The background of the slide is a blurred image of the North Carolina state flag. The flag features a blue field with a white five-pointed star in the center. Above the star is a yellow banner with the text "MAY 20th 1775" and below the star is another yellow banner with "APRIL 12th 1776". The letters "N" and "C" are visible on either side of the star.

North Carolina Tax Law Update

Presented by The NC Department of Revenue

2013

Tax Simplification and Reduction Act



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

The bill makes the following changes to the State's tax structure:

Individual Income Tax



Individual Income Tax (Sections 1.1.(d) & 1.2.(a))

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

Under the bill, there will be a flat North Carolina tax rate:
5.8% effective 2014

5.75% effective 2015



Individual Income Tax (Sections 1.1.(b) and 1.1.(d))

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

- Eliminates all personal exemptions, some deductions and some credits

Some of the remaining deductions include:

- Social security income
- Interest on certain bond obligations
- *Bailey* retirement benefits
- State tax refunds

Individual Income Tax Continued (Section 1.1.(d))

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

- Increases the standard deduction amount to:
 - \$15,000 for married filing jointly
 - \$12,000 for head of household
 - \$7,500 for single or married filing separate



Individual Income Tax Continued (Section 1.1.(d))

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

- Limits itemized deductions to the amounts claimed by the taxpayer under the Code for charitable contributions, mortgage interest and property taxes paid on real estate.
- Caps the amount of North Carolina itemized deductions a taxpayer may claim for mortgage interest and property taxes at \$20,000. For married taxpayers, the \$20,000 limitation applies to the combined total of mortgage interest and property taxes.
- There is no limitation under North Carolina law for charitable contributions other than the limitations set forth under the Code.

Individual Income Tax Continued (Section 1.1.(b))

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

- Repeals the \$50,000 business income deduction
 - The deduction had been in effect for two taxable years (2012 and 2013). It allowed an individual taxpayer to exclude the first \$50,000 of net business income received during the taxable year; this limit is \$100,000 for married filing jointly.
- Eliminates \$4,000 deduction for most government retirement income and \$2,000 deduction for private retirement income.
- Eliminates deduction for severance wages.

Individual Income Tax Continued (Section 1.1.(e))

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

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



Individual Income Tax Continued (Section 1.1.(b))

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

Individual Income Tax Continued

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

- Some credits that will sunset as scheduled include:
 - Premiums paid for long-term care insurance
 - Earned Income Tax Credit
 - Adoption expenses



Corporate Income Tax



Corporate Tax Law Changes (Section 2.1(a) and 2.2(a))

- Currently the corporate income tax rate is 6.9%.
 - Only C-corporations and entities that elect to be taxed as C-corporations are subject to the corporate income tax.
- HB 998 reduces the corporate income tax rate as follows:
 - Taxable year 2014 – 6%
 - Taxable year 2015 – 5%



Corporate Tax Law Changes (Section 2.2(b))

- Trigger for possible rate reductions in 2016 and 2017
 - For taxable year 2016, if net general fund tax revenues for fiscal year 14-15 equal or exceed \$20.2 billion, the rate will drop 1% to 4%. If target not reached, rate remains at 5%.
 - For taxable year 2017, if net general fund tax revenues for fiscal year 15-16 equal or exceed \$20.975 billion, the rate will drop 1%. If target reached both fiscal years, rate would be 3%. If target reached in only one fiscal year, then rate would be 4%. If target isn't reached in either fiscal year, then the rate remains at 5%.

Corporate Tax Law Changes (Section 2.1(b))

- Credits repealed for tax years beginning after 2013:
 - Construction of dwelling units for handicapped
 - Certain real property donations
 - Conservation tillage equipment
 - Gleaned crop
 - Construction of poultry composting facility
 - Certain Telephone Subscriber Line Charges
 - Savings and Loan Supervisory Fees

Sales and Use tax



Sales and Use Tax (Section 5(a)&(b))

- Eliminates the privilege tax on live entertainment (105-37.1) and movies (105-38.1).
 - It also repeals the privilege license tax exemptions associated with entertainment (105-40); some exemptions are preserved for sales tax purposes in Section 4.2(c).
- Adds live entertainment, movies, and admission charges to attractions and guided tours to the State and local sales tax base.



Becomes effective January 1, 2014, and applies to certain admissions purchased on or after that date.

Sales and Use Tax (Section 5(c))

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

Sales and Use Tax

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

North Carolina Department of Revenue	
	
<u>DIRECTIVE</u>	
Subject:	Admission Charges
Tax:	Sales and Use Tax
Law:	N.C. Gen. Stat. § 105-164.4(a)(10)
Issued By:	Sales and Use Tax Division
Date:	December 18, 2013
Number:	SD-13-4
<p>Effective January 1, 2014, N.C. Gen. Stat. § 105-164.4(a)(10) imposes a privilege tax on the retailer's net taxable sales or gross receipts to admission charges to an entertainment activity listed below at the 4.75% general State and applicable local and transit rates of sales and use tax.</p> <p>a. A live performance or other live event of any kind.</p>	

Sales and Use Tax (Section 6(a)(b)&(c))

- Includes service contracts in the State and local sales tax base, effective January 1, 2014
 - Defines a service contract as an agreement by which the provider agrees to maintain or repair tangible personal property
 - Exempts from sales tax an item used to fulfill a service contract
 - Exempts from sales tax a service contract for an item exempt from sales tax (except motor vehicles) and transmission, distribution or other network asset contained on utility-owned land, right-of-way, or easement

Sales and Use Tax

- For more detailed information regarding the sales and use tax on service contracts, please review Directive SD-13-5, which is located on our website www.dornc.com

North Carolina Department of Revenue



DIRECTIVE

Subject: Service Contracts
Tax: Sales and Use Tax
Law: N.C. Gen. Stat. § 105-164.4(a)(11)
Issued By: Sales and Use Tax Division
Date: December 23, 2013
Number: SD-13-5

Effective January 1, 2014, N.C. Gen. Stat. § 105-164.4(a)(11) imposes the 4.75% general State and applicable local and transit rates of sales and use tax "to the sales price of a service contract" sold at retail by a retailer on or after January 1, 2014 and sourced to this State. Effective January 1, 2014, N.C. Gen. Stat. § 105-164.3(38b) defines "[s]ervice contract" as "[a] warranty agreement, a maintenance agreement, a repair contract, or a similar agreement or contract by

Sales and Use Tax Continued

- Eliminates exemptions for meals sold at higher educational facilities, such as college cafeterias, effective January 1, 2014. (Section 3.2(a))
- Eliminates exemptions for sales of newspapers by newspaper street vendors, by newspaper carriers making door-to-door deliveries, and by means of vending machines, effective January 1, 2014. (Section 3.2(a))
- Eliminates sales tax exemption on certain bakery items effective July 1, 2014. (Section 3.1(c))



Sales and Use Tax

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

North Carolina Department of Revenue	
	
<u>DIRECTIVE</u>	
Subject:	Prepared Food Sold to a College Student Attending an Institution of Higher Education
Tax:	Sales and Use Tax
Law:	N.C. Gen. Stat. § 105-164.4(a)(1) N.C. Gen. Stat. § 105-164.13(27), <i>repealed eff. January 1, 2014</i>
Issued By:	Sales and Use Tax Division
Date:	December 9, 2013
Number:	SD-13-1
Effective January 1, 2014 , prepared food sold to a college student in a dining room, cafeteria, or similar establishment regularly operated by or on behalf of an institution of higher education.	

Sales and Use Tax

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



Sales and Use Tax Division
North Carolina Department of Revenue
Post Office Box 25000
Raleigh, North Carolina 27640-0001
www.dornc.com

IMPORTANT NOTICE: SALES OF NEWSPAPERS

Effective January 1, 2014, sales of newspapers at retail by newspaper street vendors and by newspaper carriers making door-to-door deliveries are subject to the 4.75% general State and applicable local and transit rates of sales and use taxes. Effective January 1, 2014, sales of newspapers through a coin-operated vending machine are subject to the tax on 50% of the sales price at the 4.75% general State and applicable local and transit rates of sales and use taxes. N.C. Gen. Stat. § 105-164.13(28) which provides an exemption from sales and use tax for the sale at retail and the use, storage, or consumption in this State of newspapers by newspaper street vendors, by newspaper carriers making door-to-door deliveries, and by means of vending machines is repealed effective January 1, 2014. Newspaper subscriptions delivered through the mail or in similar manner continue to be subject to the 4.75% general State and applicable local and transit rates of sales and use tax.

Sales and Use Tax Continued

Eliminates sales tax exemptions

- Eliminates the sales tax exemption for nutritional supplements sold by a chiropractic physician at a chiropractic office to a patient as part of the patient's plan of treatment. Effective January 1, 2014
(Section 3.2)
- Eliminates the sales tax holiday for Energy Star-rated products that applies to sales made during the first weekend in November. Effective July 1, 2014 (Section 3.4)
- Eliminates August Sales tax holiday. Effective July 1, 2014
(Section 3.4)



Sales and Use Tax Continued (Section 4)

Imposes State sales tax on electricity and piped natural gas at the combined general rate.

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

In effect July 1, 2014, and applies sales tax to sales of electricity and piped natural gas billed on or after that date.

Sales and Use Tax Continued (Section 4)

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

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

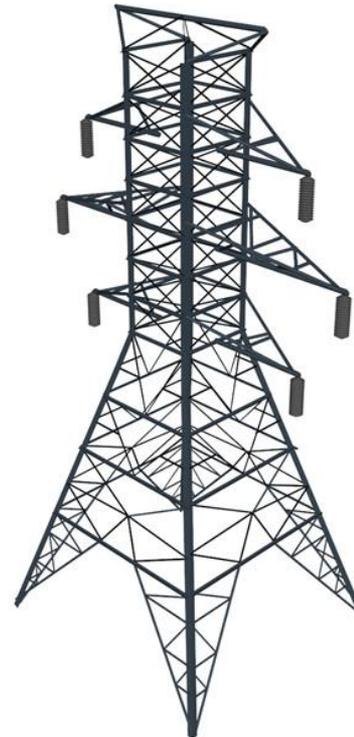
Sales and Use Tax Continued (Section 4)

(Effective July 1, 2014)

Repeals the following sales tax rates on electricity:

- 2.83% for electricity measured by a separate meter and sold to a commercial laundry (105-164.4(a)(1f))
- 3% for other sales of electricity (105-164.4(a)(4a))

The bill retains the current exemptions applicable to electricity sold to a farmer, an eligible Internet datacenter, and manufacturers.



Sales and Use Tax Continued (Section 4)

- (Effective July 1, 2014) Repeals the excise tax on piped natural gas (Article 5E) and the sales tax exemption for piped natural gas (105-164.13(44)). The gross receipts derived from sales of piped natural gas are subject to the 7% combined general rate of sales and use tax.
 - Piped gas used in manufacturing or farming is exempt from sales tax under the exemption in 105-164.13(57) for fuel sold to a manufacturer and
 - 105-164.13(1)d. for fuel sold to a farmer.



Sales and Use Tax Continued (Section 3.3(a))

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



Sales and Use Tax Continued (Section 3.1(a))

- Tax rate for modular homes, becomes the State general rate of 4.75%; not in local base - Beginning January 1, 2014
 - Previously 2.5%
- Tax rate for manufactured home, becomes the State general rate of 4.75%; not in local base - Beginning January 1, 2014
 - Previously 2% with \$300.00 maximum



Sales and Use Tax

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

North Carolina Department of Revenue



DIRECTIVE

Subject: Manufactured Homes
Tax: Sales and Use Tax
Law: N.C. Gen. Stat. § 105-164.4(a)(1a)
Issued By: Sales and Use Tax Division
Date: December 13, 2013
Number: SD-13-2

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

North Carolina Department of Revenue



DIRECTIVE

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

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

Sales and Use Tax Continued (Section 3.4(b)&(c))

- Non-Profit Sales and Use claim for refund
 - Cap refunds at \$45 million (State and local)
- Local government refunds – No Change



Estate Tax (Section 7. (a))

Repeal of Estate Tax



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

Resources and Taxpayer Assistance



Taxpayer Assistance

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

