

North Carolina

**Biennial Tax
Expenditure Report**

2007



**Policy Analysis and
Statistics Division**

North Carolina

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Expenditure Report**

2007

Policy Analysis and Statistics Division
November 2007

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North Carolina Biennial Tax Expenditure Report

2007

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 2007. The listing of expenditures and measurements of their respective costs will allow legislative review of their impact on the State's economy and on government revenues.

Defining Tax Expenditures for This Study

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

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

This report concentrates on those tax expenditures that the General Assembly can alter. There are some tax expenditures that are not subject to legislative action. For instance, Constitutional restrictions forbid taxing the federal government's purchases, as well as certain transactions involving interstate trade and trade on Indian Reservations. Also, specific exemptions or exclusions that are made in order to avoid duplicate taxation of an activity are not considered to be tax expenditures. For example, S-corporations are not taxed on profits that are transferred to shareholders, who subsequently pay income taxes on these dividends. These types of tax expenditures are listed in the Appendix.

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

The sales tax presents the most ambiguous cases of when exemptions should be included as tax expenditures for this report. The sales tax is generally considered to be a tax on "retail" purchases. Transactions involving the purchase of intermediate goods that will be further processed into a final good are properly exempted from the sales tax. It is arguable whether purchases of machinery, fuel or similar inputs used in production of final goods should be taxed. Since there is no consensus on this point, we include estimates of tax exemptions on machinery. Sales tax exemptions that are excluded from estimation are included in the Appendix.

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

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relatively small number of taxpayers. In such cases, the lower general rates are not listed as preferential. Nor are graduated tax rates, such as those contained in the individual income tax, the estate tax, and the gift tax. Also, no preferential status is acknowledged when distinctly different bases are taxed at different rates under the same tax schedule. For example, under the alcoholic beverage taxes, different rates and bases are used to tax beer, wine, and spirituous liquor.

Measuring the Fiscal Effects of Tax Expenditures

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

The most accurate source of information comes from actual tax returns that provide direct evidence of when certain expenditures are taken and the amounts of those expenditures. For example, we are able to use personal income tax and corporate income tax returns from 2004 and 2003 respectively to precisely measure the use of certain tax deductions and tax credits.

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

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

For most national economic data, the share of North Carolina's activities will consistently be in the range of 2¾% to 3%, which also corresponds to North Carolina's share of population and gross domestic product (GDP). Therefore, national statistics are often multiplied by 2.9% 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 2007-08 by Tax Category**

Tax	Number of Expenditures	Sum of Estimates of \$100,000 and Over (Millions of Dollars)	Number Estimated to Be Less than \$100,000	Number with Unavailable or Confidential Estimate*
Privilege Tax	20	14.5	8	1
Tobacco Products Tax	3	4.9	0	0
Alcoholic Beverage Tax	2	2.4	1	0
Franchise Tax	21	217.0	0	7
Corporation Income Tax	47	399.0	15	11
Various Tax Incentives (Articles 3B through 3K)	24	192.2	2	5
Individual Income Tax	36	1,307.6	12	1
Sales and Use Tax	90	2,317.4	13	15
Highway Use Tax	11	127.7	2	3
Scrap Tire Disposal Tax	1	0.0	0	1
White Goods Disposal Tax	1	0.0	1	0
Piped Natural Gas Tax	2	13.0	0	0
Gift Taxes	3	25.7	0	0
Taxes on Insurance Companies	6	173.4	0	1
Excise Stamp Tax on Conveyances	8	11.5	2	2
Excise Taxes on Motor Fuels	15	121.0	5	0
Totals	290	4,927.3[†]	62	47

* There are 10 confidential items. See Appendix C for an explanation of the confidentiality requirements and a list of the confidential expenditures.

† 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 2007-08**

Rank	Tax	Item	Citation	Short Title	FY08 estimate (millions of dollars)
1	Sales and Use Tax	66	164.13B	Food Exemption	446.3
2	Sales and Use Tax	24	164.13(13)	Prescription Drugs and Insulin	387.8
3	Individual Income Tax	5	134.6(b)(5b)	Government Retirement Income under Bailey Settlement	335.3
4	Sales and Use Tax	42	164.13(32)	Sales of Motor Vehicles	301.0
5	Individual Income Tax	4	134.6(b)(3)	Social Security Benefits in Excess of Federal Limit	279.5
6	Sales and Use Tax	71	164.14(b)	Refund of Sales Taxes to Nonprofits	235.0
7	Individual Income Tax	13	134.6(c)(4a)	Higher Personal Exemption for Low and Middle-Income Taxpayers	224.5
8	Sales and Use Tax	13	164.13(5a)	Items Taxed by Article 5F	154.4
9	Individual Income Tax	26	151.24	Credit for Children	164.2
10	Corporation Income Tax	12	130.5(b)(1)	U.S. Obligation Interest	135.4
11	Franchise Tax	21	120.2(b)(1)	Cap for Holding Companies	130.0
12	Corporation Income Tax	28	130.8	Net Economic Losses	124.0
13	Highway Use Tax	1	187.3(b)	Trade-In Allowance	110.0
14	Taxes on Insurance Premiums	2	228.5(c)(2)	Premiums Received from Annuities	106.4
15	Sales and Use Tax	87	164.4(4a)	Electricity to Commercial Businesses and Residences	105.0

Rank	Tax	Item	Citation	Short Title	FY08 estimate (millions of dollars)
16	Sales and Use Tax	2	164.13(2a)	Feeds, Litter and Medications for Farming	85.2
17	Excise Taxes on Motor Fuels	1	449.80(a)	Fuel Tax Rate Cap	81.8
18	Sales and Use Tax	72	164.14(c)	Refund of Sales Taxes to Sub-State Government Entities Except Schools	71.5
19	Individual Income Tax	6	134.6(b)(6)	Private Retirement Plans and Government Pensions	65.0
20	Sales and Use Tax	32	164.13(23)a	Packaging Items for Manufacturers, Producers and Retailers	61.6
21	Corporation Income Tax	1	130.4	Double-Weighting of Sales Factor in Apportionment Formula	58.4
22	Individual Income Tax	19	151.11	Credit for Child Care and Certain Employment-Related Expenses	57.7
23	Franchise Tax	2	125(a)(1)	Charitable Nonprofits	55.6
24	Sales and Use Tax	1	164.13(1) and (1a)	Items Sold to Farmers	54.3
25	Tax Credits for Growing Businesses	2	129.88	Credit for Investing in Business Property	50.0
26	Individual Income Tax	31	151.31	Earned Income Tax Credit	48.3
27	Sales and Use Tax	46	164.13(38)	Food Stamp Purchases	44.5
28	Corporation Income Tax	4	130.11(a)(3)	Certain Charitable Organizations	43.8
29	Sales and Use Tax	57	164.13(51)	Water Delivered Through Main Pipes	42.5
30	Low-Income Housing Tax Credits	2	129.42	Credit for Low-Income Housing Awarded on or after Jan. 1, 2003	40.0

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Rank	Tax	Item	Citation	Short Title	FY08 estimate (millions of dollars)
31	Taxes on Insurance Premiums	3	228.5(c)(3)	Premiums Related to Funding Agreements	36.1
32	Sales and Use Tax	65	164.13A	Tips on Meals and Beverages	33.2
33	Individual Income Tax	2	134.6b)(1)	U.S. and N.C. Obligation Interest	32.5
34	Sales and Use Tax	14	164.13(5b)	Telephone Equipment	31.0
35	Individual Income Tax	28	151.26	Charitable Contributions by Nonitemizers	30.4
36	Research and Development Tax Credit	1	129.55	Credit for North Carolina Research and Development	28.5
37	Sales and Use Tax	23	164.13(12)	Durable Medical Equipment	25.5
38	Sales and Use Tax	36	164.13(27)	Food Sold in Dining Rooms Operated by Educational Institution	24.9
39	Sales and Use Tax	86	164.4(a)(1j)	Electricity to Manufacturers and Farmers at 1.8%	22.0
40	Individual Income Tax	36		Carry-Over Provisions	20.2

Updates to the Expenditure Report Since 2005

This section highlights changes to this report since the last publication in October 2005. These changes are listed in six separate categories:

1. tax expenditures that have been changed since 2005
2. tax expenditures that have had their sunset dates extended since 2005
3. new tax expenditures enacted since 2005
4. tax expenditures that are new, but substantially replacing other provisions that have been repealed since 2005
5. other tax expenditures that were unintentionally omitted from the last tax expenditure report
6. tax expenditures that have sunsetted since 2005.

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 2005

1. Credit for Investing in Renewable Energy Property
 Tax Category: Business and Energy Tax Credit
 Citation: G.S. 105-129.16A
 Description of Changes: (1) The credit ceiling was raised from \$250,000 to \$2,500,000; (2) a system that heats a pool became eligible for the \$1,400 credit for solar energy equipment that provides domestic water heating; (3) the sunset was extended from January 1, 2008 to January 1, 2011.
2. Credit for North Carolina Research and Development
 Tax Category: Credit for Research and Development
 Citation: G.S. 105-129.55(a)
 Description of Changes: The credit percentages were all increased .25 percentage points, effective January 1, 2007.
3. Credit for NC University Research Expenses
 Tax Category: Credit for Research and Development
 Citation: G.S. 105-129.55(b)
 Description of Changes: The credit percentages were increased from 15% to 20%, effective January 1, 2007.
4. Credit for Child Care and Certain Employment-Related Expenses
 Tax Category: Individual Income Tax
 Citation: G.S. 105-151.11
 Description of Changes: The maximum amounts of allowed employment-related expenses were raised to the federal levels, effective for taxable years beginning on or after January 1, 2006.

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5. Credit for Certain Real Property Donations
Tax Category: Individual Income Tax
Citation: G.S. 105-151.12
Description of Changes: The clause allowing each member of a partnership to take the maximum credit was extended to tax years beginning on or after January 1, 2007. The maximum credit for pass-throughs and married couples was set at \$500,000.
6. Charitable Contributions by Nonitemizers
Tax Category: Individual Income Tax
Citation: G.S. 105-151.26
Description of Changes: The credit for charitable contributions and the credit for oyster shell donations cannot both be taken for the same donation.
7. Aircraft and Boats
Tax Category: Sales and Use Tax
Citation: G.S. 105-164.4(a)(1b)
Description of Changes: Railway cars and locomotives were removed from this exemption, but they are eligible for refund if purchased by an interstate carrier under G.S. 164.14(a).
8. Items Sold to Farmers
Tax Category: Sales and Use Tax
Citation: G.S. 105-164.13(1) and (1a)
Description of Changes: The exemptions were expanded to include (1) potting soil, (2) farm machinery and lubricants applied to the machinery, (3) horses and mules, (4) fuel other than electricity, and (5) grain, feed, or soybean storage facilities and parts and accessories attached to the facilities. During the 2007 session, baler twine was also added.
9. Tobacco Farming Items
Tax Category: Sales and Use Tax
Citation: G.S. 105-164.13(4d)
Description of Changes: The exemptions were expanded to include related items that were subject to a 1% State tax rate with a maximum tax of \$80 per article prior to January 1, 2006.
10. Items Used by Laundries and Dry Cleaning Businesses
Tax Category: Sales and Use Tax
Citation: G.S. 105-164.13(10)
Description of Changes: The exemptions were expanded to include related items that were subject to a 1% State tax rate with a maximum tax of \$80 per article prior to January 1, 2006.
11. Items Purchased by Interstate Passenger Air Carriers
Tax Category: Sales and Use Tax
Citation: G.S. 105-164.13(45)
Description of Changes: An exemption for aircraft simulators for flight crew training was added. Prior to January 1, 2006, aircraft simulators were subject to a 1% State tax rate with a maximum tax of \$80 per article.
12. Food Exemption
Tax Category: Sales and Use Tax
Citation: G.S. 105-164.13B
Description of Changes: Candy is no longer exempt as of Nov 1, 2005; alcoholic beverages were redefined as "not food".

13. Sales and Use Tax Holiday
Tax Category: Sales and Use Tax
Citation: G.S. 105-164.13C
Description of Changes: Added exemption (3a): computer supplies with a sales price of \$250 or less per item; and an exemption for instructional material up to \$300, effective Oct 1, 2007.

Extended Sunset Dates

14. Credit for Constructing Renewable Fuel Facilities
Tax Category: Business and Energy Tax Credit
Citation: G.S. 105-129.16D(b)
Description of Changes: The sunset was extended from January 1, 2008 to January 1, 2011.
15. Credit for Qualified Business Investments
Tax Category: Individual Income Tax
Citation: G.S. 105-163.011
Description of Changes: The sunset was extended from January 1, 2008 to January 1, 2011.
16. Refund of Aviation Fuel for Motorsports Events
Tax Category: Sales and Use Tax
Citation: G.S. 105-164.14(1)
Description of Changes: The sunset was extended from January 1, 2007 to January 1, 2009.
17. Cap on Tax of Aviation Fuel for Interstate Passenger Air Carriers
Tax Category: Sales and Use Tax
Citation: G.S. 105-164.14(a1)
Description of Changes: The sunset was extended from January 1, 2007 to January 1, 2009.

New Tax Expenditure Provisions Since 2005

18. Farm-Related Amusements
Tax Category: Privilege Tax
Citation: G.S. 105-40(12)
19. Tax Credit for LLCs Subject to Franchise Tax
Tax Category: Franchise Tax
Citation: G.S. 105-122.1
20. Alternative Cigarette Export Credit
Tax Category: Corporation Income Tax
Citation: G.S. 105-130.46
21. Tax Credit for Recycling Oyster Shells
Tax Category: Corporation Income Tax
Citation: G.S. 105-130.48

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22. Alternate Credit for Constructing Renewable Fuel Facilities
Tax Category: Business and Energy Tax Credit
Citation: G.S. 105-129.16D(b1)
23. Small Business Health Insurance Tax Credit
Tax Category: Business and Energy Tax Credit
Citation: G.S. 105-129.16E
24. Tax Credit to Refund Motor Fuel Excise Tax for Biodiesel
Tax Category: Business and Energy Tax Credit
Citation: G.S. 105-129.16F
25. Work Opportunity Tax Credit
Tax Category: Business and Energy Tax Credit
Citation: G.S. 105-129.16G
26. Credit for Income-Producing Rehabilitated Mill Property
Tax Category: Mill Rehabilitation Tax Credit
Citation: G.S. 105-129.71
27. Credit for Nonincome-Producing Rehabilitated Mill Property
Tax Category: Mill Rehabilitation Tax Credit
Citation: G.S. 105-129.72
28. Credit for Constructing a Railroad Intermodal Facility
Tax Category: Tax Incentives for Railroad Intermodal Facilities
Citation: G.S. 105-129.96
29. Parental Savings Trust Fund tax deduction
Tax Category: Individual Income Tax
Citation: G.S. 105-134.6(d)(4)
30. Volunteer Fire and Rescue Squad Deduction
Tax Category: Individual Income Tax
Citation: G.S. 105-134.6(d)(6)
31. Tax Credit for Recycling Oyster Shells
Tax Category: Individual Income Tax
Citation: G.S. 105-151.3
32. Long-Term Care Credit
Tax Category: Individual Income Tax
Citation: G.S. 105-151.28
33. Earned Income Tax Credit
Tax Category: Individual Income Tax
Citation: G.S. 105-151.31

34. Credit for Adoption Expenses
Tax Category: Individual Income Tax
Citation: G.S. 105-151.32
35. Commercial Logging Machinery
Tax Category: Sales and Use Tax
Citation: G.S. 105-164.13(4f)
36. Bread Sold at a Bakery Thrift Store
Tax Category: Sales and Use Tax
Citation: G.S. 105-164.13(27a)
37. Electricity and Eligible Business Property for an Internet Data Center
Tax Category: Sales and Use Tax
Citation: G.S. 105-164.13(55)
38. Locomotives, Cranes and Trucks for a Railroad Intermodal Facility
Tax Category: Sales and Use Tax
Citation: G.S. 105-164.13(56)
39. Partial Refund for Purchases of Railway Cars and Accessories by a Utility
Tax Category: Sales and Use Tax
Citation: G.S. 105-164.14(a2)
40. Refund on Professional Motor Racing Vehicle Parts
Tax Category: Sales and Use Tax
Citation: G.S. 105-164.14(m)
41. Refund for Analytical Service Companies
Tax Category: Sales and Use Tax
Citation: G.S. 105-164.14(n)
42. Refund for Railroad Intermodal Facilities
Tax Category: Sales and Use Tax
Citation: G.S. 105-164.14(n)
43. Reduced Rate for Manufacturers and Farmers
Tax Category: Piped Natural Gas Tax
Citation: G.S. 105-187.41(d)
44. Fuel Tax Rate Cap
Tax Category: Excise Taxes on Motor Fuels
Citation: G.S. 105-449.80(a)
45. Biodiesel Used in the Producer's Vehicle
Tax Category: Excise Taxes on Motor Fuels
Citation: G.S. 105-449.88(9)

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New Tax Expenditures, Replacing Others

46. Credit for Creating Jobs
Tax Category: Tax Credits for Growing Businesses
Citation: G.S. 105-129.87
Description of Changes: This tax credit, along with the following two, replace the William S. Lee Act credits (Article 3A).
47. Credit for Investing in Business Property
Tax Category: Tax Credits for Growing Businesses
Citation: G.S. 105-129.88
Description of Changes: This tax credit, along with the preceding and succeeding ones, replace the William S. Lee Act credits (Article 3A).
48. Credit for Investing in Real Property
Tax Category: Tax Credits for Growing Businesses
Citation: G.S. 105-129.89
Description of Changes: This tax credit, along with the preceding two, replace the William S. Lee Act credits (Article 3A).
49. Electricity to Manufacturers at 2.6%
Tax Category: Sales and Use Tax
Citation: G.S. 105-164.4(a)(1i)
Description of Changes: Replaces G.S. 105-164.4(a)(1f)b as of July 1, 2007.
50. Electricity to Manufacturers and Farmers at 1.8%
Tax Category: Sales and Use Tax
Citation: G.S. 105-164.4(a)(1j)
Description of Changes: Replaces G.S. 105-164.4(a)(1i) as of October 1, 2007.
51. Telecommunications Services and Charges
Tax Category: Sales and Use Tax
Citation: G.S. 105-164.13(54)a-e
Description of Changes: Replaces G.S. 105-164.4C(c)(5)-(16) as of January 1, 2007. These new exemptions, along with a revised definition of "telecommunications services" in G.S. 105-164.3(48), effectively leave the tax treatment the same, except that one-way paging and charges for the Universal Service Fund are now taxable. More information about these changes are available in a Department of Revenue memo available on the internet at www.dornrc.com/taxes/sales/TelecomNotice10-06.pdf.

Tax Expenditures Omitted From Last Report

- 52. Double-Weighting of Sales Factor in Apportionment Formula
Tax Category: Corporation Income Tax
Citation: G.S. 105-130.4

- 53. 911 Charges
Tax Category: Corporation Income Tax
Citation: G.S. 105-130.5(b)(17)

- 54. Higher Personal Exemption for Low and Middle-Income Taxpayers
Tax Category: Individual Income Tax
Citation: G.S. 105-134.6(c)(4a)

- 55. Political Parties Financing Fund Designation
Tax Category: Individual Income Tax
Citation: G.S. 105-159.1

- 56. Public Campaign Fund Designation
Tax Category: Individual Income Tax
Citation: G.S. 105-159.2

- 57. Items Taxed by Article 5F
Tax Category: Sales and Use Tax
Citation: G.S. 105-164.13(5a)

- 58. Sales of Motor Vehicles
Tax Category: Sales and Use Tax
Citation: G.S. 105-164.13(32)

- 59. Aerial Survey Data
Tax Category: Sales and Use Tax
Citation: G.S. 105-164.13(53)

- 60. Refund for Major Recycling Facilities
Tax Category: Sales and Use Tax
Citation: G.S. 105-164.14(g)

- 61. Refund for Low Enterprise Tier Machinery
Tax Category: Sales and Use Tax
Citation: G.S. 105-164.14(h)

- 62. Refund for Nonprofit Insurance Companies
Tax Category: Sales and Use Tax
Citation: G.S. 105-164.14(i)

- 63. Refund for Certain Industrial Facilities
Tax Category: Sales and Use Tax
Citation: G.S. 105-164.14(j)

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64. Municipalities That Sell Electric Power

Tax Category: Sales and Use Tax

Citation: G.S. 105-164.21A

65. Trade-In Allowance

Tax Category: Highway Use Tax

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

Sunsetted Tax Expenditures

66. Construction of Renewable Energy Equipment Facility

Tax Category: Corporation Income Tax

Citation: G.S. 105-130.28

Description of Changes: This credit sunsetted January 1, 2006. The credit was against corporate income tax liability for 25% of costs of construction of a renewable energy equipment facility.

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 2006-07, approximately \$46 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): \$0.1

Data Source: Estimate based on total budget of \$11 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.

Privilege Taxes

4. Agricultural Fairs

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

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

Estimate (in millions): \$1.5

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): \$7.9

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

7. First \$1,000 of Charitable Amusements

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

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

Estimate (in millions): less than \$0.1

Data Source: Department of Revenue amusement tax data

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

8. Youth Athletic Contests

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

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

Estimate (in millions): less than \$0.1

Data Source: Department of Revenue amusement tax data

9. Amusements at Nonprofit Arts Centers

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

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

Estimate (in millions): \$0.6

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

10. Amusements Promoted by Nonprofit Arts Organization

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

Description: Exemption for all exhibitions, performances, and entertainments promoted and managed by nonprofit arts organization whose primary purpose is to offer choral and theatrical performances.

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.

Privilege Taxes

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): \$3.4

Data Source: Department of Revenue amusement tax data

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

Privilege Taxes

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 5¢ to 30¢ on September 1, 2005 and increased to 35¢ on July 1, 2006. Other tobacco products are taxed at the rate of 10% of the price of the products as of October 1, 2007. (Between September 1, 2005 and September 30, 2007, the tax rate was 3%.)

During Fiscal Year 2006-07, approximately \$241 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): \$4.4

Data Source: Department of Revenue tax data

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

2. Unsalable Cigarettes and Cigars

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

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

Estimate (in millions): \$0.2

Data Source: Department of Revenue tax data

3. Discount for Timely Reports -- Other Tobacco Products

Citation: G.S. 105-113.39

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

Estimate (in millions): \$0.3

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.

Alcoholic Beverage License and Excise Taxes (Article 2C)

Tax Base Information

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

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

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

During Fiscal Year 2006-07, \$244.8 million was collected from this tax. Of this amount, \$31.6 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): \$2.4

Data Source: Department of Revenue tax data

2. Sacramental Wine

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

Description: Refund for wine used for sacramental purposes.

Estimate (in millions): less than \$0.1

Data Source: Department of Revenue tax data

Franchise Tax (Article 3)

Brief Background and Tax Base Information

The franchise tax is 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 2003, 45% of C-corporations filing tax returns used the first of these measures as the taxable amount, while 19% of corporations used the second and 10% used the third. Twenty-seven 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 due to North Carolina is calculated by the same method used for the corporation income tax: the average of the corporation's shares of property, payroll and sales, with the sales factor double-weighted.

The minimum franchise tax is \$35. For tax year 2002, 40% of C-corporations and 47% of S-corporations paid the minimum amount.

In Fiscal Year 2006-07, North Carolina collected \$672.1 million in franchise taxes.

Table 3**Franchise Tax Expenditure Estimates for FY 2007-08**

Item	Citation	Short Title	FY08 Estimate (millions of dollars)
1	122(c)(1)	Double-Weighting of Sales Factor in Apportionment of Capital Stock	3.2
2	125(a)(1)	Charitable Nonprofits	55.6
3	125(a)(3)	Local Mutual Nonprofits	2.2
4	125(a)(4)	Cooperative Marketing Associations	0.2
5	125(a)(5)	Production Credit Association	0.5
6	125(a)(6)	Nonprofit Clubs	2.7
7	125(a)(7)	Chambers of Commerce	0.8
8	125(a)(8)	Homeowners' Associations	2.5
9	125(a)(9)	Miscellaneous Nonprofits	2.6
10	125(a)	Real Estate Mortgage Investment Conduits	Unavailable
11	122(b)(4)	Deduction from Capital Stock for Investments in Pollution Abatement	Unavailable
12	122(b)(5)	Deduction from Capital Stock for Investments in Hazardous Waste Abatement	Unavailable
13	122(b)(6)	Deduction from Capital Stock for Facilities Used for Residential Sewer Services	Unavailable
14	122(b)(7)	Treasury Stock	10.0
15	122(d)	Deduction from Property Investment for Expenses Related to Purchases of Real Estate	Unavailable
16	122(d)	Deduction from Property Investment for Waste Abatement Investments	Unavailable
17	122(d)	Deduction from Property Investment for Investments in Rural Sewer Services	Unavailable
18	125(b)	Real Estate Investment Trusts and Regulated Investment Corporations	2.0
19	122.1	Tax Credit for LLCs Subject to Franchise Tax	0.5
20	122(d1)	Piped Natural Gas Credit	4.2
21	120.2(b)(1)	Cap for Holding Companies	130.0

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): \$3.2

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): \$55.6

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

3. Local Mutual Nonprofits

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

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

Estimate (in millions): \$2.2

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

4. Cooperative Marketing Associations

Citation: G.S. 105-125(a)(4)

Description: Cooperative marketing associations that operate solely for the purpose of marketing the products of members or other farmers and returns proceeds of sales to members and farmers, less operating costs.

Estimate (in millions): \$0.2

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

Franchise Tax

5. **Production Credit Association**

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

Description: Nonprofit production credit association 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): \$2.7

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

7. **Chambers of Commerce**

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

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

Estimate (in millions): \$0.8

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): \$2.5

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.

9. Miscellaneous Nonprofits

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

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

Estimate (in millions): \$2.6

Data Source: Estimate for credit unions from NC Deptment 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 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

12. 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

13. 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

Franchise Tax

14. 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): \$10.0

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

15. Deduction from Property Investment for Expenses Related to Purchases of Real Estate

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

Description: Deduction from tangible property investments of reserves for depreciation and any indebtedness incurred by virtue of the purchase of any real estate and any improvements.

Estimate (in millions): Unavailable

16. Deduction from Property Investment for Waste Abatement Investments

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

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

Estimate (in millions): Unavailable

17. Deduction from Property Investment for Investments in Rural Sewer Services

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

Description: Deduction from tangible property investments for the cost of constructing facilities built to provide sewer service to residential and outlying areas.

Estimate (in millions): Unavailable

18. Real Estate Investment Trusts and Regulated Investment Corporations

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

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

Estimate (in millions): \$2.0

Data Source: Department of Revenue 2005 C-Corp database

Tax Credits

19. Tax Credit for LLCs Subject to Franchise Tax

Citation: G.S. 105-122.1

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

Estimate (in millions): \$0.5

Data Source: The number of LLCs that filed as corporations in TY 2003 (excluding nonprofits) was approximately 2,800.

Note: This credit was effective January 1, 2007. Prior to this, all LLCs were exempt from the franchise tax.

20. Piped Natural Gas Credit

Citation: G.S. 105-122(d1)

Description: Tax credit of one-half amount of piped natural gas tax. The credit allowed may not exceed the tax amount reduced by all credits.

Estimate (in millions): \$4.2

Data Source: Department of Revenue 2003 and 2004 C-Corp and S-Corp databases

Note: The amount claimed for this deduction was approximately \$32M in TY2003. See "Corporation Income and Business Franchise Taxes: Tax Year 2003," pp. 7, 11.

Caps

21. Cap for Holding Companies

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

Description: Maximum tax of \$75,000 for holding companies. A holding company is any corporation which receives during its taxable year more than 80% of its gross income from corporations in which it owns directly or indirectly more than 50% of the outstanding voting stock.

Estimate (in millions): \$130.0

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

Note: Approximately 55 companies were subject to this cap in 2004.

Corporation Income Tax (Article 4, Part 1)

Brief Description and Tax Base Information

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

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

The corporation tax base is net income, or profits, since most operating costs can be deducted. There is no minimum tax, so that corporations with negative profits pay no corporation income taxes. Based on 2002 tax returns, two-thirds of corporations filing North Carolina C-corporation tax returns had no tax liability. This creates a special problem in measuring individual tax expenditures since some companies that claim them would still have negative incomes if they were not allowed that particular deduction. (The tax expenditure is non-binding for these companies.) In the measurement of tax expenditures in this section, attempts were made to include only companies for which the tax expenditure 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.

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.

In Fiscal Year 2006-07, North Carolina collected approximately \$1.6 billion in corporate income taxes.

Table 4**Corporate Income Tax Expenditure Estimates for FY 2007-08**

Item	Citation	Short Title	FY08 Estimate (millions of dollars)
1	130.4	Double-Weighting of Sales Factor in Apportionment Formula	58.4
21	130.11(a)(1)	Fraternal Beneficiary Societies	less than 0.1
3	130.11(a)(2)	Certain Cooperative Companies	3.6
4	130.11(a)(3)	Certain Charitable Organizations	43.8
5	130.11(a)(4)	Nonprofit Business Associations	0.7
6	130.11(a)(5)	Nonprofit Promoters of Social Welfare	0.3
7	130.11(a)(6)	Nonprofit Clubs	0.5
8	130.11(a)(7)	Local Mutual Nonprofits	less than 0.1
9	130.11(a)(8)	Nonprofit Agricultural Marketing Memberships	0.2
10	130.11(a)(9)	Certain Agricultural Associations	included above
11	130.11(a)(11)	Homeowners' Association	0.4
12	130.5(b)(1)	U.S. Obligation Interest	135.4
13	130.5(b)(1a)	N.C. Obligation Interest	5.0
14	130.5(b)(7)	Depreciation of Certain Facilities	less than 0.1
15	130.5(b)(8)	Net Capital Losses Not Deductible from Federal Taxable Income	5.0
16	130.5(b)(9)	Shareholders of a Regulated Investment Company	Unavailable
17	130.5(b)(12)	Reforestation and Cultivation of Trees	less than 0.1
18	130.5(b)(13)	Income from International Banking Facility	Confidential
19	130.5(b)(14)	Basis Adjustment for Federal Tax Credit	Unavailable
20	130.5(b)(15)	Marketing Assessments on Tobacco	0.0
21	130.5(b)(16)	Natural Gas Expansion Surcharges	less than 0.1
22	130.5(b)(17)	911 Charges	Unavailable
23	130.5(b)(18)	Earnings of Certain Trusts	Confidential
24	130.5(b)(19)	Income from Hurricane Floyd Reserve Fund	0.0
25	130.5(b)(22)	Disaster Relief Reserve Payments	0.0

Corporation Income Tax

Item	Citation	Short Title	FY08 Estimate (millions of dollars)
26	130.5(c)(2)	Percentage Depletion over Cost Depletion	2.7
27	130.6A(e)	Expenses Related to Nontaxed Dividends for Bank Holding Company	Confidential
28	130.8	Net Economic Losses	124.0
29	130.9(1)	Charitable Contributions Outside N.C.	4.0
30	130.9(1)-(3)	Charitable Contributions Within N.C.	6.5
31	130.10	Amortization of Pollution Abatement Facilities and Equipment	Confidential
32	130.10A	Amortization of Equipment Mandated by OSHA	Unavailable
33	130.6A(f)	Credit for Bank Holding Companies Related to Expenses on Nontaxed Earnings	Confidential
34	130.6A(g)	Credit for Electric Power Holding Companies Related to Expenses on Nontaxed Earnings	Confidential
35	130.22	Rental Units for Handicapped Persons	less than 0.1
36	130.25	Equipment for Cogenerating Power Plant	less than 0.1
37	130.34	Credit for Certain Real Property Donations	1.0
38	130.36	Conservation Tillage Equipment Credit	less than 0.1
39	130.37	Credit for Gleaned Crops	less than 0.1
40	130.39	Credit for Low-Income Residential Telephone Service	5.7
41	130.41	Credit for Costs at N.C. Ports	0.6
42	130.43	Credit for S&L Supervisory Fees	0.2
43	130.44	Credit for Poultry Composting Facility	less than 0.1
44	130.45	Credit for Manufacturing Cigarettes for Exportation	Confidential
45	130.46	Alternative Cigarette Export Credit	Confidential
46	130.47	Film Industry Production Expenses	1.0
47	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. The sales factor is double-weighted.

Estimate (in millions): \$58.4

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. 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 to members 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 of Income, IRS. Based on data for IRC 501(c)(8) organizations.

3. 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): \$3.6

Data Source: National Center for Charitable Statistics; "Charities and Other Tax-Exempt Organizations, 2001," Statistics of Income, IRS. Based on data for IRC 501(c)(12) organizations.

Corporation Income Tax

4. 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): \$43.8

Data Source: National Center for Charitable Statistics; "Charities and Other Tax-Exempt Organizations, 2001," Statistics of Income, IRS. Based on data for IRC 501(c)(3) and 501(c)(13) organizations.

5. 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. Based on data for IRC 501(c)(6) organizations.

6. 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. Based on data for IRC 501(c)(4) organizations.

7. 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. Based on data for IRC 501(c)(7) organizations. Net taxable income was estimated by the difference between revenues and expenses.

8. 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

9. 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. Based on data for IRC 501(c)(5) organizations.

Note: The estimate includes Item #9.

10. 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

11. Homeowners' Association

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

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

Estimate (in millions): \$0.4

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

Corporation Income Tax

Deductions

12. 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): \$135.4

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

13. 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): \$5.0

Data Source: Department of Revenue 2005 C-Corp database

14. 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

15. Net Capital Losses Not Deductible from Federal Taxable Income

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

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

Estimate (in millions): \$5.0

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).

16. Shareholders of a Regulated Investment Company

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

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

Estimate (in millions): Unavailable

17. Reforestation and Cultivation of Trees

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

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

Estimate (in millions): less than \$0.1

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

18. 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): Confidential – See Appendix C

Data Source: Department of Revenue 2005 tax returns

19. 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

20. 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

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

21. 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.

22. 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

23. 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): Confidential – See Appendix C

Data Source: Department of Revenue records

24. 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): \$0

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

25. 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

Data Source: Legislative fiscal note

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

26. 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): \$2.7

Data Source: Department of Revenue 2002-04 C-Corp databases

27. 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): Confidential – See Appendix C

Data Source: Department of Revenue tax returns

28. 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): \$124.0

Data Source: Department of Revenue 2001, 2002 and 2003 C-Corp databases

Note: Approximately 19,000 C-corporations took this deduction in 2003. 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

29. 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.

Estimate (in millions): \$4.0

Data Source: Department of Revenue 2003 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.

30. Charitable Contributions Within N.C.

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

Description: Deductions for contributions to the State of North Carolina, its counties and municipalities and any agency or instrumentality of these institutions, in addition to contributions made to educational institutions located in North Carolina. For companies with income allocable outside North Carolina, charitable contributions to donees inside NC may be deducted fully from taxable income allocated to North Carolina.

Estimate (in millions): \$6.5

Data Source: Department of Revenue 2003 C-Corp database

Note: Allowing companies with income allocable outside North Carolina to receive 100% deduction for contributions to NC donees (instead of their apportionment percentage) cost the State an estimated \$5 million in FY2004. 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.

31. 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): Confidential – See Appendix C

Data Source: Department of Revenue 2005 tax returns

32. 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

33. 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) do not qualify for the cap, they 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): Confidential – See Appendix C

Data Source: Department of Revenue 2005 tax returns

34. 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): Confidential – See Appendix C

Data Source: Department of Revenue 2005 tax returns

35. 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

Corporation Income Tax

36. 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 2004 C-Corp and S-Corp databases

37. 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): \$1.0

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

38. Conservation Tillage Equipment Credit

Citation: G.S. 105-130.36

Description: Credit of 25% of the cost of conservation tillage equipment used in a farm business, including tree farming.

Estimate (in millions): less than \$0.1

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

39. 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 2004 C-Corp and S-Corp databases

40. 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): \$5.7

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

41. Credit for Costs at N.C. 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): \$0.6

Data Source: Department of Revenue 2005 tax returns

42. Credit for S&L Supervisory Fees

Citation: G.S. 105-130.43

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

Estimate (in millions): \$0.2

Data Source: Department of Revenue tax returns

43. 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 2004 C-Corp and S-Corp databases

44. 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): Confidential – See Appendix C

Data Source: Department of Revenue 2005 tax returns

45. 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): Confidential – See Appendix C

Data Source: Department of Revenue 2005 tax returns

Note: This provision sunsets January 1, 2018.

Corporation Income Tax

46. Film Industry Production Expenses

Citation: G.S. 105-130.47

Description: A film or television production company that spends at least \$250,000 in North Carolina on productions during the tax year is allowed a credit equal to 15% of the qualifying expenses. A maximum credit of \$7,500,000 is allowed for feature films. This credit is refundable.

Estimate (in millions): \$1.0

Data Source: Department of Revenue 2005 tax returns

Note: The credit sunsets January 1, 2010.

47. 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)

The estimates for the following tax expenditures are based on reports produced by the N.C. Department of Revenue covering returns processed in 2006, most of which were tax year 2005 forms.

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.

Estimate (in millions): \$0.3

Data Source: Department of Revenue database

Note: This provision sunsets for renewable energy property placed into service on or after January 1, 2011.

2. Credit for Non-Hazardous Dry-Cleaning Equipment

Citation: G.S. 105-129.16C

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

Estimate (in millions): less than \$0.1

Data Source: Department of Revenue database

3. 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 of the dispensing facility. This credit must be taken in 3 annual installments.

Estimate (in millions): Unavailable

Business and Energy Tax Credits

4. Credit for Constructing Renewable Fuel Facilities

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

Description: A taxpayer that constructs and places in service in this State a qualified commercial facility for dispensing renewable fuel is allowed a credit equal to 25% of the cost to the taxpayer of constructing and installing the part of the dispensing facility, including pumps, storage tanks, and related equipment, that is directly and exclusively used for dispensing or storing renewable fuel. The credit must be taken in 3 annual installments.

Estimate (in millions): Unavailable

Data Source: Department of Revenue database; NC Legislative Fiscal Note for HB 1636(2004)

Note: This provision sunsets for facilities placed into service on or after January 1, 2011.

5. Alternate Credit for Constructing Renewable Fuel 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.

Estimate (in millions): Unavailable

6. 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 a \$250 per employee whose annual wages or salary from the business does not exceed \$40,000.

Estimate (in millions): \$19.5

Data Source: 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, 2009.

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

Citation: G.S. 105-129.16F

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

Estimate (in millions): \$0.1

Data Source: According to the National Biodiesel Board, there are 7 current or prospective Biodiesel producers in North Carolina

Note: The estimate assumes reduced estimated tax payments for the period through June 30, 2008. It is assumed that 1 million gallons of pure biodiesel fuel will be purchased from NC taxpayers in 2008, not including government purchases that are exempt from the motor fuels tax. This provision sunsets January 1, 2010.

8. Work Opportunity Tax Credit

Citation: G.S. 105-129.16G

Description: Effective for tax years beginning January 1, 2007, 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.

Estimate (in millions): \$6.0

Data Source: Department of Revenue tax return sample for 2005; 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.

9. 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: 2007 Legislative budget bill

Tax Incentives for Recycling Facilities (Article 3C)

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): Confidential – See Appendix C

Data Source: Department of Revenue database

2. Credit for Reinvestment

Citation: G.S. 105-129.28

Description: A major recycling facility that is accessible by neither ocean barge nor ship and that transports materials to the facility or products away from the facility is allowed a credit against the income tax equal to its additional transportation and transloading expenses incurred due to its inability to use ocean barges or ships. The credit is capped at \$10.4 million for taxable years 2004-07 and is refundable.

Estimate (in millions): Confidential – See Appendix C

Data Source: Department of Revenue database

Note: This provision sunsets January 1, 2008.

Historic Rehabilitation Tax Credits (Article 3D)

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): \$2.5

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): \$4.0

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)

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

Citation: G.S. 105-129.41

Description: A taxpayer that is allowed a federal income tax credit for low-income housing under Section 42 of the Code with respect to a qualified North Carolina low-income building is allowed a credit equal to a percentage of the federal credit.

Estimate (in millions): included in next item

2. Credit for Low-Income Housing Awarded 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): \$40.0

Data Source: Department of Revenue database

Note: This provision sunsets January 1, 2010.

Research and Development Tax Credits (Article 3F)

1. Credit for North Carolina Research and Development

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

Description: A taxpayer that has qualified North Carolina research expenses for the taxable year is allowed a credit equal to a percentage of the expenses, determined by the following 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): \$28.5

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

Note: The credit percentages were increased by .25 percentage points, effective Jan. 1, 2007.

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): included in item #1

Note: The credit percentages were increased from 15% to 20%, effective Jan. 1, 2007.

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

1. Tax Incentives for Major Computer Manufacturing Facilities

Citation: G.S. 105-129.64

Description: A taxpayer that is expected to add at least 1,200 employees within five years to a computer manufacturing and distribution facility and invests, directly or indirectly, \$100 million in constructing the facility is eligible for a credit against its franchise and income taxes. 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.

Estimate (in millions): \$10.0

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

Note: Effective for tax years beginning on or after January 1, 2005.

Mill Rehabilitation Tax Credit (Article 3H)

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): \$11.6

Data Source: 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): included above

Note: This provision sunsets January 1, 2011.

Tax Credits for Growing Businesses (Article 3J)

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.

1. Credit for Creating Jobs

Citation: G.S. 105-129.87

Description: Effective for tax years beginning on or after Jan. 1, 2007. 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): \$19.0

Data Source: Department of Revenue data and Legislative Fiscal Note

Note: The estimate includes tax credits taken under the Bill Lee Act which this provision replaces.

2. Credit for Investing in Business Property

Citation: G.S. 105-129.88

Description: Effective for tax years beginning on or after Jan. 1, 2007. 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): \$50.0

Data Source: Department of Revenue data and Legislative Fiscal Note

Note: The estimate includes tax credits taken under the Bill Lee Act which this provision replaces.

3. Credit for Investing in Real Property

Citation: G.S. 105-129.89

Description: Effective for tax years beginning on or after Jan. 1, 2007. A taxpayer that meets certain eligibility requirements for purchasing or leasing real property in this State is allowed a credit. The credit is equal to 30% of the eligible investment amount. The credit is only applicable for investments in a development tier 1 area.

Estimate (in millions): less than \$0.1

Data Source: Department of Revenue data and Legislative Fiscal Note

Note: The estimate includes tax credits taken under the Bill Lee Act which this provision replaces.

Tax Incentives for Railroad Intermodal Facilities (Article 3K)

1. Credit for Constructing a Railroad Intermodal Facility

Citation: G.S. 105-129.96

Description: A taxpayer that constructs or leases an eligible railroad intermodal facility in this State and places it in service during the taxable year is allowed a tax credit equal to fifty percent (50%) of all amounts payable by the taxpayer towards the costs of construction or under the lease. 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): \$0.2

Data Source: 2007 Legislative budget bill

Note: The estimate includes the sales & use tax exemption in G.S. 105-164.13(56).

Individual Income Tax

Individual Income Tax (Article 4, Part 2)

Brief Description and Tax Base Information

The individual income tax is the largest component of the State's general revenues. In fiscal year 2006-07, the State collected over \$10.6 billion from this tax.

For taxable years beginning January 1, 2007, there are four marginal tax rates: 6%, 7%, 7.75% and 8%. The highest tax rate was 8.25% for taxable years beginning prior to January 1, 2007. This rate is scheduled to expire beginning with the 2008 tax year. Tax brackets vary by marital status and by whether an individual is either (1) the head of a household, (2) elderly, or (3) blind.

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

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.

Table 5**Individual Income Tax Expenditure Estimates for FY 2007-08**

Item	Citation	Short Title	FY08 Estimate (millions of dollars)
1	158	Certain Individuals Upon Death	less than 0.1
2	134.6(b)(1)	U.S. and N.C. Obligation Interest	32.5
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	279.5
5	134.6(b)(5b)	Government Retirement Income under Bailey Settlement	335.3
6	134.6(b)(6)	Private Retirement Plans and Government Pensions	65.0
7	134.6(b)(10)	Basis Adjustment for Disposed Property	Unavailable
8	134.6(b)(11)	Severance Wages	13.5
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)(18)	Disaster Relief Reserve Payments	0.0
13	134.6(c)(4a)	Higher Personal Exemption for Low and Middle-Income Taxpayers	224.5
14	134.6(d)(4)	Parental Savings Trust Fund Deduction	4.3
15	134.6(d)(6)	Volunteer Fire and Rescue Squad Deduction	1.0
16	134.7(a)(4)	Net Economic Losses Incurred Prior to January 1, 1989	0.0
17	151.1	Construction of Dwellings for Handicapped Persons	less than 0.1
18	151.3	Tax Credit for Recycling Oyster Shells	less than 0.1

Individual Income Tax

Item	Citation	Short Title	FY08 Estimate (millions of dollars)
19	151.11	Credit for Child Care and Certain Employment-Related Expenses	57.7
20	151.12	Credit for Certain Real Property Donations	18.3
21	151.13	Credit for Conservation Tillage Equipment	0.1
22	151.14	Credit for Gleaned Crops	less than 0.1
23	151.18	Credit for the Disabled	1.5
24	151.21	Credit for Property Taxes Paid on Farm Machinery	1.5
25	151.22	Use of North Carolina Ports	less than 0.1
26	151.24	Credit for Children	153.6
27	151.25	Construction of Poultry Composting Facility	less than 0.1
28	151.26	Charitable Contributions by Nonitemizers	30.4
29	151.28	Long-Term Care Credit	7.0
30	151.29	Film Industry Production Expenses	included in Corporate income tax item #46
31	151.31	Earned Income Tax Credit	48.3
32	151.32	Credit for Adoption Expenses	3.2
33	159.1	Political Parties Financing Fund Designation	2.0
34	159.2	Public Campaign Fund Designation	1.2
35	163.011	Credit for Qualified Business Investments	7.0
36		Carry-Over Provisions	20.2

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 U.S., North Carolina, and nonprofit educational institutions.

Estimate (in millions): \$32.5

Data Source: Department of Revenue Individual Income Tax database (Tax Year 2005 is latest available)

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

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 2003 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): \$279.5

Data Source: Department of Revenue Individual Income Tax database (Tax Year 2005 is latest available)

Individual Income Tax

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

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

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

Estimate (in millions): \$335.3

Data Source: Department of Revenue Individual Income Tax database (Tax Year 2005 is latest available)

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): \$65.0

Data Source: Department of Revenue Individual Income Tax database (Tax Year 2005 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 taxpayer's 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): \$13.5

Data Source: Department of Revenue Individual Income Tax database (Tax Year 2005 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 2003 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

Data Source: N.C. Office of Budget and Management

12. Disaster Relief Reserve Payments

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

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

Estimate (in millions): \$0

Data Source: Legislative fiscal note

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

13. 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): \$224.5

Data Source: BearingPoint income tax model; Department of Revenue Individual Income Tax databases for 2002 through 2004

Note: The income tax model incorporates into the estimate the effect of the reduced taking of tax credits (such as the child tax credit). Even with this deduction, the exemption amount for low and middle-income households is still less than the Federal exemption amount. The Federal tax increases the exemption amount yearly, based on inflation. North Carolina has kept the same exemption level since 1996.

Individual Income Tax

14. 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 \$750 (\$1,500 for joint filers) for tax year 2006 and \$2,500 (\$5,000 for joint filers) thereafter.

Estimate (in millions): \$4.3

Data Source: College Savings Plan Network website; NC Department of Revenue database; survey by Investment Company Institute, Fall 2003

Note: Contributions to 529 plans or qualified tuition plans (QTPs) set up in other states are not deductible. Certain AGI limits apply in tax year 2006 and tax years beginning in 2012.

15. 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

16. 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

Data Source: Department of Revenue 2003 Individual Income Tax database

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 tax.

Tax Credits

17. 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 2004 and 2003 tax returns

18. 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: NC Division of Marine Fisheries

19. 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): \$57.7

Data Source: Department of Revenue Individual Income Tax database (Tax Year 2005 is latest available)

Individual Income Tax

20. 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): \$18.3

Data Source: Department of Revenue Individual Income Tax database (Tax Year 2005 is latest available)

21. 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 2005 is latest available)

22. 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 2005 is latest available)

23. 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 2005 is latest available)

24. Credit for Property Taxes Paid on Farm Machinery

Citation: G.S. 105-151.21

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

Estimate (in millions): \$1.5

Data Source: Department of Revenue Individual Income Tax database (Tax Year 2005 is latest available)

25. 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 Individual Income Tax database (Tax Year 2005 is latest available)

26. 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): \$153.6

Data Source: Department of Revenue Individual Income Tax database (Tax Year 2005 is latest available)

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

Individual Income Tax

27. 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 2005 is latest available)

28. 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): \$30.4

Data Source: Department of Revenue Individual Income Tax database (Tax Year 2005 is latest available)

29. 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. This provision is effective for tax years beginning January 1, 2007.

Estimate (in millions): \$7.0

Data Source: 2007 Legislative budget bill

Note: This provision sunsets January 1, 2013.

30. 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 15% of the qualifying expenses.

Estimate (in millions): included in Corporate income tax item #46

Data Source: Fiscal Research Division fiscal note based on Department of Commerce data on expenses of film companies

31. Earned Income Tax Credit

Citation: G.S. 105-151.31

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

Estimate (in millions): \$48.3

Data Source: 2007 Legislative budget bill IRS data for North Carolina filers in Tax Year 2005

Note: This provision sunsets January 1, 2013.

32. 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): \$3.2

Data Source: IRS data for Tax Year 2005

Note: This provision sunsets January 1, 2013.

33. 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 shall 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 Individual Income Tax database (Tax Year 2005 is latest available)

Note: The amount taxpayers could designate was \$1.00 (\$2.00 for married couples filing jointly) prior to 2006.

Individual Income Tax

34. 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 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): \$1.2

Data Source: Department of Revenue Individual Income Tax database (Tax Year 2005 is latest available)

35. 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 2005 is latest available)

Note: The cap on total tax credits claimed for investments made prior to 2004 was \$6,000,000. This provision sunsets January 1, 2011.

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	

36. Carry-Over Provisions

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

Estimate (in millions): \$20.2

Data Source: Department of Revenue Individual Income Tax database (Tax Year 2005 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 retail sales (including the value of leases and rentals) of tangible property occurring in the State and the use tax is imposed on purchases made outside the State if the property purchased is used in the State. Under current law, the tax rate is 4.25% as of December 1, 2006.

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 sales tax rate on telecommunication services and spirituous liquor is 6.75%.

For Fiscal Year 2006-07, sales and use net tax receipts to the General Fund were approximately \$5.0 billion.

Table 7
FY08 N.C. Sales and Use Tax Expenditure Estimates

Item	Citation	Short Title	FY08 Estimate (millions of dollars)
1	164.13(1) and (1a)	Items Sold to Farmers	54.3
2	164.13(2a)a	Feeds, Litter and Medications for Farming	85.2
3	164.13(2a)b	Pesticides, Rodenticides and Related Products for Farming	8.9
4	164.13(2a)c	Defoliant 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	10.8
10	164.13(4c)b and c	Building Materials and Equipment for Animal Enclosures and Housing	included in item #9
11	164.13(4d)	Tobacco Farming Items	less than 0.1
12	164.13(4f)	Commercial Logging Machinery	7.0
13	164.13(5a)	Items Taxed by Article 5F	154.4
14	164.13(5b)	Telephone Equipment	31.0
15	164.13(5c)	Radio and Television Broadcast Equipment	1.5
16	164.13(5d)	Cable Service Broadcast Equipment	12.0
17	164.13(7)	Aquacultural Products in Raw State	Unavailable
18	164.13(9)	Tangible Property Purchased for Commercial Fishing	1.6
19	164.13(10)	Items Used by Laundries and Dry Cleaning Businesses	1.7
20	164.13(10a)a and b	Lubricants Used by Major Recycling Facility	Unavailable
21	164.13(10a)c	Electricity Used by Major Recycling	Unavailable

Sales and Use Tax

Item	Citation	Short Title	FY08 Estimate (millions of dollars)
		Facility	
22	164.13(11a)	Diesel Fuel for Railroads	17.0
23	164.13(12)	Durable Medical Equipment	25.5
24	164.13(13)	Prescription Drugs and Insulin	387.8
25	164.13(13c)	Chiropractors' Nutritional Supplements	0.2
26	164.13(14)	Public School Books	3.0
27	164.13(15)	Accounts of Sales Charged Off for Income Purposes	Unavailable
28	164.13(20)	Sales by Blind Merchants	0.5
29	164.13(21)	Lease or Rental of Films for Exhibition	2.8
30	164.13(22)	Lease or Rental of Films, Transcriptions and Recordings to Broadcasters	Unavailable
31	164.13(22a)	Audiovisual Masters	2.2
32	164.13(23)a	Packaging Items for Manufacturers, Producers and Retailers	61.6
33	164.13(23)b	Packaging Returned to Seller	0.1
34	164.13(26)	Food Sold by a Public or Private School Cafeteria	12.1
35	105.164.13(26a)	Food Sold by a Public School Cafeteria to Certain Childcare Centers	included in item #34
36	164.13(27)	Food Sold in Dining Rooms Operated by Educational Institution	24.9
37	164.13(27a)	Bread Sold at a Bakery Thrift Store	0.1
38	164.13(28)	Non-Subscriber Sales of Newspapers and Magazines	7.4
39	164.13(30)	Vending Machine One-Cent Sales	less than 0.1
40	164.13(31)	Meals for the Elderly	less than 0.1
41	164.13(31a)	Food Sold by a Church or Religious Organization	Unavailable
42	164.13(32)	Sales of Motor Vehicles	301.0

Sales and Use Tax

Item	Citation	Short Title	FY08 Estimate (millions of dollars)
43	164.13(34)	Sales by Nonprofits Whose Proceeds Go to the State	Unavailable
44	164.13(35)	Sales by Nonprofits Conducted Annually	1.1
45	164.13(36)	Advertising Supplements Sold with Newspapers	4.3
46	164.13(38)	Food Stamp Purchases	44.5
47	164.13(39)	Components of Free Distribution Periodicals	5.5
48	164.13(41)	Mobile Classrooms Purchased by Boards of Education or Community Colleges	0.5
49	164.13(43)	Custom Computer Software	9.6
50	164.13(43a)	Software Delivered Electronically	Unavailable
51	164.13(45)	Items Purchased by Interstate Passenger Air Carriers	Unavailable
52	164.13(45a)	Lubricants Used in Maintenance of Commercial Aircraft	Unavailable
53	164.13(45b)	Items Purchased by Interstate Air Couriers	Unavailable
54	164.13(46)	Electricity to Municipalities Supplied by Federal Agency	0.3
55	164.13(49a)	Delivery Charges of Direct Mail	0.5
56	164.13(50)	Goods Sold Through Vending Machines	5.5
57	164.13(51)	Water Delivered Through Main Pipes	42.5
58	164.13(53)	Aerial Survey Data	less than 0.1
59	164.13(54)b	Pay Telephone Services	less than 0.1
60	164.13(54)c	911 Charges	4.2
61	164.13(54)d	Telephone Charges by a Hotel or Motel	1.2
62	164.13(54)e	Charges Related to NC Information Highway and Other Government Data Networks	0.5
63	164.13(55)	Electricity and Eligible Business Property for an Internet Data Center	1.8
64	164.13(56)	Locomotives, Cranes and Trucks for a Railroad Intermodal Facility	included in estimate for G.S. 105-129.96

Sales and Use Tax

Item	Citation	Short Title	FY08 Estimate (millions of dollars)
65	164.13A	Tips on Meals and Beverages	33.2
66	164.13B	Food Exemption	446.3
67	164.13C	Sales and Use Tax Holiday	11.7
68	164.21A	Municipalities That Sell Electric Power	6.7
69	164.14(a)	Refunds to Interstate Carriers	5.1
70	164.14(a2)	Partial Refund for Purchases of Railway Cars and Accessories by a Utility	Unavailable
71	164.14(b)	Refund of Sales Taxes to Nonprofits	235.0
72	164.14(c)	Refund of Sales Taxes to Sub-State Government Entities Except Schools	71.5
73	164.14(g)	Refund for Major Recycling Facilities	less than 0.1
74	164.14(h)	Refund for Low Enterprise Tier Machinery	0.2
75	164.14(i)	Refund for Nonprofit Insurance Companies	less than 0.1
76	164.14(j)	Refund for Certain Industrial Facilities	less than 0.1
77	164.14(l)	Refund of Aviation Fuel for Motorsports Events	0.1
78	164.14(m)	Refund on Professional Motor Racing Vehicle Parts	included above
79	164.14(n)	Refund for Analytical Service Companies	0.0
80	164.14(n)	Refund for Railroad Intermodal Facilities	0.0
81	164.4(a)(1a)	Manufactured Homes	15.9
82	164.4(a)(1b)	Aircraft and Boats	13.2
83	164.4(a)(1f)	Electricity to Commercial Laundries	0.5
84	164.4(a)(1h)	Electricity to Aluminum Smelting Facility	0.0
85	164.4(a)(1i)	Electricity to Manufacturers at 2.6%	6.8
86	164.4(a)(1j)	Electricity to Manufacturers and Farmers at 1.8%	22.0
87	164.4(4a)	Electricity to Commercial Businesses and Residences	105.0
88	164.4(a)(8)	Modular Homes	4.6
89	164.4C(f)	Out-of-State Call Centers	Unavailable
90	164.14(a1)	Cap on Tax of Aviation Fuel for Interstate Passenger Air Carriers	3.0

Exemptions

1. 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): \$54.3

Data Source: Department of Revenue sales tax records; North Carolina Department of Agriculture and Consumer Services (NCDACS)

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): \$85.2

Data Source: North Carolina Department of Agriculture and Consumer Services (NCDACS)

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): \$8.9

Data Source: North Carolina Department of Agriculture and Consumer Services (NCDACS)

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

Sales and Use Tax

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.

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): \$10.8

Data Source: North Carolina Department of Agriculture and Consumer Services (NCDACS)

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) lease or rental of tobacco sheets used in handling tobacco in the warehouse and transporting tobacco to and from the warehouse (b) metal flue sold for use in curing tobacco, whether the flue is attached to a handfired furnace or used in connection with a mechanical burner (c) bulk tobacco barn or rack, parts and accessories attached to the tobacco barn or rack, and any similar apparatus, part or accessory used to cure or dry tobacco or another crop (4e) a grain, feed, or soybean storage facility, and parts and accessories attached to the facility.

Estimate (in millions): less than \$0.1

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

Sales and Use Tax

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): \$7.0

Data Source: The anticipated expenses were based on 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: Mill machinery and mill machinery parts and accessories; manufacturing fuel; and certain recycling facility property that are subject to tax under Article 5F of this Chapter are exempt from sales and use tax.

Estimate (in millions): \$154.4

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

Note: The estimate is the amount of tax that would have been collected at the State sales tax rate minus the amount collected under Article 5F. Article 5F imposes a 1% tax on eligible items, with a maximum tax of \$80 per item.

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): \$31.0

Data Source: 2005 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): \$1.5

Data Source: 2005 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): \$12.0

Data Source: 2005 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): \$1.6

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

Sales and Use Tax

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): \$1.7

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) and b

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

Estimate (in millions): Unavailable

21. Electricity Used by Major Recycling Facility

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

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

Estimate (in millions): Unavailable

22. 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): \$17.0

Data Source: Association of American Railroads

23. 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): \$25.5

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

24. 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): \$387.8

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

25. Chiropractors' Nutritional Supplements

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

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

Estimate (in millions): \$0.2

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

26. 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): \$3.0

Data Source: State revenue from sales of textbooks from 2004-05 Statistical Report, NC Department of Public Instruction

Sales and Use Tax

27. **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

28. **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

29. **Lease or Rental of Films for Exhibition**

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

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

Estimate (in millions): \$2.8

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

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

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

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

Estimate (in millions): Unavailable

31. 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): \$2.2

Data Source: Department of Revenue Sales and Use Tax data; NC Film Office; 2002 Economic Census

32. 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): \$61.6

Data Source: Packaging costs from 2002 economic census (manufacturers) and 2002 Business Expenses Survey (other industries)

33. 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.

34. 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): \$12.1

Data Source: Revenue reported by the NC Dept. of Public Instruction; NC Department of Administration

Sales and Use Tax

35. 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 in above item

36. 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): \$24.9

Data Source: Statistical Abstract of Higher Education in North Carolina, University of North Carolina

37. 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

38. Non-Subscriber Sales of Newspapers and Magazines

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

Description: Sales of newspapers by newspaper street vendors, by newspaper carriers making door-to-door deliveries and by means of vending machines and sales of magazines by magazine vendors making door-to-door sales.

Estimate (in millions): \$7.4

Data Source: Department of Revenue Sales and Use Tax data

39. 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

40. 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

41. 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

42. Sales of Motor Vehicles

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): \$301.0

Data Source: 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.

43. 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

Sales and Use Tax

44. 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): \$1.1

Data Source: Girl Scout Council Annual Reports

45. Advertising Supplements Sold with Newspapers

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

Description: Advertising supplements and any other printed matter ultimately to be distributed with newspaper.

Estimate (in millions): \$4.3

Data Source: 2002 Economic Census, US Census Bureau

46. Food Stamp Purchases

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

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

Estimate (in millions): \$44.5

Data Source: Food Stamp Program, US Dept. of Agriculture estimates of NC food stamps receipts through federal FY 2006.

47. 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): \$5.5

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

- 48. Mobile Classrooms Purchased by Boards of Education or Community Colleges**
Citation: G.S. 105-164.13(41)
Description: Sales of mobile classrooms to local boards of education or to local boards of trustees of community colleges.
Estimate (in millions): \$0.5
Data Source: Statistical Reports, NC Department of Public Instruction provided growth of pupils by county; Wake County Public School System reports on school construction
Note: This tax expenditure is based on the exemption from the normal State tax rate, although these purchases would also be exempt under G.S. 105-164.14(c). No information on community college use of mobile classrooms was obtained.
- 49. 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): \$9.6
Data Source: 2004 and 2005 revenues of software publishers from "custom applications design and development," from 2005 Service Annual Survey, US Census Bureau
- 50. Software Delivered Electronically**
Citation: G.S. 105-164.13(43a)
Description: Computer software delivered electronically or delivered by load and leave.
Estimate (in millions): Unavailable
- 51. Items Purchased by Interstate Passenger Air Carriers**
Citation: G.S. 105-164.13(45)
Description: Sales to interstate passenger air carrier of (a) aircraft lubricants, repair parts and accessories; (b) aircraft simulators for flight crew training.
Estimate (in millions): Unavailable
Note: Prior to January 1, 2006, aircraft simulators were subject to a 1% tax rate with a maximum of \$80 per article.
- 52. 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): Unavailable

Sales and Use Tax

53. 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

Note: Prior to January 1, 2006, these items were subject to a 1% tax rate with a maximum of \$80 per article.

54. 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): \$0.3

Data Source: NC Treasurer Report on Municipal Electrical Systems

55. 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)

56. 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): \$5.5

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

57. 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): \$42.5

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.

58. 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

59. 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 its telecommunications services.

60. 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): \$4.2

Data Source: Annual Financial Information Reports, 2006 for the counties and municipalities

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61. Telephone Charges by a Hotel or Motel

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): \$1.2

Data Source: 2002 Economic Census data for accommodations (adjusted for growth and price changes)

Note: The estimate uses the combined tax rate of 6.75%.

62. Charges Related to NC 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.

63. 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.

Estimate (in millions): \$1.8

Data Source: Newspaper article quote of \$3.6M to \$6.8M per year based on a NC legislative estimate

Note: Eligible businesses are expected to begin operation in March 2008.

64. 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): included in estimate for G.S. 105-129.96

65. Tips on Meals and Beverages

Citation: G.S. 105-164.13A

Description: Service charges, considered tips, imposed on food, beverages or meals when not above 20% of the sale price.

Estimate (in millions): \$33.2

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

Note: Receipts were inflated to 2006-08 by considering both the increase in employment and the increase in prices of food and beverages. It was assumed that tips represented 15% of total receipts.

66. Food Exemption

Citation: G.S. 105-164.13B

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

Estimate (in millions): \$446.3

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

Note: Candy was exempt until Nov. 1, 2005.

67. 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. The exemption does not apply to the following: (1) sales of clothing accessories or equipment, (2) sales of protective equipment, (3) sales of furniture, (4) sales of items for use in trade or business, (5) rentals.

Estimate (in millions): \$11.7

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

Note: In 2003, computer peripherals and educational software were exempt up to \$3,500. In 2004 and 2005, these items were not exempt. Beginning for the sales tax holiday in 2006, computer supplies, including printers, were exempt up to \$250, but software was still not exempt.

Sales and Use Tax

68. 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): \$6.7

Data Source: Department of Revenue sales and use tax database

Refunds

69. 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): \$5.1

Data Source: Department of Revenue sales and use tax database

70. 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

71. Refund of Sales Taxes to Nonprofits

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

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

Estimate (in millions): \$235.0

Data Source: Department of Revenue sales and use tax database

Note: As of July 1, 2006, the refunds of G.S. 164-14 do not include sales of alcoholic beverages (G.S. 164-14(d1)).

72. 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 gov. entities and indirect purchases of building materials.

Estimate (in millions): \$71.5

Data Source: Department of Revenue sales and use tax database

Note: Refunds for schools were subtracted out of estimate. These refunds were repealed as of July 1, 2005. Refunds to US government were not included in the estimate.

73. 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

74. Refund for Low Enterprise Tier Machinery

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

Description: Businesses eligible for Tax Incentives in section 105-129.4 are allowed an annual refund of sales and use taxes on eligible machinery and equipment it purchases for use in an enterprise tier one area or an enterprise tier two area, as defined in 105-129.3.

Estimate (in millions): \$0.2

Data Source: Department of Revenue sales and use tax database

Note: This amount has been highly variable over the last 5 years, ranging from \$47k in FY04 to \$682k in FY06. The estimate for FY08 is the average for the last 5 years.

75. Refund for Nonprofit Insurance Companies

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

Description: Eligible nonprofit insurance companies are allowed an annual refund of sales and use taxes paid on building materials, building supplies, fixtures, and equipment that become a part of its real property. Eligible companies must invest at least \$20,000,000 in constructing a facility in the State..

Estimate (in millions): less than \$0.1

Data Source: Department of Revenue sales and use tax database

Note: This provision sunsets on January 1, 2008.

Sales and Use Tax

76. 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.

Estimate (in millions): less than \$0.1

Data Source: Department of Revenue sales and use tax database

Note: This provision sunsets on January 1, 2013.

77. 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 sales and use tax database

Note: This provision sunsets on January 1, 2009.

78. 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): included in previous item

79. 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

Data Source: 2007 Legislative budget bill

Note: Refunds for FY08 will not be processed until the following fiscal year. The legislative estimate for FY09 is \$2.6 million.

80. Refund for Railroad Intermodal Facilities

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

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

Note: Refunds for FY08 will not be processed until the following fiscal year.

Preferential tax rates

81. 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): \$15.9

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

Sales and Use Tax

82. 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): \$13.2

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

83. 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): \$0.5

Data Source: Department of Revenue sales and use tax database

Note: Prior to October 1, 2007, sales of electricity to farmers were included in this item.

84. 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

Data Source: Department of Revenue sales and use tax database

85. Electricity to Manufacturers at 2.6%

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

Description: As of July 1, 2007, the sales and use tax for electricity sold to a manufacturing industry or plant for its operation is 2.6%. The electricity must be measured by a separate meter or another separate device. Prior to July 1, 2007, electricity sold to a manufacturer was taxed at 2.83%.

Estimate (in millions): \$6.8

Data Source: Department of Revenue sales and use tax database

Note: Effective July 1, 2007 through September 30, 2007. The tax rate was 2.83% prior to this date (G.S. 105-164(a)(1f)b).

86. Electricity to Manufacturers and Farmers at 1.8%

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

Description: Effective October 1, 2007 through July 1, 2008, the sales and use tax for electricity sold to a manufacturing industry or a farmer for non-household purposes is 1.8%.

Estimate (in millions): \$22.0

Data Source: Department of Revenue sales and use tax database

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

87. Electricity to Commercial Businesses and Residences

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

Description: Tax rate of 3% for gross receipts derived from sales of electricity, other than sales of electricity subject to tax under another subdivision of this section.

Estimate (in millions): \$105.0

Data Source: Department of Revenue sales and use tax database

88. Modular Homes

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

Description: Tax rate of 2.5% on sales of modular homes.

Estimate (in millions): \$4.6

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.

Sales and Use Tax

Caps

89. 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.

90. 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 by an interstate passenger air carrier in a calendar year is \$2,500,000.

Estimate (in millions): \$3.0

Data Source: Department of Revenue sales tax and motor fuel tax records

Note: This provision sunsets on January 1, 2009.

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 2005-06, 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): \$110.0

Data Source: Comparison of North Carolina and Kentucky revenues (Kentucky does not have trade-in allowance for new cars).

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

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

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

Estimate (in millions): \$12.5

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

3. Vehicles Modified for Disabled Individuals

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

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

Estimate (in millions): less than \$0.1

Data Source: NC Department of Health and Human Services

Highway Use Tax

4. 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

5. Volunteer Fire and Rescue Squad Vehicles

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

Description: Full exemption for volunteer fire dept. or rescue squad.

Estimate (in millions): \$0.3

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

6. Secured Party with Perfected Interest

Citation: G.S. 105-187.6(b)(1)

Description: Maximum tax of \$40 when a certificate is issued to a secured party who has a perfected interest in the motor vehicle.

Estimate (in millions): \$3.0

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

Note: Includes item #7.

7. 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 #6

8. Vehicles Titled in Another State

Citation: G.S. 105-187.6(c)

Description: Maximum tax of \$150 if vehicle has been titled in another state for at least 90 days.

Estimate (in millions): \$1.9

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

9. 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

10. 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

11. 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

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 2006-07, \$4.6 million was collected for State agencies from this tax. During this period, an additional \$9.2 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 (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 2006-07, \$1.9 million was collected for State agencies from this tax. During this period, an additional \$3.4 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

Piped Natural Gas Tax (Article 5E)

Tax Base Information

The tax is imposed on piped natural gas received for consumption in this State. The marginal tax rate declines as the amount of piped gas consumed increases. For the first 200 therms used in a month, the tax rate is 4.7%. The rate declines to 0.3% for therms over 500,000.

In Fiscal Year 2006-07, \$61.5 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 October 1, 2007 through July 1, 2008, the tax rate for a manufacturing industry or a farmer for non-household purposes is based on the following schedule: \$.032 for the first 200 therms, \$.024 for therms between 201 and 15,000, \$.016 for 15,001 to 60,000 therms, \$.010 for 60,001 to 500,000 therms, and \$.002 for each therm over 500,000.

Estimate (in millions): \$9.0

Data Source: Legislative fiscal note for SB 3(2007)

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

Gift Taxes (Article 6)

Tax Base Information

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

In Fiscal Year 2006-07, \$15.8 million was collected from this tax.

Expenditures

1. Annual Exclusion Amount

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

Description: Annual exclusion amount equal to the IRS exclusion -- \$12,000 per donee in 2007. Married couples may combine their exclusions, effectively increasing the exclusion to \$24,000.

Estimate (in millions): \$19.9

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

Note: The 2008 estimate is based on the exclusion amount remaining \$12,000.

2. Lifetime Exemption Amount

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

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

Estimate (in millions): \$0.2

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

3. Gifts to State and Nonprofits

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

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

Estimate (in millions): \$5.6

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

Taxes on Insurance Companies (Article 8B)

Tax Base Information

The tax on an insurer is measured by gross premiums from business done in this State during the calendar year. The basic tax rate is 1.9%. However, premiums on worker compensation plans are taxed at 2.5% and there are additional taxes on premiums related to fire and lightning insurance coverage.

In Fiscal Year 2006-07, \$514.4 million was collected from this tax.

Expenditures

1. Federally Tax-Exempt Pensions, Annuities or Profit-Sharing Plan

Citation: G.S. 105-228.5(c)(1)

Description: Excludes premiums connected with funding a pension, annuity or profit-sharing plan qualified or exempt under 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): \$106.4

Data Source: Life and Annuity Business financial summary for 2005, North Carolina
Department of Insurance

3. Premiums Related to Funding Agreements

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

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

Estimate (in millions): \$36.1

Data Source: Life and Annuity Business financial summary for 2005, North Carolina
Department of Insurance

- 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): \$8.0
Data Source: Department of Revenue Insurance Tax database
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. The estimate only includes the impact on the General Fund -- 45% of the revenues from this tax are distributed elsewhere.
- 5. Farmers' Mutual Assessment Fire Insurance Companies and Fraternal Organizations**
Citation: G.S. 105-228.5(g)
Description: Excludes farmers' mutual assessment fire insurance companies and nonprofit fraternal organizations.
Estimate (in millions): \$2.8
Data Source: North Carolina Department of Insurance, 2005
- 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): \$20.1
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 2006-07, \$74.4 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 3.5¢ or 7% of the average wholesale price of motor fuel for an applicable 6-month base period.

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

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

In Fiscal Year 2006-07, approximately \$1.2 billion was collected from this tax.

Expenditures

1. Fuel Tax Rate Cap

Citation: G.S. 105-449.80(a)

Description: The variable wholesale component of the motor fuel excise tax may not be more than 12.4 cents per gallon. This provision is effective from July 1, 2006 to June 30, 2009.

Estimate (in millions): \$81.8

Data Source: US Department of Energy monthly petroleum and diesel wholesale prices

Note: The estimate assumes that the tax rate for January through June of 2008 would have been 32.9 cents without the cap. The tax rate for the period from July 2007 through December 2007 was below the cap.

2. Sales to Local Boards of Education

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

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

Estimate (in millions): \$7.2

Data Source: Motor Fuels Tax Division, Department of Revenue

3. 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: Motor Fuels Tax Division, Department of Revenue

- 4. Sales to Community Colleges**
Citation: G.S. 105-449.88(7)
Description: Exemption for motor fuel sales to community colleges.

Estimate (in millions): less than \$0.1

Data Source: Motor Fuels Tax Division, Department of Revenue
- 5. Sales to County or Municipal Corporation**
Citation: G.S. 105-449.88(8)
Description: Exemption for motor fuel sales to county or municipal corporation.

Estimate (in millions): \$13.5

Data Source: Motor Fuels Tax Division, Department of Revenue
- 6. Biodiesel Used in the Producer's Vehicle**
Citation: G.S. 105-449.88(9)
Description: 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 2008.
- 7. Discount for Timely Payment -- Distributors**
Citation: G.S. 105-449.93(b)
Description: 1% discount to licensed distributor for timely payment.

Estimate (in millions): \$13.1

Data Source: Summary tax collection data, Department of Revenue
- 8. 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

Excise Tax on Motor and Alternative Fuels

9. 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

10. 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 #9

11. Damage to Conveyance

Citation: G.S. 105-449.105(b)

Description: Exemption for loss of fuel due to damage to a conveyance transporting the motor fuel, fire, a natural disaster, an act of war, or an accident.

Estimate (in millions): less than \$0.1

Data Source: Motor Fuels Tax Division, Department of Revenue

12. Accidentally Combining Fuels

Citation: G.S. 105-449.105(c)

Description: Refund for accidentally combining any of the following: (1) dyed diesel fuel with tax-paid motor fuel, (2) gasoline with diesel fuel, or (3) undyed diesel fuel with dyed kerosene.

Estimate (in millions): less than \$0.1

Data Source: Motor Fuels Tax Division, Department of Revenue

13. Certain Government-Related Entities and Nonprofits

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

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

Estimate (in millions): \$0.7

Data Source: Motor Fuels Tax Division, Department of Revenue

14. 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): \$0.4

Data Source: Motor Fuels Tax Division, Department of Revenue

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

15. 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): \$2.8

Data Source: Motor Fuels Tax Division, Department of Revenue

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 2007-08 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	FY08 U.S. Total \$Billions	Passed through to State income taxes?
1 Net exclusion of pension contributions and earnings: Employer plans	115.2	Y
2 Exclusion of employer contributions for health care, health insurance premiums, and long-term care insurance premiums	107.0	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	80.7	Y
5 Exclusion of capital gains at death	53.2	Y
6 Tax credit for children under age 17	46.1	N
7 Earned income credit (EIC)	43.5	N
8 Deduction for charitable contributions, other than for education and health	35.9	Y
9 Exclusion of benefits provided under cafeteria plans	33.4	Y
10 Exclusion of investment income on life insurance and annuity contracts	29.4	Y
11 Exclusion of interest on public purpose State and local government bonds	29.3	N
12 Deduction of nonbusiness State and local government income, sales, and personal property taxes	27.3	N*
13 Exclusion of capital gains on sales of principal residences	25.7	Y
14 Exclusion of untaxed social security and railroad retirement benefits	24.8	Y
15 Exclusion of Medicare benefits: Hospital insurance (Part A)	22.5	Y
16 Depreciation of equipment in excess of the alternative depreciation system	19.9	Y
17 Net exclusion of pension contributions and earnings: Individual retirement plans	15.5	Y
18 Exclusion of Medicare benefits: Supplementary medical insurance (Part B)	15.4	Y
19 Deduction for property taxes on owner-occupied residences	13.5	Y
20 Net exclusion of pension contributions and earnings: Keogh plans	10.8	Y

*Personal property taxes *are* passed through, but these are relatively small.

Note: The federal FY08 began October 1, 2007

Source: *Estimates of Federal Tax Expenditures for Fiscal Years 2006-2010*, Joint Committee on Taxation, April 25, 2006. (Available on the internet: www.house.gov/jct/pubs06.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. Inheritance or Estate Taxes Included in Federal AGI

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

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

Reason for Excluding from Tax Expenditure List: Double Taxation: This amount has been taxed under North Carolina's inheritance or 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. 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
- 41. 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

Appendix

42. Sales of Motor Vehicles

Description: Sales of motor vehicles, the sale of a motor vehicle body to be mounted on a motor vehicle chassis when a certificate of title has not been issued for the chassis, and the sale of a motor vehicle body mounted on a motor vehicle chassis that temporarily enters the State so the manufacturer of the body can mount the body or chassis.

Citation: G.S. 105-164.13(32)

Reason for Excluding from Tax Expenditure List: Double Taxation

43. Articles Purchased for Resale

Description: Exemption for tangible property purchased solely for the purpose of export to a foreign country for exclusive use or consumption in that or some other foreign country.

Citation: G.S. 105-164.13(33)

Reason for 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. 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

46. 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

47. 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

- 48. Installation Charges**
Description: Installation charges when separately stated.
Citation: G.S. 105-164.13(49)
Reason for Excluding from Tax Expenditure List: Not Sale of Tangible Personal Property
- 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. Title Issued by Will or Intestacy**
Description: Full exemption when a certificate of title is issued by will or intestacy.
Citation: G.S. 105-187.6(a)(4)
Reason for Excluding from Tax Expenditure List: Double Taxation
- 54. Change in Title Due to Gift Between Close Family Members**
Description: Full exemption when a certificate of title is issued by a gift between a husband and wife, a parent and child, or a stepparent and a stepchild.
Citation: G.S. 105-187.6(a)(5)
Reason for Excluding from Tax Expenditure List: Double Taxation

Appendix

- 55. 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
- 56. 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

- 57. 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

- 58. 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
- 59. 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
- 60. 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

- 61. 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
- 62. 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
- 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 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
- 64. Sale of Kerosene for Uses Not Related to Motor Vehicles**
Description: A distributor who sells kerosene may obtain a refund for the excise tax paid on the kerosene if the distributor dispenses the kerosene into a storage facility 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
- 65. 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
- 66. 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
- 67. 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

Appendix

Appendix C: Confidential Tax Expenditures

The following tax expenditures were taken by so few taxpayers that estimates based on tax information may compromise taxpayer confidentiality if reported.

Tax	Item	Citation	Short Title
Corporation Income Tax	18	130.5(b)(13)	Income from International Banking Facility
Corporation Income Tax	23	130.5(b)(18)	Earnings of Certain Trusts
Corporation Income Tax	27	130.6A(e)	Expenses Related to Nontaxed Dividends for Bank Holding Company
Corporation Income Tax	31	130.1	Amortization of Pollution Abatement Facilities and Equipment
Corporation Income Tax	33	130.6A(f)	Credit for Bank Holding Companies Related to Expenses on Nontaxed Earnings
Corporation Income Tax	34	130.6A(g)	Credit for Electric Power Holding Companies Related to Expenses on Nontaxed Earnings
Corporation Income Tax	44	130.45	Credit for Manufacturing Cigarettes for Exportation
Corporation Income Tax	45	130.46	Alternative Cigarette Export Credit
Tax Incentives for Recycling Facilities	1	129.27	Credit for Investing in Large or Major Recycling Facility
Tax Incentives for Recycling Facilities	2	129.28	Credit for Reinvestment

Combined estimate of confidential tax expenditures for fiscal year 2007-08 = \$53.8 M

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