

# North Carolina lawmakers consider comprehensive tax reform legislation

May 23, 2013

## In brief

On May 16, 2013, the North Carolina Committee on Finance presented a revised draft of [House Bill 998](#). The proposed H.B. 998 would implement comprehensive tax reform in the state by lowering individual, corporate income tax and franchise tax rates; lowering the combined local sales and use tax rate; and expanding the sales and use tax base.

## In detail

H.B. 998 is intended to shift the State's reliance on income taxes to consumption taxes and would implement the following changes.

### Corporate income tax

- effective for taxable years beginning on or after January 1, 2014, the corporate income tax rate would be reduced from 6.9% to 6.75%
- single-sales factor apportionment would be phased-in and fully implemented for tax years beginning on or after January 1, 2017
- addback and subsequent deduction for special accelerated bonus depreciation and Section 179

expense is provided in a new code section.

### Franchise tax

Effective for taxable years beginning on or after January 1, 2015, and applicable to taxes due in that year:

- the franchise tax rate would be reduced from 0.15% to 0.135%
- the franchise tax on electric power, water, and sewage companies would be repealed.

### Sales and use tax

Effective on July 1, 2014, H.B. 998 would:

- broaden the sales tax base to impose sales tax on services such as alteration, repair, maintenance, cleaning, and installation of tangible

personal property and service contracts, and certain admission charges to entertainment activities

- convert the electricity franchise tax and piped natural gas excise tax to a sales tax at the general rate (currently, electricity is generally subject to a top rate of 3%)
- reduce the local sales and use tax by 0.10% for all items other than food
- provide a special relief provision, that will expire on July 1, 2016, for retailers and consumers that make a good faith effort to comply with the sales and use tax laws regarding newly taxable items.

### **Individual income tax**

- effective for tax years beginning on or after January 1, 2014, the state would impose an flat individual income tax rate of 5.9% from the current top rate of 7.75%
- several changes to the tax base calculation would be made, including: reducing the net business income deduction from

\$50,000 to \$25,000, repealing the personal exemption and allow either a standard or itemized deduction, repealing several credits for non-itemizers, and increasing the credit for a dependent child.

### **The takeaway**

The proposed legislation would make several changes to North Carolina law. The governor has expressed support of such an effort for tax reform that is “fair to North Carolina families, attracts job creators, and provides certainty that will encourage home-grown business to expand.”

### **Let's talk**

If you have any questions regarding proposed changes to H.B. 998, please contact:

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