

GENERAL ASSEMBLY OF NORTH CAROLINA  
SESSION 2015

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HOUSE BILL 41\*  
Committee Substitute Favorable 3/5/15  
Senate Finance Committee Substitute Adopted 3/18/15

Short Title: IRC Update/Rev Laws Tech Changes.

(Public)

Sponsors:

Referred to:

February 4, 2015

1 A BILL TO BE ENTITLED  
2 AN ACT TO UPDATE THE REFERENCE TO THE INTERNAL REVENUE CODE, TO  
3 DECOUPLE FROM CERTAIN PROVISIONS OF THE FEDERAL TAX INCREASE  
4 PREVENTION ACT OF 2014, AND TO MAKE TECHNICAL AND CLARIFYING  
5 CHANGES TO VARIOUS REVENUE LAWS, AS RECOMMENDED BY THE  
6 REVENUE LAWS STUDY COMMITTEE.

7 The General Assembly of North Carolina enacts:

8  
9 **PART I. IRC UPDATE**

10 **SECTION 1.1.** G.S. 105-228.90(b)(1b) reads as rewritten:

11 "(1b) Code. – The Internal Revenue Code as enacted as of ~~December 31, 2013,~~  
12 January 1, 2015, including any provisions enacted as of that date that  
13 become effective either before or after that date."

14 **SECTION 1.2.(a)** G.S. 105-130.5B(c) reads as rewritten:

15 "**§ 105-130.5B. Adjustments when State decouples from federal accelerated depreciation**  
16 **and expensing.**

17 ...

18 (c) Section 179 Expense. – For purposes of this subdivision, the definition of section  
19 179 property has the same meaning as under section 179 of the Code as of ~~January 2, 2013.~~  
20 January 1, 2015. A taxpayer who places section 179 property in service during a taxable year  
21 listed in the table below must add to the taxpayer's federal taxable income eighty-five percent  
22 (85%) of the amount by which the taxpayer's expense deduction under section 179 of the Code  
23 exceeds the dollar and investment limitation listed in the table below for the taxable year.

24 A taxpayer is allowed to deduct twenty percent (20%) of the add-back in each of the first  
25 five taxable years following the year the taxpayer is required to include the add-back in income.

26 **Taxable Year of Dollar Limitation Investment Limitation**  
27 **85% Add-Back**

28 2010 \$250,000 \$800,000

29 2011 \$250,000 \$800,000

30 2012 \$250,000 \$800,000

31 2013 \$25,000 \$200,000

32 2014 \$25,000 \$200,000"

33 **SECTION 1.2.(b)** G.S. 105-153.6(c) reads as rewritten:

34 "**§ 105-153.6. Adjustments when State decouples from federal accelerated depreciation**  
35 **and expensing.**



1 ...  
 2 (c) Section 179 Expense. – For purposes of this subdivision, the definition of section  
 3 179 property has the same meaning as under section 179 of the Code as of ~~January 2, 2013.~~  
 4 January 1, 2015. A taxpayer who places section 179 property in service during a taxable year  
 5 listed in the table below must add to the taxpayer's federal taxable income or adjusted gross  
 6 income, as appropriate, eighty-five percent (85%) of the amount by which the taxpayer's  
 7 expense deduction under section 179 of the Code exceeds the dollar and investment limitation  
 8 listed in the table below for that taxable year. For taxable years before 2012, the taxpayer must  
 9 add the amount to the taxpayer's federal taxable income. For taxable year 2012 and after, the  
 10 taxpayer must add the amount to the taxpayer's adjusted gross income.

11 A taxpayer is allowed to deduct twenty percent (20%) of the add-back in each of the first  
 12 five taxable years following the year the taxpayer is required to include the add-back in income.

13 Taxable Year of	Dollar Limitation	Investment Limitation
14 85% Add-Back		
15 2010	\$250,000	\$800,000
16 2011	\$250,000	\$800,000
17 2012	\$250,000	\$800,000
18 2013	\$25,000	\$200,000
19 <u>2014</u>	<u>\$25,000</u>	<u>\$200,000"</u>

20 **SECTION 1.3.** G.S. 105-153.5 reads as rewritten:

21 "**§ 105-153.5. Modifications to adjusted gross income.**

22 (a) Deduction Amount. – In calculating North Carolina taxable income, a taxpayer may  
 23 deduct from adjusted gross income either the standard deduction amount provided in  
 24 subdivision (1) of this subsection or the itemized deduction amount provided in subdivision (2)  
 25 of this subsection that the taxpayer claimed under the Code. The deduction amounts are as  
 26 follows:

- 27 (1) Standard deduction amount. – The standard deduction amount is zero for a  
 28 person who is not eligible for a standard deduction under section 63 of the  
 29 Code. For all other taxpayers, the standard deduction amount is equal to the  
 30 amount listed in the table below based on the taxpayer's filing status:

31 Filing Status	Standard Deduction
32 Married, filing jointly	\$15,000
33 Head of Household	12,000
34 Single	7,500
35 Married, filing separately	7,500.

- 36 (2) Itemized deduction amount. – An amount equal to the sum of the items listed  
 37 in this subdivision. The amounts allowed under this subdivision are not  
 38 subject to the overall limitation on itemized deductions under section 68 of  
 39 the Code:

40 a. The amount allowed as a deduction for charitable contributions under  
 41 section 170 of the Code for that taxable year. For taxable year 2014,  
 42 a taxpayer who elected to take the income exclusion under section  
 43 408(d)(8) of the Code for a qualified charitable distribution from an  
 44 individual retirement plan by a person who has attained the age of 70  
 45 1/2 may deduct the amount that would have been allowed as a  
 46 charitable deduction under section 170 of the Code had the taxpayer  
 47 not elected to take the income exclusion.

48 b. The amount allowed as a deduction for interest paid or accrued  
 49 during the taxable year under section 163(h) of the Code with respect  
 50 to any qualified residence plus the amount claimed by the taxpayer as  
 51 a deduction for property taxes paid or accrued on real estate under

1 section 164 of the Code for that taxable year. For taxable year 2014,  
 2 the amount allowed as a deduction for interest paid or accrued during  
 3 the taxable year under section 163(h) of the Code with respect to any  
 4 qualified residence shall not include the amount for mortgage  
 5 insurance premiums treated as qualified residence interest. The  
 6 amount allowed under this sub-subdivision may not exceed twenty  
 7 thousand dollars (\$20,000). For spouses filing as married filing  
 8 separately or married filing jointly, the total mortgage interest and  
 9 real estate taxes claimed by both spouses combined may not exceed  
 10 twenty thousand dollars (\$20,000). For spouses filing as married  
 11 filing separately with a joint obligation for mortgage interest and real  
 12 estate taxes, the deduction for these items is allowable to the spouse  
 13 who actually paid them. If the amount of the mortgage interest and  
 14 real estate taxes paid by both spouses exceeds twenty thousand  
 15 dollars (\$20,000), these deductions must be prorated based on the  
 16 percentage paid by each spouse. For joint obligations paid from joint  
 17 accounts, the proration is based on the income reported by each  
 18 spouse for that taxable year.

19 ...  
 20 (d) Decoupling Adjustments. – In calculating North Carolina taxable income, a  
 21 taxpayer must add to the taxpayer's adjusted gross income any of the following items that are  
 22 not included in the taxpayer's adjusted gross income:

- 23 (1) For taxable year 2014, the amount excluded from the taxpayer's gross  
 24 income for the discharge of qualified principal residence indebtedness under  
 25 section 108 of the Code. The purpose of this subdivision is to decouple from  
 26 the extension of the income exclusion under section 102 of the Tax Increase  
 27 Prevention Act of 2014.  
 28 (2) For taxable year 2014, the amount of the taxpayer's deduction for qualified  
 29 tuition and related expenses under section 222 of the Code. The purpose of  
 30 this subdivision is to decouple from the extension of the federal  
 31 above-the-line deduction under section 107 of the Tax Increase Prevention  
 32 Act of 2014.  
 33 (3) For taxable year 2014, the amount excluded from the taxpayer's gross  
 34 income for a qualified charitable distribution from an individual retirement  
 35 plan by a person who has attained age 70 1/2 under section 408(d)(8) of the  
 36 Code. The purpose of this subdivision is to decouple from the extension of  
 37 the income exclusion under section 108 of the Tax Increase Prevention Act  
 38 of 2014.

39 ~~(e)~~ S Corporations. – Each shareholder's pro rata share of an S Corporation's income is  
 40 subject to the adjustments provided in this section and in G.S. 105-153.6."

41 **SECTION 1.4.** This Part is effective when this act becomes law. Notwithstanding  
 42 Section 1 of this act, any amendments to the Internal Revenue Code enacted after December  
 43 31, 2013, that increase North Carolina taxable income for the 2014 taxable year are effective  
 44 for taxable years beginning on or after January 1, 2015.

## 45 **PART II. REVENUE LAWS TECHNICAL, ADMINISTRATIVE, & CLARIFYING** 46 **CHANGES**

47 **SECTION 2.1.(a)** Section 7.2(a) of S.L. 2014-3 reads as rewritten:

48 "**SECTION 7.2.(a)** This act shall not be construed to affect the interpretation of any statute  
 49 that is the subject of a State tax audit ~~pending as of the effective date of this act for taxable~~  
 50 years beginning before January 1, 2015, or litigation that is a direct result of such audit."  
 51

1           **SECTION 2.1.(b)** Section 7.3 of S.L. 2014-3 reads as rewritten:

2           "**SECTION 7.3.** This Part becomes effective January 1, 2015, and applies to withdrawals  
3 of items from inventory for contracts entered into on or after that date, sales on or after that  
4 date-date, and contracts entered into on or after that date."

5           **SECTION 2.2.(a)** Section 8.1(c) of S.L. 2014-3 reads as rewritten:

6           "**SECTION 8.1.(c)** With respect to the change in this section regarding the rental of a  
7 private residence, cottage, or similar accommodation that is rented for fewer than 15 days in a  
8 calendar year and that is listed with a real estate broker or agent, the following provisions  
9 apply:

10           (1) A retailer is ~~not~~ liable for an overcollection ~~or undercollection~~ of sales tax or  
11 occupancy tax for the rental of such an accommodation that is occupied or  
12 available to be occupied for nights beginning June 14, 2012, and ending June  
13 30, 2014, and must remit the tax collected.

14           (2) A retailer is not liable for an undercollection of sales tax or occupancy tax  
15 for the rental of such an accommodation that is occupied or available to be  
16 occupied for nights beginning June 1, 2014, and ending June 30, 2014, if the  
17 retailer has made a good-faith effort to comply with the law and collect the  
18 proper amount of tax and has, due to the change under this section,  
19 overcollected or undercollected the amount of sales tax or occupancy tax  
20 that is due. This subsection applies only to the period beginning June 14,  
21 2012, and ending July 1, 2014.tax."

22           **SECTION 2.2.(b)** This section becomes effective June 1, 2014.

23           **SECTION 2.3.** Section 14.26 of S.L. 2014-3 is repealed.

24           **SECTION 2.4.(a)** The purpose of this section is to clarify the intent of the 2013  
25 Session of the General Assembly that the Utilities Commission must adjust the rate for sales of  
26 electricity, piped natural gas, and water and wastewater services to reflect all of the tax changes  
27 as enacted in S.L. 2013-316.

28           **SECTION 2.4.(b)** Section 4.2(a) of S.L. 2013-316 reads as rewritten:

29           "**SECTION 4.2.(a)** ~~Pursuant to G.S. 62-31 and G.S. 62-32, the~~ The Utilities Commission  
30 must adjust the rate set for the following utilities:

31           (1) Electricity to reflect the repeal of G.S. 105-116 and the resulting liability of  
32 electric power companies for the tax imposed under ~~G.S. 105-122~~ and  
33 ~~for G.S. 105-122,~~ the increase in the rate of tax imposed on sales of  
34 electricity under ~~G.S. 105-164.4.~~ G.S. 105-164.4, and the reduction in the  
35 corporate income tax rate imposed under G.S. 105-130.3.

36           (2) Piped natural gas to reflect the repeal of Article 5E of Chapter 105 of the  
37 General Statutes, the repeal of the credit formerly allowed under  
38 G.S. 105-122(d1), ~~and~~ the resulting liability of companies for the tax  
39 imposed on sales of piped natural gas under ~~G.S. 105-164.4.~~ G.S. 105-164.4,  
40 and the reduction in the corporate income tax rate imposed under  
41 G.S. 105-130.3.

42           (3) Public water and wastewater companies to reflect the repeal of G.S. 105-116  
43 and the resulting liability of public water and wastewater companies under  
44 G.S. 105-122, and the reduction in the corporate income tax rate imposed  
45 under G.S. 105-130.3."

46           **SECTION 2.4.(c)** The Utilities Commission must order a utility to add interest to  
47 money refunded to its customers for refunds resulting from the reduction of the corporate  
48 income tax rate effective for taxable years beginning January 1, 2014, as provided in Section  
49 4(b) of this act. The interest rate applied to the refund must be set in accordance with  
50 G.S. 62-130.

1           **SECTION 2.4.(d)** Subsection (b) of this section is effective January 1, 2014. The  
2 remainder of this section is effective when it becomes law and applies to refunds issued on or  
3 after that date.

4           **SECTION 2.5.(a)** G.S. 105-113.35(d) reads as rewritten:

5           "(d) **Manufacturer's Option.** – A manufacturer who is not a retail dealer and who ships  
6 tobacco products other than cigarettes to either a wholesale dealer or retail dealer licensed  
7 under this Part may apply to the Secretary to be relieved of paying the tax imposed by this  
8 section on the tobacco products. A manufacturer who ships vapor products to either a  
9 wholesale dealer or retail dealer licensed under this Part may apply to the Secretary to be  
10 relieved of paying the tax imposed by this section on the vapor products shipped to either a  
11 wholesale dealer or retail dealer. Once granted permission, a manufacturer may choose not to  
12 pay the tax until otherwise notified by the Secretary. To be relieved of payment of the tax  
13 imposed by this section, a manufacturer must comply with the requirements set by the  
14 Secretary.

15           Permission granted under this subsection to a manufacturer to be relieved of paying the tax  
16 imposed by this section applies to an integrated wholesale dealer with whom the manufacturer  
17 is an affiliate. A manufacturer must notify the Secretary of any integrated wholesale dealer with  
18 whom it is an affiliate when the manufacturer applies to the Secretary for permission to be  
19 relieved of paying the tax and when an integrated wholesale dealer becomes an affiliate of the  
20 manufacturer after the Secretary has given the manufacturer permission to be relieved of  
21 paying the tax.

22           If a person is both a manufacturer of cigarettes and a wholesale dealer of tobacco products  
23 other than cigarettes and the person is granted permission under G.S. 105-113.10 to be relieved  
24 of paying the cigarette excise tax, the permission applies to the tax imposed by this section on  
25 tobacco products other than cigarettes. A cigarette manufacturer who becomes a wholesale  
26 dealer after receiving permission to be relieved of the cigarette excise tax must notify the  
27 Secretary of the permission received under G.S. 105-113.10 when applying for a license as a  
28 wholesale dealer."

29           **SECTION 2.5.(b)** This section becomes effective June 1, 2015.

30           **SECTION 2.6.** G.S. 105-129.16A reads as rewritten:

31           "**§ 105-129.16A. Credit for investing in renewable energy property.**

32           (a) **Credit.** – ~~If a taxpayer that has constructed, purchased, or leased renewable energy~~  
33 ~~property places it in service in this State during the taxable year, the taxpayer is allowed a~~  
34 ~~credit equal to thirty-five percent (35%) of the cost of the property.~~ A taxpayer that has  
35 constructed, purchased, or leased renewable energy property is allowed a credit equal to  
36 thirty-five percent (35%) of the cost of the property if the property is placed in service in this  
37 State during the taxable year. In the case of renewable energy property that serves a  
38 nonbusiness purpose, the credit must be taken for the taxable year in which the property is  
39 placed in service. For all other renewable energy property, the entire credit may not be taken  
40 for the taxable year in which the property is placed in service but must be taken in five equal  
41 installments beginning with the taxable year in which the property is placed in service. Upon  
42 request of a taxpayer that leases renewable energy property, the lessor of the property must give  
43 the taxpayer a statement that describes the renewable energy property and states the cost of the  
44 property. No credit is allowed under this section to the extent the cost of the renewable energy  
45 property was provided by public funds. For the purposes of this section, "public funds" does not  
46 include grants made under section 1603 of the American Recovery and Reinvestment Tax Act  
47 of 2009.

48           ...."

49           **SECTION 2.7.** Section 1.1(a) of S.L. 2014-3 is rewritten to read:

50           "**SECTION 1.1.(a)** G.S. 105-130.5(b), as amended by Section 14.3 of this act, reads as  
51 rewritten:

"(b) The following deductions from federal taxable income shall be made in determining State net income:

...  
 (4) ~~Losses in the nature of~~ Any unused portion of a net economic loss as allowed under G.S. 105-130.8A(e). ~~losses sustained by the corporation in any or all of the 15 preceding years pursuant to the provisions of G.S. 105-130.8. A corporation required to allocate and apportion its net income under the provisions of G.S. 105-130.4 shall deduct its allocable and apportionable net economic loss only from total income allocable and apportionable to this State pursuant to the provisions of G.S. 105-130.8 This subdivision expires for taxable years beginning on or after January 1, 2030.~~

(4a) A State net loss as allowed under G.S. 105-130.8A. A corporation may deduct its allocable and apportionable State net loss only from total income allocable and apportionable to this State.

...."

**SECTION 2.8.(a)** G.S. 105-134.6A(h) reads as rewritten:

"(h) Definitions. – ~~For purposes of this section, a "transferor" is an individual, partnership, corporation, S Corporation, limited liability company, or an estate or trust that does not fully distribute income to its beneficiaries, and an "owner in a transferor"~~The following definitions apply in this section:

(1) Owner in a transferor. – One or more of the following of a transferor:

a. ~~is a~~A partner, shareholder, ~~member, or beneficiary~~or member.

b. A beneficiary subject to tax under Part 2 or 3 of Article 4 of this Chapter ~~of a transferor.~~Chapter.

(2) Transferor. – An individual, partnership, corporation, S Corporation, limited liability company, or an estate or trust that does not fully distribute income to its beneficiaries."

**SECTION 2.8.(b)** G.S. 105-153.6(h) reads as rewritten:

"(h) Definitions. – ~~For purposes of this section, a "transferor" is an individual, partnership, corporation, S Corporation, limited liability company, or an estate or trust that does not fully distribute income to its beneficiaries, and an "owner in a transferor" is~~The following definitions apply in this section:

(1) Owner in a transferor. – One or more of the following of a transferor:

a. ~~a~~A partner, shareholder, ~~member, or member.~~

b. ~~or~~A beneficiary subject to tax under Part 2 or 3 of Article 4 of this Chapter of a transferor.

(2) Transferor. – An individual, partnership, corporation, S Corporation, limited liability company, or an estate or trust that does not fully distribute income to its beneficiaries."

**SECTION 2.8.(c)** Subsection (a) of this section is effective for taxable years beginning on or after January 1, 2013. Subsection (b) of this section is effective for taxable years beginning on or after January 1, 2014. The remainder of this section is effective when it becomes law.

**SECTION 2.9.(a)** Notwithstanding G.S. 105-163.15, the Secretary of Revenue may not impose interest with respect to an underpayment of income tax to the extent the underpayment was created or increased by the changes made in Section 2.2 of S.L. 2014-3. Notwithstanding G.S. 105-163.8, a withholding agent is not liable for the amount of tax the agent fails to withhold to the extent the amount of tax not withheld was created or increased by the changes made in Section 2.2 of S.L. 2014-3.

1           **SECTION 2.9.(b)** This section is effective when it becomes law and applies to  
2 taxable years beginning on or after January 1, 2014, and before January 1, 2015, and to payroll  
3 periods beginning on or after January 1, 2014, and before January 1, 2015.

4           **SECTION 2.10.** G.S. 105-164.3(35) reads as rewritten:

5       "**§ 105-164.3. Definitions.**

6           The following definitions apply in this Article:

7           ...  
8           (35) ~~Retailer. – A person engaged in business of any of the following:~~ Any of the  
9           following persons:

10           a. ~~Making~~ A person engaged in business of making sales at retail,  
11           offering to make sales at retail, or soliciting sales at retail of tangible  
12           personal property, digital property, or services for storage, use, or  
13           consumption in this State. When the Secretary finds it necessary for  
14           the efficient administration of this Article to regard any sales  
15           representatives, solicitors, representatives, consignees, peddlers, or  
16           truckers as agents of the dealers, distributors, consignors,  
17           supervisors, employers, or persons under whom they operate or from  
18           whom they obtain the items sold by them regardless of whether they  
19           are making sales on their own behalf or on behalf of these dealers,  
20           distributors, consignors, supervisors, employers, or persons, the  
21           Secretary may so regard them and may regard the dealers,  
22           distributors, consignors, supervisors, employers, or persons as  
23           "retailers" for the purpose of this Article.

24           b. ~~Delivering~~ A person engaged in business of delivering, erecting,  
25           installing, or applying tangible personal property for use in this State,  
26           regardless of whether the property is permanently affixed to real  
27           property or other tangible personal property.

28           c. ~~Making~~ A person engaged in business of making a remote sale, if  
29           one of the conditions listed in G.S. 105-164.8(b) is met.

30           d. A person, other than a facilitator, required to collect the tax levied  
31           under G.S. 105-164.4(a)."

32       **SECTION 2.11.** G.S. 105-164.4G reads as rewritten:

33       "**§ 105-164.4G. Entertainment activity.**

34       ...  
35       (f) Exemptions. – The sale at retail and the use, storage, or consumption in this State of  
36       the following gross receipts derived from an admission charge to an entertainment activity are  
37       specifically exempt from the tax imposed by this Article:

38       ...  
39       (g) Sourcing. – ~~Admission~~ An admission charge to an entertainment activity is sourced  
40       to the location where admission to the entertainment activity may be gained by a person. When  
41       the location where admission may be gained is not known at the time of the receipt of the gross  
42       receipts for an admission charge, the sourcing principles in G.S. 105-164.4B(a) apply."

43       **SECTION 2.12.** G.S. 105-164.13 reads as rewritten:

44       "**§ 105-164.13. Retail sales and use tax.**

45       The sale at retail and the use, storage, or consumption in this State of the following tangible  
46       personal property, digital property, and services are specifically exempted from the tax imposed  
47       by this Article:

48       ...  
49       (8a) Sales to a small power production facility, as defined in 16 U.S.C. §  
50       796(17)(A), of fuel and piped natural gas used by the facility to generate  
51       electricity.

- 1 ...
- 2 (10) Sales of the following to commercial laundries or to pressing and dry  
3 cleaning establishments:
- 4 a. Articles or materials used for the identification of garments being  
5 laundered or dry cleaned, wrapping paper, bags, hangers, starch,  
6 soaps, detergents, cleaning fluids and other compounds or chemicals  
7 applied directly to the garments in the direct performance of the  
8 laundering or the pressing and cleaning service.
- 9 b. Laundry and dry-cleaning machinery, parts and accessories attached  
10 to the machinery, and lubricants applied to the machinery.
- 11 c. ~~Fuel, other than electricity, Fuel and piped natural gas~~ used in the  
12 direct performance of the laundering or the pressing and cleaning  
13 service. The exemption does not apply to electricity.

- 14 ...
- 15 (57) ~~Fuel and~~ Fuel, piped natural gas, and electricity sold to a manufacturer for  
16 use in connection with the operation of a manufacturing facility. The  
17 exemption does not apply to electricity used at a facility at which the  
18 primary activity is not manufacturing.

19 ...."

20 **SECTION 2.13.(a)** G.S. 105-164.13E reads as rewritten:

21 "**§ 105-164.13E. Exemption for farmers.**

22 (a) Exemption. – A qualifying farmer is a person who has an annual ~~gross-income from~~  
23 farming operations for the preceding taxable year of ten thousand dollars (\$10,000) or more  
24 ~~from farming operations~~ or who has an average annual ~~gross-income from farming operations~~  
25 for the three preceding taxable years of ten thousand dollars (\$10,000) or ~~more from farming~~  
26 ~~operations.~~ more. For purposes of this section, the term "income from farming operations"  
27 means sales plus any other amounts treated as gross income under the Code from farming  
28 operations. A qualifying farmer includes a dairy operator, a poultry farmer, an egg producer, a  
29 livestock farmer, a farmer of crops, and a farmer of an aquatic species, as defined in  
30 G.S. 106-758. A qualifying farmer may apply to the Secretary for an exemption certificate  
31 number under G.S. 105-164.28A. The exemption certificate expires when a person fails to meet  
32 the income threshold for three consecutive taxable years or ceases to engage in farming  
33 ~~operations.~~ operations, whichever comes first.

34 The following tangible personal property, digital property, and services are exempt from  
35 sales and use tax if purchased by a qualifying farmer and for use by the farmer in farming  
36 operations. For purposes of this section, an item is used by a farmer for farming operations if it  
37 is used for the planting, cultivating, harvesting, or curing of farm crops or in the production of  
38 dairy products, eggs, or animals:

- 39 (1) ~~Fuel and~~ Fuel, piped natural gas, and electricity that ~~is~~ are measured by a  
40 separate meter or another separate device and used for a purpose other than  
41 preparing food, heating dwellings, and other household purposes.
- 42 (2) Commercial fertilizer, lime, land plaster, plastic mulch, plant bed covers,  
43 potting soil, baler twine, and seeds.
- 44 (3) Farm machinery, attachment and repair parts for farm machinery, and  
45 lubricants applied to farm machinery. The term "machinery" includes  
46 implements that have moving parts or are operated or drawn by an animal.  
47 The term does not include implements operated wholly by hand or motor  
48 vehicles required to be registered under Chapter 20 of the General Statutes.
- 49 (4) A container used in the planting, cultivating, harvesting, or curing of farm  
50 crops or in the production of dairy products, eggs, or animals or used in  
51 packaging and transporting the farmer's product for sale.



- 1 (5) A grain, feed, or soybean storage facility and parts and accessories attached  
2 to the facility.
- 3 (6) Any of the following substances when purchased for use on animals or  
4 plants, as appropriate, held or produced for commercial purposes. This  
5 exemption does not apply to any equipment or devices used to administer,  
6 release, apply, or otherwise dispense these substances:
- 7 a. Remedies, vaccines, medications, litter materials, and feeds for  
8 animals.
- 9 b. Rodenticides, insecticides, herbicides, fungicides, and pesticides.
- 10 c. Defoliant for use on cotton or other crops.
- 11 d. Plant growth inhibitors, regulators, or stimulators, including systemic  
12 and contact or other sucker control agents for tobacco and other  
13 crops.
- 14 e. Semen.
- 15 (7) Baby chicks and poults sold for commercial poultry or egg production.
- 16 (8) Any of the following items concerning the housing, raising, or feeding of  
17 animals:
- 18 a. A commercially manufactured facility to be used for commercial  
19 purposes for housing, raising, or feeding animals or for housing  
20 equipment necessary for these commercial activities. The exemption  
21 also applies to commercially manufactured equipment, and parts and  
22 accessories for the equipment, used in the facility.
- 23 b. Building materials, supplies, fixtures, and equipment that become a  
24 part of and are used in the construction, repair, or improvement of an  
25 enclosure or a structure specifically designed, constructed, and used  
26 for housing, raising, or feeding animals or for housing equipment  
27 necessary for one of these commercial activities. The exemption also  
28 applies to commercially manufactured equipment, and parts and  
29 accessories for the equipment, used in the enclosure or a structure.
- 30 (9) A bulk tobacco barn or rack, parts and accessories attached to the tobacco  
31 barn or rack, and any similar apparatus, part, or accessory used to cure or dry  
32 tobacco or another crop.

33 (b) Conditional Exemption. – A person who does not meet the definition of a qualifying  
34 farmer in subsection (a) of this section may apply to the Department for a conditional  
35 exemption certificate under G.S. 105-164.28A. A person with a conditional exemption  
36 certificate is allowed to purchase items exempt from sales and use tax to the same extent as a  
37 qualifying farmer under subsection (a) of this section. To receive a conditional exemption  
38 certificate under this subsection, the person must certify that the person intends to engage in  
39 farming operations, as that term is described in subsection (a) of this section, and that the  
40 person will timely file State and federal income tax returns that reflect income and expenses  
41 incurred from farming operations during the taxable years that the conditional exemption  
42 certificate applies.

43 A conditional exemption certificate issued under this subsection is valid for the taxable year in  
44 which the certificate is issued and the following two taxable years, provided the person to  
45 whom the certificate is issued is engaged in farming and provides copies of applicable State  
46 and federal income tax returns to the Department within 90 days following the end of the due  
47 date of an income tax return for each taxable year covered by the conditional exemption  
48 certificate, including an extension of the due date granted by the Secretary under  
49 G.S. 105-263. A conditional exemption certificate issued under this subsection may not be  
50 extended or renewed beyond the original three-year period. The Department may not issue a

1 conditional exemption certificate to a person who has had a conditional exemption certificate  
2 issued under this subsection during the prior 15 taxable years.

3 A person who purchases items with a conditional exemption certificate must maintain  
4 documentation of the items purchased and copies of State and federal income tax returns that  
5 reflect activities from farming operations for the period of time covered by the conditional  
6 exemption certificate for three years following the expiration of the conditional exemption  
7 certificate. The Secretary may require a person who has a conditional exemption certificate to  
8 provide any other information requested by the Secretary to verify the person met the  
9 conditions of this subsection. A person who fails to provide the information requested by the  
10 Secretary in a timely manner or who fails to meet the requirements of this subsection becomes  
11 liable for any taxes for which an exemption under this subsection was claimed. The taxes  
12 become due and payable at the expiration of the conditional exemption certificate, and interest  
13 accrues from the date of the original purchase. Additionally, where the person does not timely  
14 provide the information requested by the Secretary, the misuse of exemption certificate penalty  
15 in G.S. 105-236(a)(5a) applies to each seller identified by the Department from which the  
16 person made a purchase.

17 (c) Contract with a Farmer. – A qualifying item listed in subdivisions (5), (8), and (9) of  
18 subsection (a) of this section purchased to fulfill a contract with a person who holds a  
19 qualifying farmer exemption certificate or a conditional farmer exemption certificate issued  
20 under G.S. 105-164.28A is exempt from sales and use tax to the same extent as if purchased  
21 directly by the person who holds the exemption certificate. A contractor that purchases one of  
22 the items allowed an exemption under this section must provide an exemption certificate to the  
23 retailer that includes the name of the agricultural exemption certificate holder and the  
24 agricultural exemption certificate number issued to that holder.

25 (d) Definition. – For purposes of this section, the term "taxable year" has the same  
26 meaning as defined in G.S. 105-153.3."

27 **SECTION 2.13.(b)** This section becomes effective July 1, 2014. A contractor who  
28 paid sales and use tax on an item exempt from sales and use tax pursuant to  
29 G.S. 105-164.13(c), as enacted by this section, may request a refund from the retailer, and the  
30 retailer may, upon issuance of the refund or credit, request a refund for the overpayment of tax  
31 under G.S. 105-164.11(a)(1).

32 **SECTION 2.14.(a)** G.S. 105-164.16A reads as rewritten:  
33 **"§ 105-164.16A. Reporting option for prepaid meal plans.**

34 This section provides a ~~taxpayer-retailer~~ that offers to ~~sell~~ a prepaid meal plan ~~plan subject~~  
35 ~~to the tax imposed by G.S. 105-164.4~~ with an option concerning the method by which the sales  
36 tax will be remitted to the Secretary and a return filed under G.S. 105-164.16. When the retailer  
37 enters into an agreement with a food service contractor by which the food service contractor  
38 agrees to provide food or prepared food under a prepaid meal plan, and the food service  
39 contractor with whom the retailer contracts is also a retailer under this Article, the retailer may  
40 include in the agreement that the food service contractor is liable for ~~collecting-reporting~~ and  
41 remitting the sales tax due on the gross receipts derived from the prepaid meal plan on behalf of  
42 the retailer. The agreement must provide that the tax applies to the allocated sales price of the  
43 prepaid meal plan paid by or on behalf of the person entitled to the food or prepaid food under  
44 the plan and not the amount charged by the food service contractor to the retailer under the  
45 agreement for the food and prepared food for the person.

46 A retailer who elects this option must report to the food service contractor with whom it has  
47 an agreement the gross receipts a person pays to the retailer for a prepaid meal plan. The  
48 retailer must report the gross receipts on an accrual basis of accounting, as required under  
49 G.S. 105-164.20. The retailer must send the food service contractor the tax due on the gross  
50 receipts derived from a prepaid meal plan. Tax payments received by a food service contractor  
51 from a retailer are held in trust by the food service contractor for remittance to the Secretary. A

1 food service contractor that receives a tax payment from a retailer must remit the amount  
2 received to the Secretary. A food service contractor is not liable for tax due but not received  
3 from a retailer. A retailer that does not send the food service contractor the tax due on the gross  
4 receipts derived from a prepaid meal plan is liable for the amount of tax the retailer fails to send  
5 to the food service contractor."

6 **SECTION 2.14.(b)** G.S. 105-164.20 reads as rewritten:

7 "**§ 105-164.20. Cash or accrual basis of reporting.**

8 (a) Basis Selected. – Any retailer, except a retailer who sells electricity or  
9 telecommunications service, Except as provided in subsection (b) of this section, a retailer  
10 report sales on either the cash or accrual basis of accounting upon making application to the  
11 Secretary for permission to use the basis selected. Permission granted by the Secretary to report  
12 on a selected basis continues in effect until revoked by the Secretary or the taxpayer receives  
13 permission from the Secretary to change the basis selected.

14 (b) Accrual Basis. – A For purposes of reporting and remitting sales tax under this  
15 Article, a retailer listed in this subsection must report the gross receipts it derives from the  
16 taxable transaction listed in this subsection on an accrual basis of accounting. The following  
17 retailers must report gross receipts as provided in this subsection:

18 (1) A retailer who sells ~~electricity or~~ electricity, piped natural gas, or  
19 telecommunications service ~~must report its sales on an accrual basis. service.~~  
20 A sale of ~~electricity or~~ electricity, piped natural gas, or telecommunications  
21 service is considered to accrue when the retailer bills its customer for the  
22 sale.

23 (2) A retailer who derives gross receipts from a prepaid meal plan,  
24 notwithstanding that the retailer may report tax on the cash basis for other  
25 sales at retail and notwithstanding that the revenue has not been recognized  
26 for accounting purposes.

27 (3) A retailer who sells or derives gross receipts from a service contract, as  
28 provided in G.S. 105-164.4I(d)."

29 **SECTION 2.15.** G.S. 105-164.29(a) reads as rewritten:

30 "(a) Requirement and Application. – Before a person may engage in business as a  
31 retailer or a wholesale merchant or when a facilitator is liable for tax under G.S. 105-164.4F,  
32 the person must obtain a certificate of registration. To obtain a certificate of registration, a  
33 person must register with the Department. A person who has more than one business is required  
34 to obtain only one certificate of registration for each legal entity to cover all operations of each  
35 business throughout the State. An application for registration must be signed as follows:

36 (1) By the owner, if the owner is an individual.

37 (2) By a manager, member, or company official, partner, if the owner is an  
38 association, a partnership, or a limited liability company.

39 (2a) By a manager, member, or partner, if the owner is a partnership.

40 (3) By an executive officer or some other person specifically authorized by the  
41 corporation to sign the application, if the owner is a corporation. If the  
42 application is signed by a person authorized to do so by the corporation,  
43 written evidence of the person's authority must be attached to the  
44 application."

45 **SECTION 2.16.** G.S. 105-241.6(b)(5) reads as rewritten:

46 "(b) Exceptions. – The exceptions to the general statute of limitations for obtaining a  
47 refund of an overpayment are as follows:

48 ...

49 (5) Contingent Event. – The period to request a refund of an overpayment may  
50 be extended as provided in this subdivision if an event or condition prevents

1 the taxpayer from possessing the information necessary to file an accurate  
 2 and definite request for a refund of an overpayment under this Chapter:

- 3 a. If a taxpayer is subject to a contingent event and files written notice
- 4 with the Secretary, the period to request a refund of an overpayment
- 5 is six months after the contingent event concludes.
- 6 ~~b. For purposes of this subdivision,~~ For purposes of this subdivision, a
- 7 "contingent event" means litigation or a State-state tax audit initiated
- 8 prior to the expiration of the statute of limitations under subsection
- 9 (a) of this section, the pendency of which prevents the taxpayer from
- 10 possessing the information necessary to file an accurate and definite
- 11 request for a refund of an overpayment under this Chapter.
- 12 ~~e. For purposes of this subdivision, "notice to the Secretary" means~~
- 13 ~~written notice~~ The written notice to the Secretary must be filed with
- 14 ~~the Secretary~~ prior to expiration of the statute of limitations under
- 15 subsection (a) of this section for a return or payment in which a
- 16 contingent event prevents a taxpayer from filing a definite request for
- 17 a refund of an overpayment. The notice must identify and describe
- 18 the contingent event, identify the type of tax, list the return or
- 19 payment affected by the contingent event, and state in clear terms the
- 20 basis for and an estimated amount of the overpayment.
- 21 ~~d.b. A-If a taxpayer who~~ contends that an event or condition other than
- 22 ~~litigation or a State tax audit~~ a contingent event, as defined in this
- 23 subdivision, has occurred that prevents the taxpayer from filing an
- 24 accurate and definite request for a refund of an overpayment within
- 25 the period under subsection (a) of this sectionsection, the taxpayer
- 26 may submit a written request to the Secretary seeking an extension of
- 27 the statute of limitations allowed under this subdivision. The request
- 28 must establish by clear, convincing proof that the event or condition
- 29 is beyond the taxpayer's control and that it prevents the taxpayer's
- 30 timely filing of an accurate and definite request for a refund of an
- 31 overpayment. The request must be filed within the period under
- 32 subsection (a) of this section. The Secretary's decision on the request
- 33 is final and is not subject to administrative or judicial review."

34 **SECTION 2.17.(a)** G.S. 105-338(c) reads as rewritten:

35 "(c) Certain Property of Bus Line, Motor Freight Carrier, ~~Airline, and Mobile~~  
 36 ~~Telecommunications and Airline Companies.~~ -

- 37 ...
- 38 (4) ~~The appraised valuation of the tangible personal property of a mobile~~
- 39 ~~telecommunications company (excluding towers) that is appraised in~~
- 40 ~~accordance with the provisions of G.S. 105-336(c) is allocated among the~~
- 41 ~~local taxing units in which the property of the company is situated on~~
- 42 ~~January 1 in the proportion that the original cost of the property in the taxing~~
- 43 ~~unit bears to the original cost of all such property in this State."~~

44 **SECTION 2.17.(b)** G.S. 105-339 reads as rewritten:

45 **"§ 105-339. Certification of appraised valuations of nonsystem property and locally**  
 46 **assigned rolling stock, tangible personal property of tower aggregator**  
 47 **companies, and ~~eertain~~—tangible personal property of mobile**  
 48 **telecommunications companies.**

49 Having determined the appraised valuations of the nonsystem properties of public service  
 50 companies in accordance with subdivisions (b)(2) and (b)(3) of G.S. 105-335 and the appraised  
 51 valuations of locally assigned rolling stock in accordance with subdivision (c)(1) of

1 G.S. 105-335, the appraised valuations of the tangible personal property of tower aggregator  
2 companies in accordance with G.S. 105-336(d) and the appraised valuations of ~~towers of the~~  
3 tangible personal property of mobile telecommunications companies in accordance with  
4 ~~G.S. 105-336(d),~~ G.S. 105-336(c) and (d), the Department of Revenue shall assign those  
5 appraised valuations to the taxing units in which such properties are situated by certifying the  
6 valuations to the appropriate counties and municipalities. Each local taxing unit receiving such  
7 certified valuations shall assess them at the figures certified and shall tax the assessed  
8 valuations at the rate of tax levied against other property subject to taxation therein."

9 **SECTION 2.17.(c)** Section 11.1(g) of S.L. 2014-3 is repealed.

10 **SECTION 2.17.(d)** Subsection (c) of this section is effective when it becomes law.  
11 The remainder of this section is effective for taxes imposed for taxable years beginning on or  
12 after July 1, 2015.

13 **SECTION 2.18.(a)** G.S. 160A-206 reads as rewritten:

14 "**§ 160A-206. General power to impose taxes.**

15 (a) Authority. – A city shall have power to impose taxes only as specifically authorized  
16 by act of the General Assembly. Except when the statute authorizing a tax provides for  
17 penalties and interest, the power to impose a tax shall include the power to impose reasonable  
18 penalties for failure to declare tax liability, if required, or to impose penalties or interest for  
19 failure to pay taxes lawfully due within the time prescribed by law or ordinance. In determining  
20 the liability of any taxpayer for a tax, a city may not employ an agent who is compensated in  
21 whole or in part by the city for services rendered on a contingent basis or any other basis  
22 related to the amount of tax, interest, or penalty assessed against or collected from the taxpayer.  
23 The power to impose a tax shall also include the power to provide for its administration in a  
24 manner not inconsistent with the statute authorizing the tax.

25 (b) Prohibition. – A city may not impose a license, franchise, or privilege tax on a  
26 person engaged in any of the businesses listed in this subsection. These businesses are subject  
27 to sales tax at the combined general rate for which the city receives a share of the tax revenue  
28 or they are subject to the local sales tax:

29 (1) Supplying piped natural gas.

30 (2) Providing telecommunications service taxed under G.S. 105-164.4(a)(4c).

31 (3) Providing video programming taxed under G.S. 105-164.4(a)(6).

32 (4) Providing electricity."

33 **SECTION 2.18.(b)** G.S. 153A-146 reads as rewritten:

34 "**§ 153A-146. General power to impose taxes.**

35 (a) Authority. – A county may impose taxes only as specifically authorized by act of  
36 the General Assembly. Except when the statute authorizing a tax provides for penalties and  
37 interest, the power to impose a tax includes the power to impose reasonable penalties for failure  
38 to declare tax liability, if required, and to impose penalties or interest for failure to pay taxes  
39 lawfully due within the time prescribed by law or ordinance. In determining the liability of any  
40 taxpayer for a tax, a county may not employ an agent who is compensated in whole or in part  
41 by the county for services rendered on a contingent basis or any other basis related to the  
42 amount of tax, interest, or penalty assessed against or collected from the taxpayer. The power to  
43 impose a tax also includes the power to provide for its administration in a manner not  
44 inconsistent with the statute authorizing the tax.

45 (b) Prohibition. – A county may not impose a license, franchise, or privilege tax on a  
46 person engaged in any of the businesses listed in this subsection:

47 (1) Supplying piped natural gas.

48 (2) Providing telecommunications service taxed under G.S. 105-164.4(a)(4c).

49 (3) Providing video programming taxed under G.S. 105-164.4(a)(6).

50 (4) Providing electricity."

1           **SECTION 2.19.(a)** The Department of Revenue may draw the funds needed to  
 2 make the following distributions from the sales and use tax collections under Article 5 of  
 3 Chapter 105 of the General Statutes:

- 4           (1) The September 15, 2014, distribution of the franchise tax to cities under  
 5 G.S. 105-116.1 for the calendar quarter that begins April 1, 2014.
- 6           (2) The September 15, 2014, distribution of the excise tax to cities under  
 7 G.S. 105-187.44 for the calendar quarter that begins April 1, 2014.

8           **SECTION 2.19.(b)** This section becomes effective July 1, 2014.

9           **SECTION 2.20.(a)** G.S. 105-153.3 reads as rewritten:

10   **"§ 105-153.3. Definitions.**

11       The following definitions apply in this Part:

- 12       ...
- 13       (18) Surviving spouse. – Defined in section 2(a) of the Code.
- 14       ~~(18)~~(19) Taxable year. – Defined in section 441(b) of the Code.
- 15       ~~(19)~~(20) Taxpayer. – An individual subject to the tax imposed by this Part.
- 16       ~~(20)~~(21) This State. – The State of North Carolina."

17           **SECTION 2.20.(b)** G.S. 105-153.5(a)(1) reads as rewritten:

18       "(a) Deduction Amount. – In calculating North Carolina taxable income, a taxpayer may  
 19 deduct from adjusted gross income either the standard deduction amount provided in  
 20 subdivision (1) of this subsection or the itemized deduction amount provided in subdivision (2)  
 21 of this subsection that the taxpayer claimed under the Code. In the case of a married couple  
 22 filing separate returns, a taxpayer may not deduct the standard deduction amount if the taxpayer  
 23 or the taxpayer's spouse claims the itemized deductions amount:

- 24       (1) Standard deduction amount. – An amount equal to the amount listed in the  
 25 table below based on the taxpayer's filing status:

<b>Filing Status</b>	<b>Standard Deduction</b>
Married, filing <del>jointly</del> jointly/surviving spouse	\$15,000
Head of Household	12,000
Single	7,500
Married, filing separately	7,500."

31           **SECTION 2.20.(c)** G.S. 105-134.1 reads as rewritten:

32   **"§ 105-134.1. Definitions.**

33       The following definitions apply in this Part:

- 34       ...
- 35       (15a) Surviving spouse. – Defined in section 2(a) of the Code.
- 36       ...."

37           **SECTION 2.20.(d)** G.S. 105-134.6(a2) reads as rewritten:

38       "(a2) Deduction Amount. – In calculating North Carolina taxable income, a taxpayer may  
 39 deduct either the North Carolina standard deduction amount for that taxpayer's filing status or  
 40 the itemized deductions amount claimed under the Code. The North Carolina standard  
 41 deduction amount is the lesser of the amount shown in the table below or the amount allowed  
 42 under the Code. In the case of a married couple filing separate returns, a taxpayer may not  
 43 deduct the standard deduction amount if the taxpayer or the taxpayer's spouse claims itemized  
 44 deductions for State purposes.

45       A taxpayer that deducts the standard deduction amount under this subsection and is entitled  
 46 to an additional deduction amount under section 63(f) of the Code for the aged or blind may  
 47 deduct an additional amount under this subsection. The additional amount the taxpayer may  
 48 deduct is six hundred dollars (\$600.00) in the case of an individual who is married and seven  
 49 hundred fifty dollars (\$750.00) in the case of an individual who is not married and is not a  
 50 surviving spouse. The taxpayer is allowed the same number of additional amounts that the  
 51 taxpayer claimed under the Code for the taxable year.

	Filing Status	Standard Deduction
1	Married, filing <del>jointly</del> <u>jointly</u> / <u>surviving spouse</u>	\$6,000
2		
3	Head of Household	4,400
4	Single	3,000
5	Married, filing separately	3,000."

7 **SECTION 2.20.(e)** Subsections (a) and (b) of this section are effective for taxable  
8 years beginning on or after January 1, 2014. Subsections (c) and (d) of this section are effective  
9 retroactively for taxable years beginning on or after January 1, 2012, and before January 1,  
10 2014. The remainder of this section is effective when it becomes law.

11 **SECTION 2.21.** G.S. 105-164.13B(a)(4) reads as rewritten:

12 "(a) State Exemption. – Food is exempt from the taxes imposed by this Article unless the  
13 food is included in one of the subdivisions in this subsection. The following food items are  
14 subject to tax:

15 ...

16 (4) Prepared food, other than bakery items sold without eating utensils by an  
17 artisan bakery. The term "bakery item" includes bread, rolls, buns, biscuits,  
18 bagels, croissants, pastries, donuts, danish, cakes, tortes, pies, tarts, muffins,  
19 bars, cookies, and tortillas. An artisan bakery is a bakery that meets all of the  
20 following requirements:

- 21 a. It derives over eighty percent (80%) of its gross receipts from bakery  
22 items.  
23 b. Its annual gross receipts, combined with the gross receipts of all  
24 related ~~persons as defined in G.S. 105-163.010, persons,~~ do not  
25 exceed one million eight hundred thousand dollars (\$1,800,000). For  
26 purposes of this subdivision, the term "related person" means a  
27 person described in one of the relationships set forth in section  
28 267(b) or 707(b) of the Code."

29 **SECTION 2.22.(a)** G.S. 105-153.4 reads as rewritten:

30 **"§ 105-153.4. North Carolina taxable income defined.**

31 (a) Residents. – For an individual who is a resident of this State, the term "North  
32 Carolina taxable income" means the taxpayer's adjusted gross income as modified in  
33 G.S. 105-153.5 and ~~G.S. 105-153.6 and G.S. 105-134.6A.~~ G.S. 105-153.6.

34 (b) Nonresidents. – For a nonresident individual, the term "North Carolina taxable  
35 income" means the taxpayer's adjusted gross income as modified in G.S. 105-153.5 and  
36 ~~G.S. 105-153.6 and G.S. 105-134.6A,~~ G.S. 105-153.6, multiplied by a fraction the denominator  
37 of which is the taxpayer's gross income as modified in G.S. 105-153.5 and ~~G.S. 105-153.6 and~~  
38 ~~G.S. 105-134.6A,~~ G.S. 105-153.6, and the numerator of which is the amount of that gross  
39 income, as modified, that is derived from North Carolina sources and is attributable to the  
40 ownership of any interest in real or tangible personal property in this State, is derived from a  
41 business, trade, profession, or occupation carried on in this State, or is derived from gambling  
42 activities in this State.

43 (c) Part-year Residents. – If an individual was a resident of this State for only part of  
44 the taxable year, having moved into or removed from the State during the year, the term "North  
45 Carolina taxable income" has the same meaning as in subsection (b) of this section except that  
46 the numerator includes gross income, as modified under G.S. 105-153.5 and ~~G.S. 105-153.6~~  
47 ~~and G.S. 105-134.6A,~~ G.S. 105-153.6, derived from all sources during the period the individual  
48 was a resident.

49 (d) S Corporations and Partnerships. – In order to calculate the numerator of the  
50 fraction provided in subsection (b) of this section, the amount of a shareholder's pro rata share  
51 of S Corporation ~~income~~ income, as modified in G.S. 105-153.5 and G.S. 105-153.6, that is

1 includable in the numerator is the shareholder's pro rata share of the S Corporation's income  
2 attributable to the State, as defined in G.S. 105-131(b)(4). In order to calculate the numerator of  
3 the fraction provided in subsection (b) of this section for a member of a partnership or other  
4 unincorporated business that has one or more nonresident members and operates in one or more  
5 other states, the amount of the member's distributive share of the total net income of the  
6 ~~business-business, as modified in G.S. 105-153.5 and G.S. 105-153.6,~~ that is includable in the  
7 numerator is determined ~~by multiplying the total net income of the business by the ratio~~  
8 ~~ascertained under the~~ in accordance with the provisions of G.S. 105-130.4. As used in this  
9 subsection, total net income means the entire gross income of the business less all expenses,  
10 taxes, interest, and other deductions allowable under the Code that were incurred in the  
11 operation of the business.

12 (e) Tax Year. – A taxpayer must compute North Carolina taxable income on the basis  
13 of the taxable year used in computing the taxpayer's income tax liability under the Code."

14 **SECTION 2.22.(b)** G.S. 105-153.5 is amended by adding a new subsection to  
15 read:

16 "(c1) Other Additions. – S Corporations subject to the provisions of Part 1A of this  
17 Article, partnerships subject to the provisions of this Part, and estates and trusts subject to the  
18 provisions of Part 3 of this Article must add any amount deducted under section 164 of the  
19 Code as state, local, or foreign income tax."

20 **SECTION 2.22.(c)** This section is effective for taxable years beginning on or after  
21 January 1, 2015.

22 **SECTION 2.23.(a)** G.S. 105-164.13 reads as rewritten:

23 "**§ 105-164.13. Retail sales and use tax.**

24 The sale at retail and the use, storage, or consumption in this State of the following tangible  
25 personal property, digital property, and services are specifically exempted from the tax imposed  
26 by this Article:

27 ...

28 (62) An item used to maintain or repair tangible personal property or a motor  
29 vehicle pursuant to a service contract taxable under this Article if the  
30 purchaser of the contract is not charged for the item. ~~This exemption does~~  
31 ~~not apply to an item used to maintain or repair tangible personal property~~  
32 ~~pursuant to a service contract exempt from tax under G.S. 105-164.4I(b).~~ For  
33 purposes of this exemption, the term "item" does not include a tool,  
34 equipment, supply, or similar tangible personal property used to complete  
35 the maintenance or repair and that is not deemed to be a component or repair  
36 part of the tangible personal property or motor vehicle for which a service  
37 contract is sold to a purchaser.

38 ...."

39 **SECTION 2.23.(b)** G.S. 105-187.52(c) reads as rewritten:

40 "(c) Exemption. – State agencies are exempted from the privilege taxes imposed by this  
41 Article. The exemption in G.S. 105-164.13(62) does not apply to an item used to maintain or  
42 repair tangible personal property pursuant to a service contract exempt from tax under  
43 G.S. 105-164.4I(b)(4)."

44 **SECTION 2.23.(c)** Notwithstanding G.S. 105-164.13(62), as amended by S.L.  
45 2014-3 and by subsection (a) of this section, the sales and use tax exemption in  
46 G.S. 105-164.13(62) applies to an item used pursuant to a service contract that meets the  
47 definition of a "service contract" as defined in G.S. 105-164.3(38b), notwithstanding that the  
48 service contract was sold before January 1, 2014, and effective on, before, or after January 1,  
49 2014.

50 **SECTION 2.23.(d)** This section becomes effective October 1, 2014.



1           **SECTION 2.24.(a)** Purpose. – The purpose of this section is to extend the statute  
2 of limitations for requesting a refund of State income taxes to conform to federal tax treatment  
3 of the rollover of an airline payment amount by a qualified airline employee to a traditional or  
4 Roth IRA so as to prevent double taxation of the amount for State income tax purposes.

5           **SECTION 2.24.(b)** Definitions. – The following definitions apply in this section:

6           (1) Airline payment amount. – Defined in section 1106(c)(1) of Public Law  
7 112-95, as amended by Public Law 113-243.

8           (2) Qualified airline employee. – Defined in section 1106(c)(2) of Public Law  
9 112-95, as amended by Public Law 113-243.

10           **SECTION 2.24.(c)** Extension of Time to File Claim for Refund. – Notwithstanding  
11 the general statute of limitations for obtaining a refund of an overpayment of tax under  
12 G.S. 105-241.6(a), a qualified airline employee, or the surviving spouse of a qualified airline  
13 employee, that meets all of the following conditions may apply to the Department of Revenue  
14 for a refund of the State individual income tax paid on the airline payment amount that was  
15 transferred to a traditional IRA:

16           (1) Received an airline payment amount in a taxable year beginning before  
17 January 1, 2012, and included the amount in federal adjusted gross income.

18           (2) Transferred any portion of the airline payment amount to a traditional IRA,  
19 either directly or indirectly from a Roth IRA, by August 13, 2012.

20           (3) Filed a claim for refund of federal individual income tax paid on the airline  
21 payment amount by April 15, 2015, that was accepted by the Internal  
22 Revenue Service.

23           **SECTION 2.24.(d)** Late Refund Request. – A request for a refund under this  
24 section must be made to the Secretary of Revenue on or before October 15, 2015. A request for  
25 a refund received after that date is barred.

### 26 **PART III. EFFECTIVE DATE**

27           **SECTION 3.1.** Except as otherwise provided, this act is effective when it becomes  
28 law.  
29