b)	Certain Software or Digital Property	Unavailable
54	164.13(44)	Piped Natural Gas Taxed by Article 5E	105.0
55	164.13(45)	Items Purchased by Interstate Passenger Air Carriers	included in item #56
56	164.13(45a)	Lubricants and Parts Used in Maintenance of Commercial Aircraft	7.3
57	164.13(45b)	Items Purchased by Interstate Air Couriers	included in item #56
58	164.13(45c)	Exemption for Aircraft Simulators	0.7
59	164.13(46)	Electricity to Municipalities Supplied by Federal Agency	0.4
60	164.13(49)	Installation Charges	14.0

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Item	Citation (G.S. § 105)	Short Title	FY10 Estimate (\$ Millions)
61	164.13(49a)	Delivery Charges of Direct Mail	0.5
62	164.13(50)	Goods Sold Through Vending Machines	11.4
63	164.13(51)	Water Delivered Through Main Pipes	56.2
64	164.13(52)	Sales to State Agencies	0.0
65	164.13(53)	Aerial Survey Data	less than 0.1
66	164.13(54)b	Pay Telephone Services	less than 0.1
67	164.13(54)c	911 Charges	3.5
68	164.13(54)d	Telephone Charges Related to Occupancy of an Accommodation	0.4
69	164.13(54)e	Charges Related to N.C. Information Highway and Other Government Data Networks	0.5
70	164.13(55)	Electricity and Eligible Business Property for an Internet Data Center	5.5
71	164.13(56)	Locomotives, Cranes and Trucks for a Railroad Intermodal Facility	0.2
72	164.13(58)	Disaster Assistance Debit Card Purchases	0.6
73	164.13(59)	Interior Design Services	1.0
74	164.13A	Service Charges on Meals and Beverages	0.5
75	164.13B	Food for Home Consumption	722.6
76	164.13B(a)	Exemption for Certain Bakery Items	4.0
77	164.13C	Sales and Use Tax Holiday	12.3
78	164.13D	Energy Star Sales Tax Holiday	1.8
79	164.21A	Municipalities That Sell Electric Power	9.2
80	164.14(a)	Refunds to Interstate Carriers	5.0

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Item	Citation (G.S. § 105)	Short Title	FY10 Estimate (\$ Millions)
81	164.14(a2)	Partial Refund for Purchases of Railway Cars and Accessories by a Utility	Unavailable
82	164.14(b)	Refund of Sales Taxes to Nonprofits	248.5
83	164.14(c)	Refund of Sales Taxes to Sub-State Government Entities Except Schools	91.8
84	164.14(g)	Refund for Major Recycling Facilities	less than 0.1
85	164.14(h)	Refund for Low Enterprise Tier Machinery	0.4
86	164.14(j)	Refund for Certain Industrial Facilities	2.4
87	164.14(l)	Refund of Aviation Fuel for Motorsports Events	0.1
88	164.14(m)	Refund on Professional Motor Racing Vehicle Parts	2.6
89	164.14(n)	Refund for Analytical Service Companies	0.0
90	164.14(o)	Refund for Railroad Intermodal Facilities	0.2
91	164.4(a)(1a)	Manufactured Homes	16.6
92	164.4(a)(1b)	Aircraft and Boats	10.5
93	164.4(a)(1f)	Electricity to Commercial Laundries	0.8
94	164.4(a)(1h)	Electricity to Aluminum Smelting Facility	0.0
95	164.4(a)(1j)	Electricity to Manufacturers and Farmers	43.9
96	164.4(a)(3)	Various Real Estate Rentals	Unavailable
97	164.4(a)(4a)	Electricity to Commercial Businesses and Residences	223.0
98	164.4(a)(8)	Modular Homes	3.0
99	164.4C(f)	Out-of-State Call Centers	Unavailable
100	164.14(a1)	Cap on Tax of Aviation Fuel for Interstate Passenger Air Carriers	6.6

Exemptions

1. Various Items Sold to Farmers

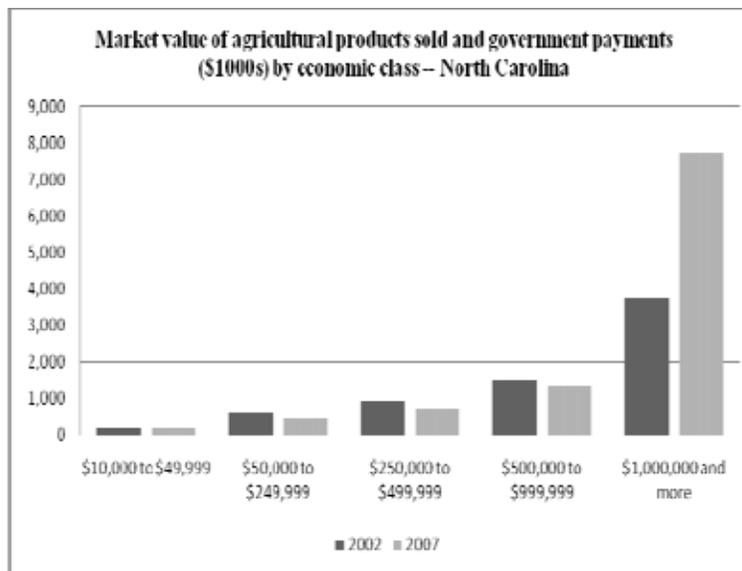
Citation: G.S. 105-164.13(1) and (1a)

Description: Various items sold for agricultural purposes: (a) commercial fertilizer, lime, land plaster, plastic mulch, plant bed covers, potting soil, baler twine, and seeds (b) farm machinery, attachment and repair parts for farm machinery, and lubricants applied to farm machinery, (c) horse or mule, (d) fuel, (e) containers sold to a farmer used to transport or package products, (f) grain, feed, or soybean storage facility, and parts and accessories attached to the facility.

Estimate (in millions): \$88.3

Data Source: Farm Production Expenditure reports for North Carolina (through 2006) and Atlantic Region (through 2008), NC Department of Agriculture and Consumer Services & USDA; 2007 Economic Census of Agriculture for NC, USDA

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



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

2. 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): \$194.5

Data Source: Farm Production Expenditure reports for North Carolina (through 2006) and Atlantic Region (through 2008), NC Department of Agriculture and Consumer Services & USDA; 2007 Economic Census of Agriculture for NC, USDA

3. 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): \$12.1

Data Source: Farm Production Expenditure reports for North Carolina (through 2006) and Atlantic Region (through 2008), NC Department of Agriculture and Consumer Services & USDA

Note: Includes Items #4 and 5

4. Defoliant for Commercial Use

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

Description: Defoliant for use on cotton or other crops grown for commercial purposes.

Estimate (in millions): included in item #3

5. 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 #3

6. 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. Comparable estimates from other states were used to support estimate.

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7. **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.

8. **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.

9. **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): \$9.2

Data Source: Farm Production Expenditure reports for North Carolina (through 2006) and Atlantic Region (through 2008), NC Department of Agriculture and Consumer Services & USDA; 2007 Economic Census of Agriculture for NC, USDA

10. **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): included in item #9

11. Tobacco Farming Items**Citation:** G.S. 105-164.13(4d)**Description:** (a) The lease or rental of tobacco sheets used in handling tobacco in the warehouse and transporting tobacco to and from the warehouse. (b) A metal flue sold for use in curing tobacco, whether the flue is attached to a handfired furnace or used in connection with a mechanical burner. (c) A bulk tobacco barn or rack, parts and accessories attached to the tobacco barn or rack, and any similar apparatus, part or accessory used to cure or dry tobacco or another crop.**Estimate (in millions):** less than \$0.1**Note:** Volume is not likely to exceed the level for a loss of \$100,000 or more**12. Commercial Logging Machinery****Citation:** G.S. 105-164.13(4f)**Description:** Sales to a person engaged in the commercial logging business of the following: (a) logging machinery; (b) attachments and repair parts for logging machinery; (c) lubricants applied to logging machinery; and (d) fuel used to operate logging machinery.**Estimate (in millions):** \$7.8**Data Source:** 2006 NC Corporation Tax Returns, Legislative Fiscal Note for HB 1938(06). The number of firms and trends in logging industry in North Carolina were derived from Bureau of Labor Statistics data.**Note:** Motor fuels used off-highway are not subject to motor fuels tax but are subject to the sales tax.**13. Items Taxed by Article 5F****Citation:** G.S. 105-164.13(5a)**Description:** The following items taxable under Article 5F are exempt from sales and use tax: mill machinery and mill machinery parts and accessories; manufacturing fuel; and certain machinery and equipment purchased by the following: major recycling facility, research and development company, industrial machine refurbisher, or data center.**Estimate (in millions):** \$213.2**Data Source:** Department of Revenue Form E-500J tax returns**Note:** The estimate is the amount of tax that would have been collected at the State sales tax rate minus the amount collected under Article 5F. Article 5F imposes a 1% tax on eligible equipment, with a maximum tax of \$80 per item. The tax rate on fuel is 0.5% from July 1, 2008 through June 30, 2009, and 0.3% from July 1, 2009 through July 1, 2010.

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14. 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): \$36.9

Data Source: 2007 Annual Capital Expenditures, US Census

15. Radio and Television Broadcast Equipment

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

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

Estimate (in millions): \$2.8

Data Source: 2007 Annual Capital Expenditures, US Census

16. 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): \$12.5

Data Source: 2007 Annual Capital Expenditures, US Census

17. Aquacultural Products in Raw State

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

Description: Exemption for sales of products of waters in their original or non-manufactured state when such sales are made by the producer in the capacity of producer. Fish and seafoods are likewise exempt when sold by the fisherman in that capacity.

Estimate (in millions): Unavailable

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

- 18. Tangible Property Purchased for Commercial Fishing**
Citation: G.S. 105-164.13(9)
Description: Sales of boats, fuel oil, lubricating oils, machinery, equipment, nets, rigging, paints, parts, accessories, and supplies used in commercial fishing.
Estimate (in millions): \$2.5
Data Source: “2008 Commercial & Recreation Statistics,” NC Fisheries Association, NC Division of Marine Fisheries; sample of NC corporate income tax returns
- 19. Items Used by Laundries and Dry Cleaning Businesses**
Citation: G.S. 105-164.13(10)
Description: Sales to commercial laundries or to pressing and dry cleaning establishments of articles or materials used for the identification of garments being laundered or dry cleaned, wrapping paper, bags, hangers, starch, soaps, detergents, cleaning fluids and other compounds or chemicals applied directly to the garments. As of January 1, 2006, this section also exempts laundry and dry-cleaning machinery, parts and accessories attached to the machinery, lubricants applied to the machinery, and fuel, other than electricity.
Estimate (in millions): \$1.9
Data Source: 2002 Economic Census, US Census Bureau; sample of NC corporate income tax returns
Note: Laundering machinery, parts and accessories, and lubricants were subject to a 1% tax with an \$80 maximum per article prior to January 1, 2006. Fuel was subject to a 1% tax prior to January 1, 2006.
- 20. Lubricants Used by Major Recycling Facility**
Citation: G.S. 105-164.13(10a)a
Description: Sales to major recycling facility of lubricants and other additives for motor vehicles or machinery.
Estimate (in millions): \$0.1
Data Source: 2007 Economic Census materials-consumed data for steel mills
- 21. Materials Used by Major Recycling Facility**
Citation: G.S. 105-164.13(10a)b
Description: Sales to major recycling facility of materials, supplies, parts, and accessories, other than machinery and equipment, that are not capitalized by the taxpayer and are used or consumed in the manufacturing and material handling processes.
Estimate (in millions): \$14.0
Data Source: 2007 Economic Census materials-consumed data for steel mills

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22. **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): \$1.0

Data Source: 2002 Economic Census Detailed Statistics for steel mills

Note: If this provision were repealed, the affected taxpayers would probably qualify for the reduced tax rate on electricity sold to manufacturers. However, the estimate here uses the general State tax rate.

23. **Motor Fuel or Alternative Fuel Taxed by Articles 36C or 36D**

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

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

Estimate (in millions): \$0.0

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

Note: The estimate is the amount of tax that would be collected at the combined rate of 8% in excess of the amount collected by the Motor Fuels Tax and the Alternative Fuels Tax, whose minimum tax rate is 29.9¢ per gallon. The estimate assumes that the average price of gasoline or diesel during FY10 remains below \$3.00 per gallon.

24. **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): \$11.5

Data Source: Association of American Railroads

25. **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): \$35.0

Data Source: NC-specific data through 2004 from the US Centers for Medicare & Medicaid Services, (www.cms.gov)

26. 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): \$410.0

Data Source: "Total Retail Sales for Prescription Drugs Filled at Pharmacies, 2008," statehealthfacts.org, Kaiser Family Foundation; 2002 Economic Census for Veterinary Services

27. Chiropractors' Nutritional Supplements

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

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

Estimate (in millions): \$0.4

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

28. 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): \$4.0

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

29. 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

30. 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

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31. Lease or Rental of Films for Exhibition

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

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

Estimate (in millions): \$3.7

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

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

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

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

Estimate (in millions): \$8.4

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

33. Audiovisual Masters

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

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

Estimate (in millions): \$6.7

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

34. 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): \$126.6

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

35. Packaging Returned to Seller

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

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

Estimate (in millions): \$0.1

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

36. 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): \$17.2

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

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

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

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

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

Estimate (in millions): included above

38. Food Sold in Dining Rooms Operated by Educational Institutions

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

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

Estimate (in millions): \$34.6

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

39. Bread Sold at a Bakery Thrift Store

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

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

Estimate (in millions): \$0.1

Data Source: 2007 Legislative budget bill

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40. **Certain Sales of Newspapers**

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

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

Estimate (in millions): \$7.5

Data Source: Audit Bureau of Circulation data, accessed through www.accessabc.com

Note: Door-to-door sales of magazines were removed from this exemption effective January 1, 2010.

41. **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

42. **Meals for the Elderly**

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

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

Estimate (in millions): less than \$0.1

Data Source: Meals on Wheels data from Wake, Buncombe and Forsyth Counties

43. **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

44. Motor Vehicle Exemption Less Highway Use Tax**Citation:** G.S. 105-164.13(32)**Description:** Sales of motor vehicles, the sale of a motor vehicle body to be mounted on a motor vehicle chassis when a certificate of title has not been issued for the chassis, and the sale of a motor vehicle body mounted on a motor vehicle chassis that temporarily enters the State so the manufacturer of the body can mount the body or chassis.**Estimate (in millions):** \$430.0**Data Source:** FY 2008-09 Highway use tax data, NC Department of Motor Vehicles**Note:** The estimate only includes the sales of vehicles because the other exemptions are not final sales. The estimate is the additional revenue that would be collected at the 4.25% sales tax rate above the 3% Highway Use Tax. It is assumed that there would be no trade-in allowance (see estimate for GS 105-187.3(b)).**45. 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**46. 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):** \$1.4**Data Source:** Girl Scout Council Annual Reports**47. Advertising Supplements Sold with Newspapers****Citation:** G.S. 105-164.13(36)**Description:** Advertising supplements and any other printed matter ultimately to be distributed with newspaper.**Estimate (in millions):** \$3.5**Data Source:** 2002 Economic Census, US Census Bureau

Sales and Use Tax

48. **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): \$7.0

Data Source: Fiscal Research Division fiscal note for HB1149 (2003-04 session)

49. **Sales to the Department of Transportation**

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

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

Estimate (in millions): \$0.0

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

50. **Mobile Classrooms Purchased by Boards of Education or Community Colleges**

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

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

Estimate (in millions): \$0.6

Data Source: Statistical Reports, NC Department of Public Instruction provided growth of pupils by county; Wake County Public School System reports on school construction

Note: This tax expenditure is based on the exemption from the normal State tax rate. No information on community college use of mobile classrooms was obtained.

51. **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): \$8.8

Data Source: Revenues of software publishers from "custom applications design and development," from 2007 Service Annual Survey, US Census Bureau

52. Certain Computer Software

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

Description: Computer software that meets any of the following descriptions: (a) it is designed to run on an enterprise server operating system, (b) it is sold to a person who operates a data center and is used within the data center, (c) it is sold to a person who provides cable service; telecommunications service, or video programming and is used to provide ancillary service, cable service, Internet access service, telecommunications service, or video programming.

Estimate (in millions): Unavailable

53. Certain Software or Digital Property

Citation: G.S. 105-164.13(43b)

Description: Effective January 1, 2010: Computer software or digital property that becomes a component part of other computer software or digital property that is offered for sale or of a service that is offered for sale.

Estimate (in millions): Unavailable

54. Piped Natural Gas Taxed by Article 5E

Citation: G.S. 105-164.13(44)

Description: Piped natural gas is exempt because it is taxed under Article 5E.

Estimate (in millions): \$105.0

Data Source: “Natural Gas Consumption by End Use” for NC, Energy Information Administration

Note: The estimate is the amount of expected collections at the State tax rate, in excess of the expected collections under Article 5E, after the municipality distribution.

55. Items Purchased by Interstate Passenger Air Carriers

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

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

Estimate (in millions): included in item #56

56. Lubricants Used in Maintenance of Commercial Aircraft

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

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

Estimate (in millions): \$7.3

Data Source: Airline expenses from Federal Aviation Administration Fact Book (Aug 2009); share of maintenance material in airline expenses from Air Transport Association “Quarterly Cost Index”

Note: Includes item #55 and part (a) of item #57

Sales and Use Tax

57. **Items Purchased by Interstate Air Couriers**

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

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

Estimate (in millions): Unavailable – lubricants and repair parts estimate included in item #56

58. **Exemption for Aircraft Simulators**

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

Description: Effective Oct 1, 2009, sales of aircraft simulators to a company for flight crew training and maintenance training.

Estimate (in millions): \$0.7

Data Source: Legislative Fiscal Note for Senate Bill 1057 (2009), adjusted for higher sales tax rate

59. **Electricity to Municipalities Supplied by Federal Agency**

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

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

Estimate (in millions): \$0.4

Data Source: NC Treasurer Report on Municipal Electrical Systems

60. **Installation Charges**

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

Description: Installation charges when the charges are separately stated.

Estimate (in millions): \$14.0

Data Source: "Nonmerchandise Receipts" of Retail Stores from 2007 Economic Census, excluding Automobile Dealers. Installation charges are assumed to account for 25% of nonmerchandise receipts.

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): \$0.5

Data Source: Fiscal Research Division fiscal note for HB1414, version 4 (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): \$11.4

Data Source: "2009 State of the Vending Industry Report," Automatic Merchandiser

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): \$56.2

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

Note: The estimate only considers a sales tax on the variable rates on water consumption. It does not include fixed charges or wastewater rates, which are considered services.

64. Sales to State Agencies

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

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

Estimate (in millions): \$0.0

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

65. Aerial Survey Data

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

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

Estimate (in millions): less than \$0.1

Data Source: 2002 Business Expenses Survey for Industry Codes related to Land Surveying, US Census Bureau

Sales and Use Tax

66. Pay Telephone Services

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

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

Estimate (in millions): less than \$0.1

Note: Pay telephone providers must pay the tax to the provider of their telecommunications services.

67. 911 Charges

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

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

Estimate (in millions): \$3.5

Data Source: 2007 Annual Financial Information Reports for the counties and municipalities, North Carolina Treasurer's Office

Note: The estimate is based on the State tax rate on telecommunications, which was 7% from October 1, 2008 to August 31, 2009 and 8% beginning September 1, 2009.

68. Telephone Charges Related to Occupancy of an Accommodation

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

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

Estimate (in millions): \$0.4

Data Source: 2007 Economic Census product-line data for accommodations

Note: The estimate is based on the State tax rate on telecommunications, which was 7% from October 1, 2008 to August 31, 2009 and 8% beginning September 1, 2009.

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

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

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

Estimate (in millions): \$0.5

Data Source: NC Information Highway rate schedule, ITS and NCIH websites

Note: Estimate includes only local government users.

- 70. Electricity and Eligible Business Property for an Internet Data Center**
Citation: G.S. 105-164.13(55)
Description: Effective October 1, 2006, sales of electricity and business property to an eligible Internet data center. If the level of investment required by G.S. 105-164.3(8e)d. is not timely made, then the exemption provided under this subdivision is forfeited.
- Estimate (in millions):** \$5.5
- Data Source:** Newspaper article quote of \$3.6M to \$6.8M per year based on a NC legislative estimate, adjusted for electricity rate increase.
- 71. Locomotives, Cranes and Trucks for a Railroad Intermodal Facility**
Citation: G.S. 105-164.13(56)
Description: Effective January 1, 2007, sales to the owner or lessee of an eligible railroad intermodal facility of intermodal cranes, intermodal hostler trucks, and railroad locomotives that reside on the premises of the facility and are used at the facility.
- Estimate (in millions):** \$0.2
- Data Source:** News articles related to eligible facilities
- 72. Disaster Assistance Debit Card Purchases**
Citation: G.S. 105-164.13(58)
Description: Tangible personal property purchased with a client assistance debit card issued for disaster assistance relief by a State agency or a federal agency or instrumentality.
- Estimate (in millions):** \$0.6
- Data Source:** Legislative estimate of \$0.5M for FY09 from S.L. 08-107, adjusted for increase in State tax rate
- 73. Interior Design Services**
Citation: G.S. 105-164.13(59)
Description: Effective August 1, 2008: Interior design services provided in conjunction with the sale of tangible personal property.
- Estimate (in millions):** \$1.0
- Data Source:** Product Line Data for Interior Design Services from 2002 Economic Census

Sales and Use Tax

74. Service Charges on Meals and Beverages

Citation: G.S. 105-164.13A

Description: Service charges, considered tips, imposed on food, beverages or meals when not above 20% of the sale price. The charge must be stated on the menu or price list and also in the invoice or bill.

Estimate (in millions): \$0.5

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

Note: Receipts were inflated by considering both the increase in employment and the increase in prices of food and beverages. It was assumed that service charges were applied to 1% of meals and averaged 15% of total receipts.

75. Food for Home Consumption

Citation: G.S. 105-164.13B

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

Estimate (in millions): \$722.6

Data Source: Department of Revenue: Based on 2% Local Sales Tax data through June 2009

Note: Due to the decrease in food-for-home prices in recent months, FY10 food sales were estimated to be only 2% higher than FY09.

Distributional Note: According to the 2007 Consumer Expenditure Survey, a household with income between \$20,000 and \$29,999 on average spent 8.6% of income on food at home; an average household with income between \$50,000 and \$69,999 spent 6.1% of income on this category.

76. Certain Bakery Items

Citation: G.S. 105-164.13B

Description: Effective January 1, 2009: Exempts bakery items sold without eating utensils by an artisan bakery. An artisan bakery is defined as a business that derives at least 80% of its receipts from bakery items and has gross receipts under \$1.8 million per year.

Estimate (in millions): \$4.0

Data Source: Legislative estimate of \$1.6M for Jan-June 09 from S.L. 08-107, adjusted for increase in State tax rate

77. Sales and Use Tax Holiday**Citation:** G.S. 105-164.13C**Description:** The sales and use taxes do not apply on the following items during the first weekend of August: (1) clothing with a sales price of \$100 or less, (2) school supplies with a sales price of \$100 or less, (3) instructional material with a sales price of \$300 or less (effective Oct 1, 2007), (4) computers with a sales price of \$3,500 or less, (5) computer supplies with a sales price of \$250 or less, (6) sport or recreational equipment with a sales price of \$50 or less.**Estimate (in millions):** \$12.3**Data Source:** National Income and Product Accounts, Bureau of Economic Analysis; National Retail Federation survey on back-to-school spending in 2009; "Advance Monthly Sales for Retail Trade and Food Services: August 2009," US Census Bureau**Note:** The relevant sales tax holiday occurred August 7-9, 2009. The State sales tax rate was 4.5% during that time period.**78. Energy Star Sales Tax Holiday****Citation:** G.S. 105-164.13D**Description:** Certain Energy Star products are exempt from all State and local sales and use taxes if sold during the first weekend (Friday through Sunday) of November. Only the following Energy Star qualified products will be exempt: clothes washers, freezers, refrigerators, central air conditioners, room air conditioners, air-source heat pumps, geothermal heat pumps, ceiling fans, dehumidifiers, and programmable thermostats. The exemption does not apply to rentals and to sales of products for use in a trade or business, including sales to contractors that will be installed in buildings or structures.**Estimate (in millions):** \$1.8**Data Source:** Legislative estimate of \$1.4M for FY09 from S.L. 08-107, adjusted for increase in State tax rate**79. Municipalities That Sell Electric Power****Citation:** G.S. 105-164.21A**Description:** A municipality that pays sales tax on electricity may deduct from the sales tax 3% of the difference between its gross receipts from sales of electricity for the preceding reporting period and the amount paid by the municipality for purchased power and related services during that period.**Estimate (in millions):** \$9.2**Data Source:** Department of Revenue sales and use tax data for FY08-09

Sales and Use Tax

Refunds

80. Refunds to Interstate Carriers

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

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

Estimate (in millions): \$5.0

Data Source: Department of Revenue sales and use tax database

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

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

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

Description: Effective July 1, 2006, a utility company may receive a semiannual refund of part of the sales and use taxes it pays on the purchase in this State of railway cars and locomotives and accessories.

Estimate (in millions): Unavailable

82. Refund of Sales Taxes to Nonprofits

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

Description: Refunds for sales taxes paid on purchases, other than electricity and telecommunications, for use in carrying on the work of the nonprofit and indirect purchases of building materials. The refund is only for nonprofits in the following categories: (1) hospitals, (2) educational institutions, (3) churches, orphanages and other charitable or religious institutions, (4) qualified retirement facilities, (5) volunteer fire departments and volunteer emergency medical service squads.

Estimate (in millions): \$248.5

Data Source: Department of Revenue sales and use tax database

Note: Volunteer fire and EMS services added to list effective July 1, 2008. Refund requests are made semi-annually, so refunds lag taxes paid by 6 months.

83. Refund of Sales Taxes to Sub-State Government Entities Except Schools

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

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

Estimate (in millions): \$91.8

Data Source: Department of Revenue sales and use tax database

Note: Refunds to US government and UNC System were not included in the estimate. Since governmental refund requests are made annually, refunds paid out for FY 2009-10 are based on tax payments made during FY 2008-09.

84. Refund for Major Recycling Facilities

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

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

Estimate (in millions): less than \$0.1

Data Source: Department of Revenue "Other Credit and Incentive Reports," 2009.

85. Refund for Low Enterprise Tier Machinery

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

Description: An eligible businesses listed in G.S. 105-129.4 (or G.S. 105-129.83) , i.e. businesses that are allowed to take incentive tax credits under the former Williams S. Lee Act or the current Article 3J, is allowed an annual refund of sales and use taxes on eligible machinery and equipment it purchases for use in an enterprise tier one or two area, as defined in 105-129.3 (or development tier 1 area, as defined in G.S. 143B-437.08).

Estimate (in millions): \$0.4

Data Source: Department of Revenue "Other Credit and Incentive Reports," 2009.

Sales and Use Tax

86. Refund for Certain Industrial Facilities

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

Description: Refund for building materials, building supplies, fixtures, and equipment that become a part of the real property of the eligible facility: industries include (a) air courier services, (b) aircraft manufacturing, (c) bioprocessing, (d) computer manufacturing, (f) financial services, securities operations, and related systems development, (g) motor vehicle manufacturing, (j) pharmaceutical and medicine manufacturing and distribution of pharmaceuticals and medicines, (m) semiconductor manufacturing, (n) solar electricity generating materials manufacturing.

Estimate (in millions): \$2.4

Data Source: Department of Revenue "Other Credit and Incentive Reports," 2009.

Note: This provision sunsets on January 1, 2013. The refund for solar materials manufacturing became effective July 1, 2008.

87. Refund of Aviation Fuel for Motorsports Events

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

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

Estimate (in millions): \$0.1

Data Source: Department of Revenue "Other Credit and Incentive Reports," 2009.

Note: This provision sunsets on January 1, 2011.

88. Refund on Professional Motor Racing Vehicle Parts

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

Description: Effective July 1, 2007, a professional motorsports racing team may receive a refund of 50% of the sales tax paid on certain tangible personal property that comprises any part of a professional motor racing vehicle, except tires, instrumentation, telemetry, consumables and paint.

Estimate (in millions): \$2.6

Data Source: Department of Revenue sales and use tax database

89. Refund for Analytical Service Companies

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

Description: Effective July 1, 2007, a taxpayer engaged in analytical services in this State is allowed a refund of fifty percent (50%) of the eligible amount of sales and use tax paid by it in this State on tangible personal property that is consumed or transformed in analytical service activities. The eligible amount of sales and use tax paid by the taxpayer in this State is the amount by which sales and use taxes paid by the taxpayer in this State in the fiscal year exceed the amount paid by the taxpayer in this State in the 2006-07 State fiscal year.

Estimate (in millions): \$0.0

Data Source: 2007 Legislative budget bill

Note: Refunds for FY 2007-08 will not be processed until the following fiscal year. The legislative estimate for FY 2008-09 is \$2.6 million.

90. Refund for Railroad Intermodal Facilities

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

Description: Effective January 1, 2007, the owner or lessee of an eligible railroad intermodal facility is allowed an annual refund of sales and use taxes paid by it under this Article on building materials, building supplies, fixtures, and equipment that become a part of the real property of the facility.

Estimate (in millions): \$0.2

Data Source: Estimate based on recent news reports of intermodal facility construction.

Preferential tax rates

91. 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): \$16.6

Data Source: Department of Revenue sales and use tax database; sales prices on manufactured homes from US Census Bureau

Sales and Use Tax

92. Aircraft and Boats

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

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

Estimate (in millions): \$10.5

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

93. Electricity to Commercial Laundries

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

Description: Tax rate of 2.83% for sale of electricity to commercial laundries or dry-cleaning establishments.

Estimate (in millions): \$0.8

Data Source: Department of Revenue sales and use tax database

94. Electricity to Aluminum Smelting Facility

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

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

Estimate (in millions): \$0.0

Data Source: Department of Revenue sales and use tax database

95. Electricity to Manufacturers and Farmers

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

Description: Effective July 1, 2008, the sales and use tax for electricity sold to a manufacturing industry or a farmer for non-household purposes is 1.4%; the rate is reduced to 0.8% on July 1, 2009, and is repealed on July 1, 2010.

Estimate (in millions): \$43.9

Data Source: Department of Revenue sales and use tax data for FY2005 and FY2004

Note: The tax rate is lowered annually through July 1, 2010, when electricity purchased by these industries becomes exempt from tax.

96. Various Real Estate Rentals

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

Description: No tax on any private residence or cottage that is rented for less than 15 days in a calendar year or to any room, lodging or accommodation supplied to the same person for a period of 90 or more continuous days.

Estimate (in millions): Unavailable

- 97. Electricity to Commercial Businesses and Residences**
Citation: G.S. 105-164.4(a)(4a)
Description: Tax rate of 3% for gross receipts derived from sales of electricity, other than sales of electricity subject to tax under another subdivision of this section.
- Estimate (in millions):** \$223.0
- Data Source:** Department of Revenue sales and use tax data for FY2005 and FY2004
- 98. Modular Homes**
Citation: G.S. 105-164.4(a)(8)
Description: Tax rate of 2.5% on sales of modular homes.
- Estimate (in millions):** \$3.0
- Data Source:** Department of Revenue sales and use tax database
- Note:** The estimate includes the 20% of modular home sales tax revenues sent to local governments under G.S. 105-164.44G.

Caps

- 99. Out-of-State Call Centers**
Citation: G.S. 105-164.4C(f)
Description: The gross receipts tax on telecommunications service that originates outside this State, terminates in this State, and is provided by a call center that has a direct pay permit may not exceed \$50,000.
- Estimate (in millions):** Unavailable
- Note:** There were six eligible call centers. Not enough information was available from tax returns to determine cost.
- 100. Cap on Tax of Aviation Fuel for Interstate Passenger Air Carriers**
Citation: G.S. 105-164.14(a1)
Description: The maximum amount of sales tax paid on jet fuel by an interstate passenger air carrier in a calendar year is \$2,500,000.
- Estimate (in millions):** \$6.6
- Data Source:** Department of Revenue sales and use tax database; jet fuel prices from Energy Information Administration
- Note:** Refund requests are made annually, after the end of a calendar year. Therefore, Fiscal Year 2009-10 refunds are based on sales tax paid during calendar year 2009, which would have an average State sales tax rate of 4.8%. This provision sunsets on January 1, 2011.

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 2008-09, the total amount of tax collected was \$627 million, mostly from retail sales. A large percentage of these funds are deposited into the Highway Trust Fund.

Expenditures

1. Trade-In Allowance

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

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

Estimate (in millions): \$72.0

Data Source: National Automobile Dealers Association; 2007 Economic Census

Note: Rebates from the Federal CARS program were exempt under this provision. Based on data from the US Department of Transportation, NC lost \$2.4 million in Highway Use Tax revenue from this exemption in August 2009.

2. Class A or Class B Commercial Motor Vehicles and Recreational Vehicles

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

Description: The tax on Class A or Class B commercial motor vehicles is capped at \$1,000 and the tax on recreational vehicles is capped at \$1,500.

Estimate (in millions): \$9.0

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

3. Title Issued by Will or Intestacy

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

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

Estimate (in millions): \$6.0

Data Source: NC Office of State Budget and Management, National Center for Health Statistics

Note: The estimate is based on the following assumptions: (1) 1/2 of deaths of individuals between the ages of 25 and 79 resulted in a transfer of vehicle and (2) the average value of transferred vehicles was \$10,000.

4. Gift Between Close Family Members

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

Description: Full exemption when a certificate of title is issued by a gift between a husband and wife, a parent and child, or a stepparent and a stepchild.

Estimate (in millions): Unavailable

5. Vehicles Leased to Public School Driver Education Programs

Citation: G.S. 105-187.6(a)(8)

Description: Full exemption when a certificate of title is issued to a local board of education for use in a driver education program when the vehicle is transferred back to retailer within 300 days or from another board of education.

Estimate (in millions): less than \$0.1

Data Source: NC Department of Education; local schools

6. Volunteer Fire and Rescue Squad Vehicles

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

Description: Full exemption for volunteer fire department or rescue squad, when the vehicle is either (1) a fire truck, a pump truck, a tanker truck, or a ladder truck used to suppress fire, (2) a four-wheel drive vehicle intended to be mounted with a water tank and used to fight forest fires, (3) an emergency service vehicle.

Estimate (in millions): \$0.3

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

7. 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): \$2.5

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

Note: Includes item #8

8. 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 #7

Highway Use Tax

9. 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): \$1.5

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

10. 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

11. 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

12. Return of Purchased Vehicle

Citation: G.S. 105-187.8

Description: Refund for return of purchased vehicle within 90 days of purchase.

Estimate (in millions): Unavailable

Scrap Tire Disposal Tax (Article 5B)

Tax Base Information

For tires with bead diameter less than 20 inches, the tax rate is 2%. For tires with bead diameter 20 inches or greater, the tax rate is 1%.

In Fiscal Year 2008-09, \$4.5 million was collected for State agencies from this tax. During this period, an additional \$9.6 million was raised for local government reserves.

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 2008-09, \$1.9 million was collected for State agencies from this tax. During this period, an additional \$2.4 million was raised for local government reserves.

Expenditures

1. Refund for Large Purchases

Citation: G.S. 105-187.23

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

Estimate (in millions): less than \$0.1

Data Source: Department of Revenue records

Piped Natural Gas Tax (Article 5E)

Tax Base Information

The tax is imposed on piped natural gas received for consumption in this State. The marginal tax rate declines as the amount of piped gas consumed increases, as shown in the following schedule: \$.047 for the first 200 therms, \$.035 for therms between 201 and 15,000, \$.024 for 15,001 to 60,000 therms, \$.015 for 60,001 to 500,000 therms, and \$.003 for each therm over 500,000.

In Fiscal Year 2008-09, \$59.7 million was collected from this tax. Approximately \$25.4 million of this amount was transferred to cities.

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): \$4.0

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.

2. Reduced Rate for Manufacturers and Farmers

Citation: G.S. 105-187.41(d)

Description: Effective July 1, 2009 through June 30, 2010, the tax rate for a manufacturing industry or a farmer for non-household purposes is based on the following schedule: \$.014 for the first 200 therms, \$.010 for therms between 201 and 15,000, \$.007 for 15,001 to 60,000 therms, \$.004 for 60,001 to 500,000 therms, and \$.001 for each therm over 500,000.

Estimate (in millions): \$14.0

Data Source: "Natural Gas Consumption by End Use," for NC, Energy Information Administration. Legislative fiscal note for SB 3(2007)

Note: On July 1, 2010, piped natural gas purchased by these industries becomes exempt from tax.

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 2008-09, \$529 million was collected from this tax (gross revenue minus refunds).

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): \$153.0

Data Source: Life and Annuity Business financial summary, "2008 Insurance Statistical Reports," Actuarial Services Division, North Carolina Department of Insurance, June 2009

3. Premiums Related to Funding Agreements

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

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

Estimate (in millions): \$14.5

Data Source: Life and Annuity Business financial summary, "2008 Insurance Statistical Reports," Actuarial Services Division, North Carolina Department of Insurance, June 2009

4. Automobile Premiums for Additional Rate on Property Coverage Contracts

Citation: G.S. 105-228.5(d)(3)

Description: Only 10% of the gross premiums from insurance contracts for automobile physical damage coverage are taxed compared to 100% of all other types of property coverage.

Estimate (in millions): \$13.5

Data Source: "2008 Insurance Statistical Reports," Actuarial Services Division, North Carolina Department of Insurance, June 2009 (and prior years)

Note: This provision was effective beginning January 1, 2008. Prior to that date, the provision did not tax automobile or marine property coverage. Also, homeowners policies were only taxed at 50% and farm owners policies were taxed at 30% of premium values. In addition, the tax rate was lowered from 1.33% prior to January 1, 2008, to 0.74% and an additional fire district tax of 0.5% was eliminated. 45% of the revenues from this tax are distributed to the General Fund.

5. Farmers' Mutual Assessment Fire Insurance Companies and Fraternal Organizations

Citation: G.S. 105-228.5(g)

Description: Excludes farmers' mutual assessment fire insurance companies and nonprofit fraternal organizations.

Estimate (in millions): \$1.9

Data Source: "2008 Insurance Statistical Reports," Actuarial Services Division, North Carolina Department of Insurance, June 2009

Note: Includes an estimate for the additional 0.74% rate on property coverage contracts (for the farmers' mutuals only).

6. Assessments paid to Insurance Guaranty Association and Life and Health Insurance Guaranty Association

Citation: G.S. 105-228.5A

Description: Credit against gross premiums for assessments paid to the Insurance Guaranty Association and the Life and Health Insurance Guaranty Association.

Estimate (in millions): \$15.0

Data Source: Department of Revenue Insurance Tax database

Excise Stamp Tax on Conveyances (Article 8E)

Tax Base Information

This tax is levied on each instrument by which any interest in real property is conveyed to another person. The tax rate is \$1 on each \$500 of real property value or fractional part thereof.

This tax applies to timber deeds and contracts for the sale of standing timber as if these were transfers of real property.

Fifty percent of the taxes collected are deposited in county funds, and the counties may also retain an additional 2% for administrative costs.

In Fiscal Year 2008-09, \$36 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: The tax does not apply to transfer of real property if by operation of law.

Estimate (in millions): less than \$0.1

Data Source: County deed statistics

2. Transfers of Property by Lease

Citation: G.S. 105-228.29(2)

Description: The tax does not apply to a transfer by lease for a term of years.

Estimate (in millions): \$4.8

Data Source: Data on revenues of Real Estate Lessors in North Carolina from 2002
Economic Census

Note: The estimate is based on the leased price of the property, not on the total value of the property.

3. Transfers of Property Pursuant to a Will

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

Description: The tax does not apply to transfers pursuant to a will.

Estimate (in millions): \$5.4

Data Source: NC Superior Court; Survey of Income and Program Participation, US Census Bureau

Note: Includes item #4.

4. Transfers of Property by Intestacy

Citation: G.S. 105-228.29(4)

Description: The tax does not apply to transfers by intestacy.

Estimate (in millions): included in item #3

5. Transfers of Property by Gift

Citation: G.S. 105-228.29(5)

Description: The tax does not apply to transfers by gift.

Estimate (in millions): Unavailable

6. Transfers Involving No Payments

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

Description: The tax does not apply if no consideration in property or money is due or paid by the transferee to the transferor.

Estimate (in millions): less than \$0.1

Note: If no money is paid, the value of the real estate is likely to be low.

7. Transfers by Merger, Conversion or Consolidation

Citation: G.S. 105-228.29(7)

Description: The tax does not apply if transfer is by merger, conversion or consolidation.

Estimate (in millions): Unavailable

8. Transfers by Instrument Securing Debt

Citation: G.S. 105-228.29(8)

Description: The tax does not apply if transfer is by an instrument securing indebtedness.

Estimate (in millions): \$1.3

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 12.4¢ or 7% of the average wholesale price of motor fuel for an applicable 6-month base period. (Prior to July 1, 2009, the wholesale component was the greater of either 3.5¢ or 7% of the average wholesale price of motor fuel, with a maximum of 12.4¢.)

The tax base includes only fuel for vehicles licensed for highway use. Fuels sold for non-highway use are exempt from the Motor Fuels Tax but are subject to the Sales and Use Tax.

The tax rate on Alternative Fuels is set equivalent to the tax on motor fuels, as determined by the Secretary of Revenue.

In Fiscal Year 2008-09, approximately \$1.5 billion was collected from this tax.

Expenditures

1. Sales to Local Boards of Education

Citation: G.S. 105-449.88(4)

Description: Exemption for motor fuel sales to local boards of education.

Estimate (in millions): \$7.2

Data Source: FY08-09 data from Motor Fuels Tax Division, Department of Revenue

2. Sales to Charter Schools

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

Description: Exemption for motor fuels sales to charter schools.

Estimate (in millions): less than \$0.1

Data Source: FY08-09 data from Motor Fuels Tax Division, Department of Revenue

3. Sales to Community Colleges

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

Description: Exemption for motor fuel sales to community colleges.

Estimate (in millions): less than \$0.1

Data Source: FY08-09 data from Motor Fuels Tax Division, Department of Revenue

- 4. Sales to County or Municipal Corporation**
Citation: G.S. 105-449.88(8)
Description: Exemption for motor fuel sales to county or municipal corporation.

Estimate (in millions): \$19.7

Data Source: FY08-09 data from Motor Fuels Tax Division, Department of Revenue
- 5. Biodiesel Used in the Producer's Vehicle**
Citation: G.S. 105-449.88(9)
Description: Effective October 1, 2007: Exemption for biodiesel that is produced by an individual for use in a private passenger vehicle registered in that individual's name.

Estimate (in millions): less than \$0.1

Note: It is improbable that production in this manner would exceed 300,000 gallons in Fiscal Year 2010.
- 6. Discount for Timely Payment -- Distributors**
Citation: G.S. 105-449.93(b)
Description: 1% discount to licensed distributor for timely payment.

Estimate (in millions): \$15.7

Data Source: FY08-09 data from Motor Fuels Tax Division, Department of Revenue
- 7. Refunds to Distributors in Lieu of Discount**
Citation: G.S. 105-449.95
Description: Hold harmless refunds to distributors and some importers -- refunds in lieu of discounts in G.S. 105-449.93(b).

Estimate (in millions): \$0.5

Data Source: Motor Fuels Tax Division, Department of Revenue
- 8. Discount for Collection Expense -- Suppliers**
Citation: G.S. 105-449.97(b)
Description: 0.1% discount to supplier for timely payment.

Estimate (in millions): \$1.0

Data Source: Motor Fuels Tax Division, Department of Revenue

Excise Tax on Motor and Alternative Fuels

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

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

Description: A supplier that sells motor fuel directly to an unlicensed distributor or to the bulk-end user, the retailer, or the user of the fuel may take the same percentage discount on the fuel that a licensed distributor may take under G.S. 105-449.93(b) when making deferred payments of tax to the supplier.

Estimate (in millions): included in item #8

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): less than \$0.1

Data Source: FY08-09 data from 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): less than \$0.1

Data Source: FY08-09 data from Motor Fuels Tax Division, Department of Revenue

12. **Certain Government-Related Entities and Nonprofits**

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

Description: Refunds or tax less 1 cent 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): \$0.6

Data Source: FY08-09 data from Motor Fuels Tax Division, Department of Revenue

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: FY08-09 data from Motor Fuels Tax Division, Department of Revenue

Note: City-run transit systems receive the complete exemption under item #4

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; or a commercial vehicle that delivers and spreads mulch, soils, composts, sand, sawdust, and similar materials and that uses a power takeoff to unload, blow and spread the materials.

Estimate (in millions): \$2.1

Data Source: FY08-09 data from Motor Fuels Tax Division, Department of Revenue

Appendix

Appendix A: Major Federal Tax Expenditures

The tax bases for North Carolina income taxes begin with Federal taxable income. As such, most federal exemptions and deductions “flow through” to State income taxes. The following table shows the twenty top federal tax expenditures in Fiscal Year 2009-10 as measured by the Joint Committee on Taxation. For each of these, we note whether the expenditure is passed through to North Carolina income taxes.

	Federal Tax Expenditures	FY10 U.S. Total \$Billions	Passed through to State income taxes?
1	Exclusion of employer contributions for health care, health insurance premiums, and long-term care insurance premiums	136.9	Y
2	Net exclusion of pension contributions and earnings: Employer plans	110.8	Y
3	Reduced rates of tax on dividends and long-term capital gains	101.7	N
4	Deduction for mortgage interest on owner-occupied residences	89.4	Y
5	Exclusion of capital gains at death	53.2	Y
6	Earned income credit (EIC)	51.7	N
7	Tax credit for children under age 17	45.2	N
8	Deduction for charitable contributions, other than for education and health	40.3	Y
9	Exclusion of benefits provided under cafeteria plans	40.3	Y
10	Deduction of non-business State and local government income, sales, and personal property taxes	33.8	N*
11	Exclusion of investment income on life insurance and annuity contracts	30.9	Y
12	Exclusion of interest on public purpose State and local government bonds	28.6	N
13	Exclusion of untaxed social security and railroad retirement benefits	27.8	Y
14	Exclusion of Medicare benefits: Hospital insurance (Part A)	25.7	Y
15	Exclusion of Medicare benefits: Supplementary medical insurance (Part B)	17.7	Y
16	Exclusion of capital gains on sales of principal residences	16.9	Y
17	Net exclusion of pension contributions and earnings: Individual retirement plans	15.5	Y
18	Net exclusion of pension contributions and earnings: Keogh plans	13.9	Y
19	Deduction for property taxes on real property	13.4	Y
20	Deduction for medical expenses and long-term care expenses	12.2	Y

*The deduction for personal property taxes *are* passed through, but these are relatively small.

Note: The federal FY10 began October 1, 2009

Source: *Estimates of Federal Tax Expenditures for Fiscal Years 2008-2012*, Joint Committee on Taxation, October 31, 2008. (Available on the internet: www.jct.gov/publications.html.)

Appendix B: Other Tax Exclusions and Exemptions

These additional expenditures are not estimated because they are necessary for the ordinary functioning of the tax system.

Privilege Tax

1. Amusements on Cherokee Indian Reservations

Description: Exemption from tax for all amusements offered or given on the Cherokee Indian Reservation when the person is authorized to do business on the reservation and pays the tribal gross receipts tax.

Citation: G.S. 105-40(9)

Reason for Excluding from Tax Expenditure List: Constitutional Restrictions

Bank Annual Privilege Tax

2. Assets of U.S. Banks Employed Outside N.C.

Description: Deduction for assets of U.S. banks that are employed outside the State of North Carolina.

Citation: G.S. 105-102.3

Reason for Excluding from Tax Expenditure List: Constitutional Restrictions

3. Certain Assets of International Banks

Description: Deduction for assets of an international banking facility employed outside the United States.

Citation: G.S. 105-102.3

Reason for Excluding from Tax Expenditure List: Constitutional Restrictions

Tobacco Tax

4. Sales to Distributors

Description: Manufacturers shipping cigarettes to other distributors are exempt.

Citation: G.S. 105-113.1

Reason for Excluding from Tax Expenditure List: Double Taxation

5. Out-of-State Shipments

Description: A distributor is exempt from tax if possession is for out-of-state shipments.

Citation: G.S. 105-113.9

Reason for Excluding from Tax Expenditure List: Constitutional Restrictions

6. Out-of-State Sales

Description: Exemption for tobacco products sold outside the State.

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

Reason for Excluding from Tax Expenditure List: Constitutional Restrictions

Appendix

7. Sales to Federal Government

Description: Exemption for tobacco products sold to the federal government.

Citation: G.S. 105-113.35(a)(2)

Reason for Excluding from Tax Expenditure List: Constitutional Restrictions

8. Sales of Sample Tobacco Products Distributed without Charge

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

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

Reason for Excluding from Tax Expenditure List: Not Sales

Alcoholic Beverage License and Excise Taxes

9. Unsalable Beverages

Description: Exemption if beverage is unsalable due to a major disaster.

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

Reason for Excluding from Tax Expenditure List: Not Sales

10. Sales to Ocean-Going Vessels

Description: Exemption if beverage is sold for use on an ocean-going vessel.

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

Reason for Excluding from Tax Expenditure List: Constitutional Restrictions

11. Sales to U.S. Armed Forces

Description: Exemption if beverage is sold to the U.S. Armed Forces.

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

Reason for Excluding from Tax Expenditure List: Constitutional Restrictions

12. Out-of-State Sales

Description: Exemption if beverage is sold outside the State.

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

Reason for Excluding from Tax Expenditure List: Constitutional Restrictions

13. Free Tastings

Description: Exemption for tasting given free of charge on the manufacturer's licensed premises for consumption on the premises.

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

Reason for Excluding from Tax Expenditure List: Not Sales

Franchise Tax

14. Adjustment for Capital Stock of International Banking Facility

Description: The capital base of international banking facilities may be reduced by the excess of the amount of all assets employed outside the U.S. over liabilities owed to foreign persons.

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

Reason for Excluding from Tax Expenditure List: Constitutional Restrictions

15. Insurance Companies

Description: Exemption for an insurance company subject to tax under Article 8B of this Chapter.

Citation: G.S. 105-125(a)(2)

Reason for Excluding from Tax Expenditure List: Double Taxation

16. Transfers of Debt

Description: For debtor corporations, a proportionate part of debt determined on the bases of the ratio of capital borrowed by a creditor corporation from a source other than a parent, subsidiary or affiliate to the total assets of the creditor corporation. For creditor corporations, the amount of any debt owed to it by a parent, subsidiary, or affiliated corporation to the extent that such debt has been included in the tax base of the parent, subsidiary, or affiliated debtor corporation reporting for taxation under the provisions of this section.

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

Reason for Excluding from Tax Expenditure List: Double Taxation

Corporation Income Tax

17. Dividends Treated as Received from Outside the U.S.

Description: Deduction for dividends treated as received from sources outside the United States as determined under Section 862 of the Code, net of related expenses, to the extent included in federal taxable income.

Citation: G.S. 105-130.5(b)(3a)

Reason for Excluding from Tax Expenditure List: Constitutional Restrictions

18. Dividends Received from Outside the U.S.

Description: Deduction for any amount included in federal taxable income under Section 78 or Section 951 of the Code, net of related expenses.

Citation: G.S. 105-130.5(b)(3b)

Reason for Excluding from Tax Expenditure List: Constitutional Restrictions

19. Adjustment for Federal Tax Credits

Description: Deduction for business expenses when a federal tax credit was taken in lieu of a deduction.

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

Reason for Excluding from Tax Expenditure List: Not in Taxable Base: In the Code, there are some activities that may receive either a tax credit or a deduction from taxable income, but not both. If the taxpayer chooses to take the credit, she may deduct the alternative allowable Federal deduction when calculating North Carolina taxable income. This adjustment is needed to realign the North Carolina taxable income base with federal taxable income. Many of these deductions are related to the federal Work Opportunity, Welfare-to-Work, and fuel tax credits.

20. Additional First-Year Depreciation

Description: In each of the first five taxable years beginning in 2005, taxpayers may deduct 20% of the amount added to taxable income in a previous year as accelerated depreciation under subdivision (a)(15) of this section.

Citation: G.S. 105-130.5(b)(21)

Reason for Excluding from Tax Expenditure List: Not in Taxable Base: In 2002, 2003, and 2004, taxpayers were required to add back any bonus first-year depreciation allowed by the federal government to calculate their North Carolina taxable income. Thus this provision allows for a "normal" deduction for depreciation.

21. Exemption for Adding Back Paid Royalties to Taxable Income

Description: A taxpayer that pays royalties to a related member that does not include this income on a North Carolina income tax return must add these payments to their taxable income. However, the addback may be foregone if the recipient of the payment is organized under the laws of another country that has a tax treaty with the U.S. and the country imposes a tax on the royalty income of the recipient at a rate that is equal to or exceeds the State's corporate income tax rate.

Citation: G.S. 105-130.7A(c)(3)

Reason for Excluding from Tax Expenditure List: Constitutional Restrictions

22. Insurance Companies, Except for Unrelated Income

Description: Insurance companies paying the tax on gross premiums as specified in G.S. 105-228.5 (These companies are not exempt from income tax on unrelated business income).

Citation: G.S. 105-130.11(a)(10)

Reason for Excluding from Tax Expenditure List: Double Taxation

23. Real Estate Mortgage Investment Conduits

Description: An entity that qualifies as a real estate mortgage investment conduit, per Section 860D of the Code is exempt.

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

Reason for Excluding from Tax Expenditure List: Double Taxation

- 24. Distributed Earnings of Regulated Investment Companies and Real Estate Investment Trusts**
Description: A regulated investment company or real estate investment trust shall be taxed only on that part of its net income which is not distributed or declared for distribution to shareholders.
Citation: G.S. 105-130.12
Reason for Excluding from Tax Expenditure List: Double Taxation
- 25. Payments Received from an Affiliated Company That Paid Tax on Payment**
Description: Payment received from a parent, subsidiary or affiliated corporation in excess of fair compensation in inter-company transactions which in the determination of the net income or net loss of such corporation were not allowed as a deduction.
Citation: G.S. 105-130.5(b)(2)
Reason for Excluding from Tax Expenditure List: Double Taxation
- 26. Royalty Payments Taxed by Related Member**
Description: Exemption for royalty payments received from a related member who added the payments to income.
Citation: G.S. 105-130.5(b)(2)
Reason for Excluding from Tax Expenditure List: Double Taxation
- 27. S-Corporation Shareholders**
Description: Credits shall be given to prevent double taxation of S-Corporation shareholders.
Citation: G.S. 105-131.8
Reason for Excluding from Tax Expenditure List: Double Taxation

Individual Income Tax

- 28. Refunds of State, Local or Foreign Taxes in Federal AGI**
Description: Refunds of state, local, and foreign income taxes included in the taxpayer's federal adjusted gross income are exempt.
Citation: G.S. 105-134.6(b)(5)
Reason for Excluding from Tax Expenditure List: Double Taxation
- 29. Income from Federally-Recognized Indian Reservation**
Description: Exemption for income that is (1) earned or received by an enrolled member of a federally recognized Indian Tribe and (2) derived from activities on a federally recognized Indian reservation while the member resides on the reservation.
Citation: G.S. 105-134.6(b)(9)
Reason for Excluding from Tax Expenditure List: Constitutional Restrictions

30. Additional First-Year Depreciation

Description: In each of the first five taxable years beginning in 2005, taxpayers may deduct 20% of the amount added to taxable income in a previous year as accelerated depreciation under subdivision (a)(15) of this section.

Citation: G.S. 105-134.6(b)(17)

Reason for Excluding from Tax Expenditure List: Not in Taxable Base: In 2002, 2003, and 2004, taxpayers were required to add back any bonus first-year depreciation allowed by the federal government to calculate their North Carolina taxable income. Thus this provision allows for a "normal" deduction for depreciation

31. Estate Taxes Included in Federal AGI

Description: The amount of estate tax attributable to an item of income in respect of a decedent required to be included in gross income under the Code may be deducted in the year the item of income is included.

Citation: G.S. 105-134.6(d)(1)

Reason for Excluding from Tax Expenditure List: Double Taxation: This amount has been taxed under North Carolina's estate tax.

32. Federal Tax Credit Allowance

Description: Deductions not allowed under the Code because the taxpayer took a tax credit in lieu of deduction on federal income tax.

Citation: G.S. 105-134.6(d)(2)

Reason for Excluding from Tax Expenditure List: Not in Taxable Base: In the Code, there are some activities that may receive either a tax credit or a deduction from taxable income, but not both. If the taxpayer chooses to take the credit, she may deduct the alternative allowable Federal deduction when calculating North Carolina taxable income. This adjustment is needed to realign the North Carolina taxable income base with federal taxable income. Examples of this type of deduction are (1) the deduction for higher educational expenses under Section 222 of the Code when taxpayers took a Lifetime Learning or Hope credit on their federal returns and (2) the additional deduction for home mortgage interest for those who took a Mortgage Interest Credit on their federal returns.

33. Income Taxes Paid to Other States

Description: Individuals residing in North Carolina may receive a tax credit for income taxes paid to other states. The tax credit may not exceed the amount of income tax that would have been paid to North Carolina on the relevant income.

Citation: G.S. 105-105.151

Reason for Excluding from Tax Expenditure List: Double Taxation: The income has been taxed by another State

Sales and Use Tax**34. Farm Products Requiring Further Processing**

Description: Exemption for sales of cotton, tobacco, peanuts or other farm products sold to manufacturers for further manufacturing or processing.

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

Reason for Excluding from Tax Expenditure List: Purchase of Intermediate Good

35. Baby Chicks or Poults Sold for Further Production

Description: Exemption for sales of baby chicks and poults sold for commercial poultry or egg production.

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

Reason for Excluding from Tax Expenditure List: Purchase of Intermediate Good

36. Manufactured Products Sold for Resale

Description: Exemption for sales of manufactured products produced and sold by manufacturers or producers to other manufacturers, producers, or registered retailers or wholesale merchants, for the purpose of resale.

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

Reason for Excluding from Tax Expenditure List: Purchase of Intermediate Good

37. Ingredients in Manufacturing Process

Description: Exemption for sales to a manufacturer of tangible personal property that enters into or becomes an ingredient or component part of tangible personal property that is manufactured.

Citation: G.S. 105-164.13(8)

Reason for Excluding from Tax Expenditure List: Purchase of Intermediate Good

38. Fuel for Small Power Production Facility

Description: Exemption for sales to a small power production facility of fuel used by the facility to generate electricity.

Citation: G.S. 105-164.13(8a)

Reason for Excluding from Tax Expenditure List: Purchase of Intermediate Good

39. Articles Repossessed by Vendor

Description: Exemption for sales of an article repossessed by the vendor if the tax was paid on the sales price of the article.

Citation: G.S. 105-164.13(16)

Reason for Excluding from Tax Expenditure List: Not Sales

40. Sales with Constitutional Protection

Description: Sales which a state would be without power to tax under the limitations of the Constitution or laws of the United States or under the Constitution of this State.

Citation: G.S. 105-164.13(17)

Reason for Excluding from Tax Expenditure List: Constitutional Restrictions

Appendix

- 41. Items for Use on Ocean-Going Vessels**
Description: Sales of fuel and other items for use or consumption by or on ocean-going vessels.
Citation: G.S. 105-164.13(24)
Reason for Excluding from Tax Expenditure List: Sales for Use Outside North Carolina
- 42. Sales on Cherokee Indian Reservation**
Description: Exemption for sales by merchants on the Cherokee Indian Reservation.
Citation: G.S. 105-164.13(25)
Reason for Excluding from Tax Expenditure List: Constitutional Restrictions
- 43. Articles Purchased for Export to a Foreign Country**
Description: Exemption for tangible property purchased solely for the purpose of export to a foreign country for exclusive use or consumption in that or some other foreign country.
Citation: G.S. 105-164.13(33)
Reason for Excluding from Tax Expenditure List: Sales for Use Outside North Carolina
- 44. Purchases Delivered Outside N.C.**
Description: Exemption for tangible property sold by a retailer to purchasers within or without this State, when the property is delivered in this State to a common carrier or to the United States Postal Service for delivery to the purchaser or the purchaser's designees outside this State and the purchaser does not subsequently use the property in this State.
Citation: G.S. 105-164.13(33a)
Reason for Excluding from Tax Expenditure List: Sales for Use Outside North Carolina
- 45. Food Stamp Purchases**
Description: Exemption for food and other items lawfully purchased under the Food Stamp Program or WIC.
Citation: G.S. 105-164.13(42)
Reason for Excluding from Tax Expenditure List: Federal law prohibits state or local taxation.
- 46. Articles Donated by Retailer or Wholesaler**
Description: Exemption for tangible personal property that is purchased by a retailer for resale or is manufactured or purchased by a wholesale merchant for resale and then withdrawn from inventory and donated by the retailer or wholesale merchant.
Citation: G.S. 105-164.13(42)
Reason for Excluding from Tax Expenditure List: Not Sales
- 47. Deposit on Returnable Beverage Container**
Description: Exemption for an amount charged as a deposit on a beverage container that is returnable to the vendor for reuse when the amount is refundable or creditable to the vendee.
Citation: G.S. 105-164.13(47)
Reason for Excluding from Tax Expenditure List: Not a Final Sale

- 48. Deposit on Returnable Replacement Part**
Description: Exemption for an amount charged as a deposit on an aeronautic, automotive, industrial, marine or farm replacement part that is returnable to the vendor for rebuilding or remanufacturing when the amount is refundable or creditable to the vendee. This exemption does not include tires or batteries.
Citation: G.S. 105-164.13(48)
Reason for Excluding from Tax Expenditure List: Not a Final Sale
- 49. Resold Telecommunications Services**
Description: Telecommunications service that is a component part of or is integrated into a telecommunications service that is resold.
Citation: G.S. 105-164.13(54)a
Reason for Excluding from Tax Expenditure List: Not a Final Sale
- Highway Use Tax**
- 50. Resale of Automobile by Manufacturer or Retailer**
Description: Full exemption when a certificate of title is issued to either a manufacturer or a motor vehicle retailer for the purpose of resale.
Citation: G.S. 105-187.6(a)(2)
Reason for Excluding from Tax Expenditure List: Not a Final Sale
- 51. Correction in Owner's Name on Title**
Description: Full exemption when a certificate of title is issued to the same owner to reflect a change or correction in the owner's name.
Citation: G.S. 105-187.6(a)(3)
Reason for Excluding from Tax Expenditure List: Double Taxation
- 52. Removal of a Co-Owner's Name from Title**
Description: Full exemption when a certificate of title is issued to one or more of the same co-owners to reflect the removal of one or more other co-owners.
Citation: G.S. 105-187.6(a)(3a)
Reason for Excluding from Tax Expenditure List: Double Taxation
- 53. Transfer of Government-Operated Vehicle Through a State Agency**
Description: Full exemption for sale to a State agency from a unit of local government, volunteer fire department, or volunteer rescue squad to enable the State agency to transfer the vehicle to another unit of local government, volunteer fire department, or volunteer rescue squad.
Citation: G.S. 105-187.6(a)(10)
Reason for Excluding from Tax Expenditure List: Not a Final Sale

Appendix

54. Change in Title Due to Marital Separation or Divorce

Description: Full exemption when a certificate of title is issued by a distribution of marital or divisible property incident to a marital separation or divorce.

Citation: G.S. 105-187.6(a)(6)

Reason for Excluding from Tax Expenditure List: Double Taxation

55. Salvage Vehicles

Description: Full exemption when a certificate of title is issued to the insurer of the motor vehicle because the vehicle is a salvage vehicle.

Citation: G.S. 105-187.6(a)(1)

Reason for Excluding from Tax Expenditure List: Not a Final Sale

Tax on Insurance Companies

56. Premiums from Federal Employees Health Benefits Plan and Medicare or Medicaid

Description: Excludes premiums to the extent prohibited by federal law from Federal Employees Health Benefits Plan and Medicare or Medicaid.

Citation: G.S. 105-228.5(c)(4)

Reason for Excluding from Tax Expenditure List: Constitutional Restrictions

Excise Tax on Motor Fuels and Alternative Fuels

57. Sales for Out-of-State Use

Description: The excise tax on motor fuel does not apply to motor fuel removed from a terminal for export if the motor fuel is removed by a licensed distributor or a licensed exporter and the supplier of the motor fuel collects tax on it at the rate of the motor fuel's destination state.

Citation: G.S. 105-449.88(1)

Reason for Excluding from Tax Expenditure List: Sale for Use Outside North Carolina

58. Sales to Out-of-State Suppliers

Description: The tax does not apply to motor fuel removed by transport truck from a terminal for export if the motor fuel is removed by a licensed distributor or licensed exporter, the supplier that is the position holder for the motor fuel sells the motor fuel to another supplier as the motor fuel crosses the terminal rack, the purchasing supplier or its customer receives the motor fuel at the terminal rack for export, and the supplier that is the position holder collects the tax on the motor fuel at the rate of the motor fuel's destination state.

Citation: G.S. 105-449.88(1a)

Reason for Excluding from Tax Expenditure List: Sale for Use Outside North Carolina

59. Sales to the Federal Government

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

Citation: G.S. 105-449.88(2)

Reason for Excluding from Tax Expenditure List: Constitutional Restrictions

- 60. Diesel Sold to an Airport**
Description: Exemption for sales of diesel that is kerosene and sold to an airport.
Citation: G.S. 105-449.88(5)
Reason for Excluding from Tax Expenditure List: Not in Taxable Base
- 61. Refunds for Sale to Exempt Entity**
Description: An entity whose use of motor fuel is exempt from tax may obtain a refund of any motor fuel excise tax the entity pays. The person who sells the fuel to the exempt entity is also allowed to obtain a refund of any taxes paid on the fuel.
Citation: G.S. 105-449.105(a)
Reason for Excluding from Tax Expenditure List: Not in Taxable Base
- 62. Sale of Kerosene for Uses Not Related to Motor Vehicles**
Description: A distributor who sells kerosene may obtain a refund for the excise tax paid on the kerosene if the distributor dispenses the kerosene into a storage facility for use in: (1) heating, (2) drying crops, (3) a manufacturing process.
Citation: G.S. 105-449.105A(a)(1)
Reason for Excluding from Tax Expenditure List: Not in Taxable Base
- 63. 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 Excluding from Tax Expenditure List: Not in Taxable Base
- 64. Motor Fuel for Off-Highway Equipment**
Description: Quarterly refunds of the estimated entire tax to a person who purchases and uses motor fuel to operate special mobile equipment off-highway.
Citation: G.S. 105-449.106(c)
Reason for Excluding from Tax Expenditure List: Not in Taxable Base
- 65. Sale of Motor Fuel for Uses Not Related to Highway Vehicle**
Description: Refund for purchases and uses of motor fuel for a purpose other than to operate a licensed highway vehicle.
Citation: G.S. 105-449.107(a)
Reason for Excluding from Tax Expenditure List: Not in Taxable Base
- 66. Sales to Cherokee Indian Reservation**
Description: Refund for motor fuels and special fuels taxes to the Cherokee Indians on behalf of its members who reside on or engage in otherwise taxable transactions within Cherokee trust lands.
Citation: G.S. 105-449.114
Reason for Excluding from Tax Expenditure List: Constitutional Restrictions

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