FOREWORD

NORTH CAROLINA'S TAX SYSTEM

This booklet presents a brief sketch of all state and local taxes payable by most corporations and individuals. Although this summary was carefully compiled, it is not an official interpretation of the law. Therefore, the booklet should not be relied on as representing the position of the Secretary of Revenue.

Should further details be desired, contact the Director of the Policy Analysis and Statistics Division, North Carolina Department of Revenue, Post Office Box 871, Raleigh, North Carolina 27602-0871. Tax forms and additional information, including this booklet, are available on the Department of Revenue website at http://www.dornc.com.

This booklet is updated each year to reflect changes in the tax laws enacted by the North Carolina General Assembly. This edition includes changes enacted through the 2011 regular session. Unless otherwise noted, all changes made during 2011 were in effect at the time of publication. The next edition of State and Local Taxes will be available for distribution after the adjournment of the 2012 session.
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This information was prepared
by the Department of Revenue

Policy Analysis and Statistics Division

March 2012
### GENERAL STATE AND LOCAL TAXES

#### SALES AND USE TAX

**Overview of Sales and Use Tax Rates**

<table>
<thead>
<tr>
<th>Items</th>
<th>State tax rate</th>
<th>Local tax rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Most tangible goods</td>
<td>4.75%*</td>
<td>2%**</td>
</tr>
<tr>
<td>Room and cottage rentals</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Laundry and dry cleaning services</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Prepaid telephone calling services</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mixed beverages</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Satellite digital audio services</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Food (except dietary supplements, food sold from vending machines, soft drugs, candy, and prepared food)</td>
<td>Exempt</td>
<td>2%</td>
</tr>
<tr>
<td>Motor vehicles, prescription drugs, certain medical equipment, gasoline, many business purchases</td>
<td>Exempt</td>
<td>Exempt</td>
</tr>
<tr>
<td>Telecommunications and ancillary services, video programming</td>
<td>7%***</td>
<td>Exempt</td>
</tr>
<tr>
<td>(includes cable and satellite services), spiriuous liquor</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Electricity for general use</td>
<td>3%****</td>
<td>Exempt</td>
</tr>
<tr>
<td>Sales of aircraft and boats</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Manufactured/modular homes</td>
<td>2%/2.5%</td>
<td>Exempt</td>
</tr>
<tr>
<td>Certain manufacturing and farming inputs and equipment</td>
<td>Exempt</td>
<td>Exempt</td>
</tr>
</tbody>
</table>

* Decreased from 5.75% effective July 1, 2011.

** Mecklenburg County has an additional 0.5% sales tax. Nineteen counties (Alexander, Cabarrus, Catawba, Cumberland, Duplin, Halifax, Haywood, Hertford, Lee, Martin, New Hanover, Onslow, Pitt, Randolph, Robeson, Rowan, Sampson, Surry, and Wilkes) have an additional 0.25% sales tax. Cabarrus County levied the additional 0.25% tax effective October 1, 2011. Halifax County levied the additional 0.25% tax effective January 1, 2012. Buncombe, Durham, Montgomery and Orange counties will levy the additional 0.25% tax effective April 1, 2012. 

*** The 7% rate represents the combined general State rate and local rate of tax that is authorized in all counties.

**** Electricity sales to farmers and manufacturing plants and industries are exempt.

The State levies a general retail sales and use tax of 4.75%. The general rate applies to purchases of tangible commodities, certain digital property, room and cottage rentals, and laundry and dry cleaning services. The tax does not apply to prescription drugs, insulin, false teeth, eyeglasses on prescription, gasoline, coin-operated laundries, or motor vehicles.

As of January 1, 2012, nineteen counties (Alexander, Cabarrus, Catawba, Cumberland, Duplin, Halifax, Haywood, Hertford, Lee, Martin, New Hanover, Onslow, Pitt, Randolph, Robeson, Rowan, Sampson, Surry, and Wilkes) have levied an additional 0.25% local sales and use tax, bringing their local rate to 2.25%. The local rate of tax in Mecklenburg County is 2.5% (due to a 0.5% local Public Transit Tax); the local rate of tax in the other counties remains at 2%. As a result the combined general State and county tax rate in nineteen counties is 7.0%, Mecklenburg County has a rate of 7.25%, and in all other counties the rate is 6.75%.

The State exempts food from State sales and use tax except for certain classifications, including dietary supplements, food sold from vending machines, soft drinks, candy, and prepared food (other than certain bakery items sold by qualifying artisan bakeries). Alcoholic beverages are not food items. A local sales and use tax of 2% applies to all food that is exempt from the State sales and use tax.
Sales of electricity to farmers, manufacturing industries and manufacturing plants are exempt. Electricity sold to commercial laundries or to pressing and dry-cleaning establishments for use in machinery used in the direct performance of the laundering or the pressing and cleaning service is subject to the 2.83% rate of sales and use tax. Sales of electricity for all other purposes are taxed at a 3% state rate. Aircraft and boats are taxed at 3% with a $1,500 maximum tax on each item. Manufactured (mobile) homes are taxed at a 2% rate; the maximum tax per section of manufactured home is $300. Modular homes are taxed at 2.5%.

Telecommunications services and ancillary services, video programming and spirituous liquor are taxed at the combined general rate of 7%.

Purchases of the following items by manufacturers are exempt from sales tax: manufacturing fuel, mill machinery and mill machinery parts and accessories. “Accessories” include most supplies used in the manufacturing process but not becoming a part of the manufactured product and also include pollution abatement equipment. Purchases of mill machinery by contractors or subcontractors for use in performance of contracts with a manufacturing industry or plant also are exempt. Although these items are exempt from sales tax, purchasers of these items may be subject to the privilege taxes described on page 16.

Raw materials, labels, packaging and shipping materials sold to manufacturers are exempt from sales and use tax. Motor vehicle sales are exempt from the sales tax, but are taxed under the Highway Use Tax (see page 10).

Certain industries may receive a refund of sales taxes on purchases of building materials, fixtures and equipment if purchased for new facilities meeting specific cost thresholds. These thresholds vary by county and are either $50 million or $100 million. The qualifying industries are: 1) air courier services; 2) aircraft manufacturing; 3) bioprocessing; 4) financial services, securities operations, and related systems development; 5) motor vehicle manufacturing; 6) paper-from-pulp manufacturing; 7) pharmaceutical and medicine manufacturing and distribution of pharmaceuticals and medicines; 8) semiconductor manufacturing; 9) solar electricity generating materials manufacturing; and 10) turbine manufacturing. Others who may receive refunds include volunteer fire departments and volunteer emergency medical services squads, taxpayers engaged in analytical services, interstate passenger air carriers for taxes paid on fuel, certain 501(c)(3) organizations, certain businesses in development tier one, utility companies, railroad intermodal facilities, interstate carriers, and motorsports racing teams or motorsports sanctioning bodies.

Individuals and businesses that purchase items of tangible personal property outside North Carolina and bring these items, or have them sent, into the State are subject to use tax on these items. This tax is levied at the same rate as the sales tax that would have been charged had the item been purchased in-state. The purchaser is responsible for calculating and remitting this tax.

There is an annual sales tax holiday the first Friday, Saturday, and Sunday in August. During this time, State and local sales and use taxes do not apply to certain articles of clothing, school supplies, computers, computer supplies, sport or recreational equipment, and school instructional material. There is another sales tax holiday for the purchase of certain Energy Star qualified products the first Friday, Saturday, and Sunday in November.

PERSONAL INCOME TAX

North Carolina taxable income is taxable income as calculated for federal income tax purposes, with certain adjustments. However, for tax years beginning January 1, 2012, North Carolina taxable income will be defined as adjusted gross income as calculated for federal income tax purposes, with certain modifications.

ADJUSTMENTS TO TAXABLE INCOME

Deductions. An amount is deducted from taxable income to the extent each item listed below was included in federal gross income or was not deducted from federal gross income.
Interest upon direct obligations of the United States; its possessions; the state of North Carolina; political subdivisions of the state of North Carolina; or nonprofit educational institutions organized or chartered under the laws of the State.

Interest upon obligations which are exempt from tax under North Carolina law. For example, interest on obligations of the North Carolina Housing Finance Agency and the North Carolina Educational Facilities Finance Agency are exempt from the personal income tax.

Social Security benefits and Railroad Retirement Act benefits.

Refunds of state, local, and foreign income taxes.

20% of additions made to the taxpayer’s North Carolina taxable income in taxable years 2008, 2009, and 2010 for bonus depreciation and Section 179 expense.

Generally retirement benefits received by retirees of the state of North Carolina and its local governments or by retirees of the United States government (including military) are exempt if the retiree had five or more years of creditable service as of August 12, 1989. The exclusion also applies to retirement benefits received from the State’s §401(k) and §457 (deferred compensation) plans if the retiree contributed or contracted to contribute to the plan prior to August 12, 1989.

Up to $4,000 in state, local, or federal government retirement benefits if the retiree did not have five years of creditable service as of August 12, 1989, or if the benefits are received from another state and its local governments, and up to $2,000 in private retirement benefits received by an individual taxpayer. (Note: No more than $4,000 in total retirement benefits can be deducted for each taxpayer in this group.)

The amount by which a taxpayer’s federal tax deductions were reduced because of a federal tax credit, when a similar state tax credit does not exist.

Severance wages received by a taxpayer from an employer as the result of the taxpayer’s permanent, involuntary termination from employment through no fault of the employee. The amount of severance wages deducted as the result of the same termination may not exceed $35,000 for all taxable years in which the wages are received.

Inheritance tax and estate tax paid to North Carolina on an item of income in respect of a decedent.

Taxpayers may deduct up to $2,500 ($5,000 on joint return) of amounts contributed to the Parental Savings Trust Fund (North Carolina’s 529 plan) regardless of their income level.

An unpaid volunteer firefighter or an unpaid volunteer rescue squad worker may deduct $250. An unpaid volunteer firefighter or rescue squad worker who attended at least 36 hours of drills and meetings during the taxable year qualifies for the $250 deduction. For a return of a married couple filing jointly, each spouse may qualify separately for the deduction.


For tax years beginning on or after January 1, 2012, net business income not to exceed $50,000. For a return of a married couple filing jointly, each spouse may qualify separately for the deduction.

Additions. An amount is added to taxable income to the extent each item listed below was not included in federal gross income or was deducted from federal gross income.

Interest upon obligations of other states and their political subdivisions.
Any state, local, or foreign income tax or general sales tax deducted on the federal return to the extent that total federal itemized deductions exceed the North Carolina standard deduction. Effective for tax years beginning on or after January 1, 2012, an addition must also be made for certain motor vehicle taxes claimed as an itemized deduction on the federal return.

Any amounts deducted from gross income and taxed under the Internal Revenue Code (IRC) by a tax other than the tax imposed in Section 1, such as lump-sum distributions from a pension or profit-sharing plan.

Income from domestic production activities deducted under Section 199 of the IRC.

85% of the bonus depreciation deducted on the 2010, 2011, or 2012 federal returns per Section 168(k) or 168(n) for certain property acquired and placed in service on or after January 1, 2010 and before January 1, 2013. An addition is also required on the 2010 return for 85% of any bonus depreciation deducted on the 2009 return for property acquired and placed in service during the 2009 taxable year.

Any amount contributed to the Parental Savings Trust Fund (North Carolina's 529 Plan) and deducted in a prior year that was later withdrawn and used for purposes other than qualifying higher education expenses of the designated beneficiary unless the withdrawal was due to the death or permanent disability of the designated beneficiary.

PERSONAL EXEMPTION AMOUNTS

North Carolina allows a personal exemption of $2,500 for the taxpayer (unless he is claimed as a dependent on someone else’s return) and $2,500 for each dependent provided that the taxpayer’s federal adjusted gross income is less than the threshold amount for his filing status, as shown below.

<table>
<thead>
<tr>
<th>Filing Status</th>
<th>Federal AGI</th>
</tr>
</thead>
<tbody>
<tr>
<td>Married filing jointly</td>
<td>$100,000</td>
</tr>
<tr>
<td>Head of household</td>
<td>80,000</td>
</tr>
<tr>
<td>Single</td>
<td>60,000</td>
</tr>
<tr>
<td>Married filing separately</td>
<td>50,000</td>
</tr>
</tbody>
</table>

A taxpayer whose federal adjusted gross income is equal to or greater than the threshold amount for his filing status is allowed a personal exemption of $2,000 (unless he is claimed as a dependent on someone else’s return) and $2,000 for each dependent. An addition to federal taxable income must be made for the difference between the federal and State personal exemption amounts.

STANDARD DEDUCTION AMOUNTS

North Carolina allows a basic standard deduction that does not include the cost-of-living adjustment permitted under federal law. This adjustment amount must be added back to taxable income. The standard deduction amounts are:

<table>
<thead>
<tr>
<th>Filing Status</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Married filing jointly</td>
<td>$6,000</td>
</tr>
<tr>
<td>Qualifying widow(er)</td>
<td>6,000</td>
</tr>
<tr>
<td>Head of household</td>
<td>4,400</td>
</tr>
<tr>
<td>Single</td>
<td>3,000</td>
</tr>
<tr>
<td>Married filing separately*</td>
<td>3,000</td>
</tr>
</tbody>
</table>

* If the taxpayer is married filing separately for federal income tax purposes and their spouse itemizes deductions, they are not entitled to a standard deduction.

If a taxpayer chooses to itemize deductions, the amount of state and local income taxes or general sales taxes deducted on his federal return must be added back to taxable income to the extent those taxes exceed the taxpayer’s North Carolina standard deduction.
AGED OR BLIND ADDITIONAL DEDUCTIONS

An amount in addition to the basic standard deduction is allowed for a taxpayer who is 65 years old or older or blind (and/or whose spouse is 65 years old or older or blind, and a joint return is filed). The table below shows the dollar value of one additional deduction for each filing status.

<table>
<thead>
<tr>
<th>Filing Status</th>
<th>Dollar Value of One Additional Deduction</th>
</tr>
</thead>
<tbody>
<tr>
<td>Head of household</td>
<td>$750</td>
</tr>
<tr>
<td>Single</td>
<td>750</td>
</tr>
<tr>
<td>Married filing jointly</td>
<td>600</td>
</tr>
<tr>
<td>Qualifying widow(er)</td>
<td>600</td>
</tr>
<tr>
<td>Married filing separately</td>
<td>600</td>
</tr>
</tbody>
</table>

TAX CREDITS

There is a tax credit of $100 for each dependent child for which the taxpayer was allowed to claim a child tax credit on the federal return, provided that the taxpayer’s federal adjusted gross income is less than the threshold amount for his filing status, as follows:

<table>
<thead>
<tr>
<th>Filing Status</th>
<th>Federal AGI</th>
</tr>
</thead>
<tbody>
<tr>
<td>Married filing jointly</td>
<td>$100,000</td>
</tr>
<tr>
<td>Head of household</td>
<td>80,000</td>
</tr>
<tr>
<td>Single</td>
<td>60,000</td>
</tr>
<tr>
<td>Married filing separately</td>
<td>50,000</td>
</tr>
</tbody>
</table>

A nonresident or part-year resident may claim the credit, but must reduce it by multiplying the credit by the same fraction used to determine the portion of total taxable income subject to North Carolina tax. The credit may not exceed the amount of tax for the taxable year reduced by the sum of all tax credits.

A person who is allowed a credit against federal income tax is also allowed a credit against North Carolina income tax for expenses incurred for child or dependent care. This credit is based on the taxpayer’s filing status and adjusted gross income. The credit ranges from 7% to 9% of employment-related expenses for a dependent who is seven years old or older. The credit ranges from 10% to 13% of employment-related expenses for a dependent, of any age, who is not physically or mentally capable of caring for himself or for a dependent who is less than seven years old. The maximum amount of expenses for which a credit may be claimed for one dependent is $3,000; the maximum for more than one dependent is $6,000.

There is a tax credit of up to $3,000 per semester for tuition paid for a dependent child with a disability to attend a public or nonpublic school, for semesters beginning July 1, 2011. The child must be enrolled in grades kindergarten through 12, must receive special education or related services on a daily basis, and must have established initial eligibility by either attending a public school for two semesters, or by receiving special education or related services through a public school as a preschool child with a disability for two semesters.
The credit for premiums paid on long-term care insurance is allowed only to a taxpayer whose adjusted gross income is less than the amount shown below for the taxpayer's filing status.

<table>
<thead>
<tr>
<th>Filing Status</th>
<th>Federal AGI</th>
</tr>
</thead>
<tbody>
<tr>
<td>Married filing jointly</td>
<td>$100,000</td>
</tr>
<tr>
<td>Qualifying widow(er)</td>
<td>100,000</td>
</tr>
<tr>
<td>Head of household</td>
<td>80,000</td>
</tr>
<tr>
<td>Single</td>
<td>60,000</td>
</tr>
<tr>
<td>Married filing separately</td>
<td>50,000</td>
</tr>
</tbody>
</table>

If the taxpayer's adjusted gross income is less than the amount shown for their filing status, a tax credit is allowed for the qualifying premiums they paid during the tax year on a qualified long-term care insurance contract(s) (as defined in Section 7702B of the Internal Revenue Code) that provides long-term insurance coverage for the taxpayer, their spouse, or a dependent for whom they are allowed to claim a personal exemption on the federal return. The credit is 15% of the premiums paid but may not exceed $350 for each qualified long-term care insurance contract for which a credit is claimed.

No credit is allowed for payments that are deducted from, or not included in, federal gross income for the tax year. For example, payments not included in federal gross income include premiums paid through an employer sponsored plan in which the payments are excluded from taxable wages (pre-taxed dollars). If the taxpayer claimed a deduction for medical expenses on Federal Schedule A, Line 4, or if they claimed a deduction for self-employed health insurance premiums on federal Form 1040, Line 29, they are not entitled to claim this credit. However, the credit is allowed for any premiums paid for long-term care insurance that are not deductible on the federal return because of the age limitations contained in Section 213(d)(10) of the Code.

A nonresident or part-year resident is allowed a prorated credit based on the percentage of the taxpayer's total income that is taxable for North Carolina income tax purposes.

There is a refundable Earned Income Tax Credit available to individuals but not to estates or trusts. This credit is 5% of the amount of the individual’s federal earned income tax credit. A nonresident or part-year resident must prorate this credit based on the portion of total income that is taxable in North Carolina.

A tax credit is allowed for small businesses that make contributions to the State Unemployment Insurance Fund during the tax year with respect to wages paid for employment in this State. The credit is 25% of the amount of qualified contributions to the State Unemployment Insurance Fund. A small business is defined as a business whose cumulative gross receipts from the business activity for the tax year do not exceed one million dollars ($1,000,000). The credit may be claimed only against corporate and individual income taxes. If the credit exceeds the amount of tax for the taxable year reduced by the sum of all credits allowable, the excess is refundable. The credit applies to taxable years 2010 and 2011.

Other income tax credits are available. There is a tax credit for income taxes paid to another state or country on income taxable in North Carolina. There is a credit for adoption expenses, effective January 1, 2007 and expiring January 1, 2013. There are tax credits for the disabled, for property taxes paid on farm machinery, and a limited tax credit for charitable contributions made by taxpayers who claim the standard deduction. Tax credits are allowed for constructing handicapped dwelling units, purchasing certain energy-saving equipment or conservation tillage equipment, constructing poultry composting facilities, and the purchase by individuals of the equity securities or subordinated debt of a qualified business directly from the business (Qualified Business Investment).

North Carolina law also allows several income tax credits intended to promote economic development, which may be available to owners of businesses. Please see the sections “TAX CREDITS FOR GROWING BUSINESSES (ARTICLE 3J)” and “OTHER INCOME TAX CREDITS” beginning on page 14 of this booklet for additional information about these credits.
TAX RATES

<table>
<thead>
<tr>
<th>If you are:</th>
<th>and taxable income is:</th>
<th>the tax rate is:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Married filing jointly</td>
<td>$0 - $21,250</td>
<td>6% of taxable income</td>
</tr>
<tr>
<td></td>
<td>21,251 - $100,000</td>
<td>$1,275 + 7% of taxable income &gt; $21,250</td>
</tr>
<tr>
<td></td>
<td>100,001 or more</td>
<td>$6,787.50 + 7.75% of taxable income &gt; $100,000</td>
</tr>
<tr>
<td>Qualifying widow(er)</td>
<td>$0 - $21,250</td>
<td>6% of taxable income</td>
</tr>
<tr>
<td></td>
<td>21,251 - $100,000</td>
<td>$1,275 + 7% of taxable income &gt; $21,250</td>
</tr>
<tr>
<td></td>
<td>100,001 or more</td>
<td>$6,787.50 + 7.75% of taxable income &gt; $100,000</td>
</tr>
<tr>
<td>Head of household</td>
<td>$0 - $17,000</td>
<td>6% of taxable income</td>
</tr>
<tr>
<td></td>
<td>17,001 - $80,000</td>
<td>$1,020 + 7% of taxable income &gt; $17,000</td>
</tr>
<tr>
<td></td>
<td>80,001 or more</td>
<td>$5,430 + 7.75% of taxable income &gt; $80,000</td>
</tr>
<tr>
<td>Single</td>
<td>$0 - $12,750</td>
<td>6% of taxable income</td>
</tr>
<tr>
<td></td>
<td>12,751 - $60,000</td>
<td>$765 + 7% of taxable income &gt; $12,750</td>
</tr>
<tr>
<td></td>
<td>60,001 or more</td>
<td>$4,072.50 + 7.75% of taxable income &gt; $60,000</td>
</tr>
<tr>
<td>Married filing separately</td>
<td>$0 - $10,625</td>
<td>6% of taxable income</td>
</tr>
<tr>
<td></td>
<td>10,626 - $50,000</td>
<td>$637.50 + 7% of taxable income &gt; $10,625</td>
</tr>
<tr>
<td></td>
<td>50,001 or more</td>
<td>$3,393.75 + 7.75% of taxable income &gt; $50,000</td>
</tr>
</tbody>
</table>

SURTAX

The temporary surtax on a taxpayer’s North Carolina individual income tax for tax years 2009 and 2010 has expired.

PROPERTY TAXES

The principal source of local revenue is a property tax on real estate and tangible personal property, including all machinery and equipment. The State does not levy a tax on such property.

PROPERTY TAX ASSESSMENT

There is only one assessment in each county. The value as determined by the county assessor constitutes the base for all levies, including those of cities and towns on property located within the municipality. Property is to be assessed at 100% of appraised value. Although appraised value is to be “market value,” this standard is not always achieved for real property. This is largely because real property is required to be reappraised at least every eight years, although counties may choose to reappraise more frequently. Property appraised at market value at the time of reappraisal may appreciate or depreciate in the years between property tax reappraisals resulting in a tax appraised value that may be more or less than the current market value. Actual ratios vary from county to county.

Real property owned by businesses and individuals consists of land and buildings and is permanently listed for property tax. The owner is only required to list the construction or acquisition of improvements on and separate rights in real property.

There are three primary residential property tax relief programs. An owner can receive benefits from only one of the three programs even if qualified for more than one program. The elderly or disabled program excludes the greater of the first $25,000 or 50% of the appraised value of the permanent residence of a qualifying owner. A qualifying owner must either be at least 65 years of age or be totally and permanently disabled. The owner cannot have an income amount for the previous year that exceeds the income eligibility limit for the current year. The income eligibility limit is indexed to a cost-of-living adjustment. For the 2010 and 2011 tax years the income eligibility limit is $27,100.

The circuit breaker property tax deferment limits the property taxes for each year to a percentage of the qualifying owner’s income. A qualifying owner must either be at least 65 years of age or be totally and
permanently disabled. For an owner whose income amount for the previous year does not exceed the income eligibility limit for the current year, the owner’s taxes will be limited to four percent (4%) of the owner’s income. For an owner whose income exceeds the income eligibility limit but does not exceed 150% of the income eligibility limit, the owner’s taxes will be limited to five percent (5%) of the owner’s income. The income eligibility limit is the same limit used in the elderly and disabled program above.

However, the circuit breaker property tax deferment requires that the taxes over the limitation amount be deferred and remain a lien on the property. Only the last three years of deferred taxes prior to a disqualifying event will become due and payable, with interest, on the date of the disqualifying event. Interest accrues on the deferred taxes as if they had been payable on the dates on which they would have originally become due. Disqualifying events are death of the owner, transfer of the property, and failure to use the property as the owner’s permanent residence. Exceptions and special provisions apply.

This disabled veteran program excludes up to the first $45,000 of the appraised value of the permanent residence of a disabled veteran. A disabled veteran is defined as a veteran whose character of service at separation was honorable or under honorable conditions and who has a total and permanent service-connected disability or who received benefits for specially adapted housing under 38 U.S.C. 2101. There is no age or income limitation for this program. This benefit is also available to a surviving spouse (who has not remarried) of either (1) a disabled veteran as defined above, (2) a veteran who died as a result of a service-connected condition whose character of service at separation was honorable or under honorable conditions, or (3) a servicemember who died from a service-connected condition in the line of duty and not as a result of willful misconduct.

Household tangible personal property in the personal residence of the owner is exempt from property taxation.

Every business is required to list their tangible personal property during January with the county assessor of the county in which the property is located. In order to receive the standard forms and other listing information, businesses should contact the county assessor to make sure they are on the roster of taxpayers or “tax roll”.

Non-business owners and individuals are also required to annually list, during January, certain tangible personal property including unregistered motor vehicles, multi-year or permanently registered trailers, watercraft and engines for watercraft, and aircraft. A manufactured home (single or double-wide) also must be listed if it meets any one or more of the following conditions: 1) is not placed on a permanent foundation; 2) is on land owned by someone other than the owner of the manufactured home; 3) still retains the moving hitch, wheels, and axles; or 4) is not a residential structure.

New manufacturing machinery is generally appraised at cost and is depreciated annually until it reaches a minimum value, frequently 25% of cost. The annual depreciation varies but a common figure is 10% per year. Most counties have adopted the “trending” procedure to value machinery and equipment. Under this procedure, the machinery is valued at replacement cost each year and then depreciated according to its age and expected life.

Property taxes are based on assessments as of January 1, are due September 1, but may be paid at par as late as January 5 of the following year.

TAX RATES

The tax rates vary from county to county and from town to town. The weighted average county-wide tax rate for all 100 counties for 2010-11 was 60.3¢ per $100 of appraised valuation. County-wide rates for 2010-11 ranged from 23¢ to $1.02 per $100 of appraised valuation. Cities and towns levy taxes above the county tax. Municipal tax rates ranged from 1.65¢ to 82¢ per $100 in 2010-11, and the average rate was 38.4¢ per $100 of value. There are few special district taxes apart from school levies and rural fire district levies. Fourteen school districts have tax levies separate from the county rate. These rates range from 2¢ to 21¢ per $100. Fire district rates usually are very low, 15¢ or less per $100.
PROPERTY TAX EXEMPTIONS AND EXCLUSIONS

There are only a few exemptions and exclusions of interest to manufacturers and retail/wholesale establishments. They are described in the following paragraphs.

Excluded from property taxation are manufacturers’ inventories (raw materials, goods in process, finished goods, materials or supplies consumed in processing, crops, and other agricultural or horticultural products held for sale), contractors’ inventories (goods held by contractors to be furnished in the course of building, installing, repairing, or improving real property), livestock, poultry, and feed used in production of livestock and poultry, and inventories of retail and wholesale merchants (tangible personal property held for sale and not manufactured, processed, or produced by the merchant).

Computer software is exempt from taxation. This exemption does not apply to embedded software and capitalized software purchased or licensed from an unrelated entity.

Property which has been imported from a foreign country and is stored at the seaport terminal while awaiting further shipment is exempt for the first year of storage.

“Bill and hold” goods manufactured in North Carolina and held by the manufacturer for shipment to a nonresident customer are exempt.

Motor vehicle chassis belonging to nonresidents which enter the State temporarily for the purpose of having a body mounted thereon are exempt from taxation.

Nuclear materials held for the purpose of, or in the process of, manufacture or processing, or held by the manufacturer for delivery are exempt from taxation.

Improvements on brownfields properties are partially excluded from property taxation. The exclusion is for a five-year period beginning when the improvements are made and declines during the period from 90% of the appraised value for the first year to 10% for the fifth year. The improvements are fully taxable in the sixth and subsequent years after the improvements are made. The property must be subject to a brownfields agreement entered into by the owner with the Department of Environment and Natural Resources pursuant to G.S. 130A-310.32.

Property used to reduce air or water pollution receives special treatment under the tax laws of North Carolina if the Board of Environmental Management or local air pollution control program certifies that the property complies with the requirements of the Board. Such real and tangible personal property is exempt from taxation under the property tax laws and is subject to the preferential 1% state sales tax rate as “accessory” to manufacturing machinery. Furthermore, the cost may be excluded from the three alternate bases in computing the franchise tax and may be amortized over 60 months for corporation income tax purposes.

Personal property used exclusively for the prevention or reduction of dust in textile plants is also exempt from local property taxes.

Equipment or facilities installed for the purpose of recycling solid waste or resource recovery from solid waste receives the same treatment under the tax laws as that given to pollution abatement equipment described above.

A contiguous tract of land used primarily for commercial or industrial purposes before being damaged significantly as a result of a fire or explosion, and donated to a nonprofit corporation.

REAL ESTATE TRANSFER TAX

An excise tax is levied on transfers of real estate at the rate of $1 of each $500, or fraction thereof, of the consideration or value of the property conveyed.
In addition, seven counties - Dare, Camden, Chowan, Currituck, Pasquotank, Perquimans, and Washington - are authorized to levy a local real estate transfer tax of $1 per $100 of the full consideration including the value of any lien on the property at the time of sale.

**HIGHWAY USE TAX**

North Carolina levies a tax on the privilege of using the highways at the rate of 3% of the retail value of a motor vehicle. The tax cannot exceed $1,000 for Class A and Class B commercial motor vehicles (as defined by law). Tax is paid when a vehicle is purchased or titled in North Carolina. If the motor vehicle is purchased from an automobile dealer, “retail value” is sales price less any trade-in allowance. For casual sales, “retail value” is the value set in a schedule of values adopted by the Commissioner of Motor Vehicles, less any trade allowance. The tax cannot exceed $150 if the vehicle, at the time of applying for a certificate of title, is and has been titled in another state for at least 90 days. A credit may apply if an equivalent tax has been paid in another state or if the vehicle was at one time titled in North Carolina.

A retailer who is engaged in the business of leasing or renting motor vehicles, and who purchases a motor vehicle for his business, can elect either to pay the use tax whenever he purchases the vehicle or collect a tax on the gross receipts from the lease or rental of the vehicle. The rate to be applied on the gross receipts from long-term lease or rental of the vehicle (at least 365 continuous days to the same person) is 3%. Gross receipts from short-term leases or rentals are taxed at 8%. Taxable gross receipts do not include the allowance for a motor vehicle taken in trade on the transaction. The tax cannot exceed $1,000 if the vehicle is a Class A or Class B commercial vehicle leased continuously to the same person.

**MOTOR FUEL TAX**

The State gasoline tax is $38.9¢ per gallon during the period January 1 through June 30, 2012. The rate consists of a motor fuels tax of 17.5¢ per gallon plus a rate equal to the greater of 3.5¢ per gallon or 7% of the average wholesale price per gallon, now 21.4¢. The wholesale price component of the rate is set semi-annually by the Secretary of Revenue. There are no local gasoline taxes.

**TOBACCO PRODUCTS TAX**

An excise tax of 2.25¢ per cigarette or 45¢ per package of 20 is levied on cigarettes. Tobacco products other than cigarettes are subject to a tax of 12.8% of the cost price of the products.

**ALCOHOLIC BEVERAGE TAXES**

Alcoholic beverages are sold only where authorized by local election.

Beer, wine and liquor are subject to the following excise taxes, in addition to the general State and local sales and use taxes:

- **Beer** is taxed at 61.71¢ per gallon.

- **Unfortified wine** is taxed at 26.34¢ per liter while **fortified wine** is taxed at 29.34¢ per liter. Unfortified wine may contain added brandy as long as the total alcoholic content does not exceed 16%.

- **Liquor** is sold through government operated stores and, although a tax is levied on sales, retail prices including the tax are competitive with or lower than prices in most other states. The excise tax on liquor from ABC stores is 30%.

The law authorizes local elections to permit sales of liquor “by the drink” by qualified restaurants and clubs. An additional tax of $20 on each four liters is levied on liquor purchased by restaurants or clubs for sale by the drink.
OCCUPANCY TAX

A local occupancy tax on the rental of rooms and lodging is levied in certain counties and municipalities primarily for the purpose of generating revenue to promote travel and tourism. The North Carolina General Assembly authorizes the transient occupancy tax for a specific county or municipality, prescribing the administration, rate limitation, and disposition of taxes, with the local government having the option of imposing the levy. Tax rates vary, but the most common rate is 3%.

WHITE GOODS DISPOSAL TAX

The State levies a flat rate tax of $3 on the purchase of each new white good, which includes such large appliances as refrigerators, freezers, washing machines, dishwashers, clothes dryers, ranges, and unit air conditioners. Persons who buy at least 50 new white goods in the same sale for use in dwellings that do not already contain such white goods can receive a refund of 60% of this tax.

SCRAP TIRE DISPOSAL TAX

The State levies a scrap tire disposal tax on each new tire sold. Exemptions include: recapped tires, bicycle tires, and other tires for vehicles propelled by human power. The tax is 1% of the sales price on tires with a bead diameter of at least 20 inches, and 2% on tires with a bead diameter of less than 20 inches.

PIPED NATURAL GAS TAX

The piped natural gas tax rate is a declining block rate based on the number of therms of gas consumed in a month. The rate starts at 4.7¢ for the first 200 therms received and declines to 0.3¢ per therm received in excess of 500,000. The tax on piped natural gas received by a manufacturer for use in connection with the operation of a manufacturing facility or by a farmer to be used for any farming purpose other than preparing food, heating dwellings, or other household purposes was repealed effective July 1, 2010.

SOLID WASTE DISPOSAL

An excise tax is imposed on the disposal of municipal solid waste and construction and demolition debris in any landfill at the rate of $2 per ton of waste. The tax at the same rate is also imposed on the transfer to a transfer station of municipal solid waste and construction and demolition debris to be disposed of outside North Carolina.
SPECIFIC STATE AND LOCAL TAXES FOR BUSINESSES

CORPORATE INCOME TAX

An income tax is levied at the rate of 6.9% on the portion of net income allocable to the State. The temporary surtax on a taxpayer’s North Carolina corporate income tax for tax years 2009 and 2010 has expired.

Corporations with taxable nexus in North Carolina and at least one additional state calculate their North Carolina apportionable income through use of the apportionment formula as described in the franchise tax section on the next page. Non-apportionable income is directly allocated in accordance with applicable revenue statutes. Corporations without taxable nexus in at least one state other than North Carolina are not permitted to apportion income.

If a corporation believes that the statutory apportionment formula results in the allocation to this State of a greater portion of its net income than is reasonably attributable to business or earnings within the State, it may make a written request to the Secretary for permission to use an alternative method of apportionment. The corporation has the burden of establishing that the alternative method is the better method of determining the amount of the corporation’s income attributable to the corporation’s business in the State. If granted, the order can apply to no more than three years and is renewable. If denied, the Secretary’s decision is final and is not subject to administrative or judicial review.

In determining net income, North Carolina allows – in addition to operating expenses, depreciation, etc. – a deduction for all taxes paid or accrued in the year, except taxes on income; contributions not to exceed five percent of net income; interest income from tax exempt securities; payments to employee pension or profit-sharing trusts; current year losses; dividend received from captive real estate investment trust; and net economic losses (as defined in the law) carried forward from any or all of the 15 preceding years. Domestic production income excluded under Section 199 of the Internal Revenue Code (IRC) and income from international shipping activities excluded under Subchapter R of Chapter 1 of the IRC must be added to income.

For tax year 2008, taxpayers were required to add to federal taxable income 85% of the 50% additional first-year depreciation deduction allowed for calendar year 2008 and fiscal year 2007 for property placed in service on or after January 1, 2008 for federal income tax purposes in Section 168(k) or Section 168(n) of the IRC under the Economic Stimulus Act of 2008. A taxpayer may deduct 20% of the total amount of bonus depreciation added to federal taxable income in tax year 2008 in each of the first five taxable years beginning on or after January 1, 2009.

Taxpayers are required to add to federal taxable income 85% of the bonus depreciation deducted on the 2010, 2011, or 2012 federal returns per Section 168(k) or 168(n) for certain property acquired and placed in service on or after January 1, 2010 and before January 1, 2013. An addition is also required on the 2010 return for 85% of any bonus depreciation deducted on the 2009 return for property acquired and placed in service during the 2009 taxable year. Taxpayers may deduct 20% of each addition in the five taxable years following the taxable year in which the addition was made – this also applies to additions made in 2008 and 2009.

North Carolina’s treatment of the taxability of subsidiary dividends received conforms to the federal determination. Taxable income is reduced by the amount of special deductions on the federal form. Because this income is nontaxable, corporations are required to attribute expenses to non-taxed dividends in arriving at State taxable income. North Carolina provides limits on the potential tax liability of certain taxpayers as a result of the attribution of expenses to dividends. For most corporations, the amount of expenses attributed to dividends is limited to 15% of the dividends. For bank holding companies or electric power holding companies, which are required by federal law to maintain a holding company structure, special limits apply and tax credits are available to recoup part of the additional tax paid due to attribution of expenses to dividends.
Quarterly estimated income tax payments are required if a corporation expects to have an income tax liability of $500 or more.

FRANCHISE TAX

A franchise tax is levied on business corporations (including those electing federal S Corporation status and limited liability companies that elect to be taxed as C or S corporations for federal income tax purposes) at the rate of $1.50 per $1,000 of the largest of three alternate bases. These bases are (a) the amount of the capital stock, surplus, and undivided profits apportionable to the State; or (b) 55% of appraised value of property in the State subject to local taxation; or (c) the book value of real and tangible personal property in the State less any debt outstanding which was created to acquire or improve real property in the State. Book value may be computed by use of the same depreciation methods as are permitted for federal income tax purposes.

Only corporations with taxable nexus in one or more other states are permitted to apportion “capital” as described in (a) above. The formula used by corporations to determine the amount of “capital” apportionable to North Carolina is the total of the following ratios divided by 4: the ratio of payrolls in the State to total payrolls; the ratio of the value of tangible property used in the State to the value of all tangible property used, wherever located; and two times the ratio of sales of merchandise shipped to North Carolina customers to total sales. In computing the property ratio, owned property is valued at original cost and leased property is valued at eight times the annual rental rate.

Corporations are required to include accumulated amortization of intangible assets as reflected on the balance sheet in the calculation described in (a) above. However, taxpayers may deduct this accumulated amortization as permitted for income tax purposes from this base. This change is retroactive to tax years beginning on or after January 1, 2007, and taxpayers may request a refund for franchise tax overpaid in those years, subject to the statute of limitations.

For several other types of industries (construction contractor, securities dealer, a loan company or a corporation that receives more than 50% of its ordinary gross income from intangible property), apportionment is based only on the sales factor.

The franchise taxes on utilities vary. Electric power companies are taxed at 3.22% of their taxable gross receipts. Water companies pay 4% of their taxable gross receipts, while public sewerage companies pay 6% of taxable gross receipts. Telephone companies are subject to the general business franchise tax.

Holding companies (80% of gross income is from subsidiaries) are separately taxed and the tax may not exceed $75,000 when it is computed on the capital stock, surplus, and undivided profits base.

The minimum franchise tax is $35.

INCORPORATION FEES

A fee of $125 is payable to the Office of the Secretary of State upon filing articles of incorporation; this fee is $60 for non-profit corporations. There is a fee of $250 for application for certificate of authority on foreign companies only. In addition, an annual report may be paid with the corporation’s income and franchise tax return or may be filed and paid electronically with the North Carolina Secretary of State. If the fee is paid with the return, the filing fee is $25. The franchise tax and corporate income tax are reported on the same return.

For corporations set up as LLCs, a fee of $125 is due when filing articles of organization; a fee of $250 for application for certificate of authority. An annual report with a $200 filing fee is also required, but LLCs subject to the franchise tax may receive a franchise tax credit equal to the difference between this fee and the standard $25 annual report fee.

Various fees other than those mentioned above are imposed when documents are delivered to the Office of the Secretary of State for filing. Additional information can be obtained from the Corporations
TAX CREDITS FOR GROWING BUSINESSES (ARTICLE 3J)

Effective for taxable years beginning on or after January 1, 2007, Article 3J provides tax credits to growing businesses. These credits replace the Article 3A credits, also known as the William Lee Act, which expired for taxable years beginning on or after January 1, 2007, with some exceptions. A taxpayer cannot take Article 3J credits and Article 3A credits with respect to the same establishment. The Article 3A credits are not discussed here, but information on those credits is available at http://www.dornc.com/taxes/corporate/Article3A_Guidelines06.pdf. Taxpayers who became ineligible to continue receiving installments of Article 3A credits due to insufficiently low employment levels after January 1, 2009 may be able to meet amended eligibility requirements established in 2011.

Credits are available for 1) creating jobs; 2) investing in business property; and 3) investing in real property (limited geographic availability). The Article 3J tax credits are based on a system that divides the State into three development tiers, with tier one being the most economically distressed and tier three being the least economically distressed. Each county is assigned an annual tier designation by the Secretary of Commerce. The Department of Commerce publishes a list of county tier designations at http://www.nccommerce.com/research-publications/incentive-reports/county-tier-designations. Within each tier, there may be urban progress zones, agrarian growth zones, or port enhancement zones, a list of which is published by the Department of Commerce.

The amount of the creating jobs credit and the number of jobs that must be created to qualify varies by tier and whether the job is created in an urban progress, agrarian growth, or port enhancement zone. The business property credit is calculated as a percentage of the amount of investment over a threshold. The threshold and percentage vary by the tier of the location where the property is located, with urban progress, agrarian growth, and port enhancement zones treated as being in tier 1. The real property credit is available only for property in service in a tier 1 county.

To qualify for the Article 3J credits, job creation or investment must occur at an establishment whose primary activity is one of the following: 1) aircraft maintenance and repair; 2) an air courier services hub; 3) a company headquarters (creation of at least 75 jobs within 24 months); 4) a customer service call center; 5) an electronic shopping and mail order house; 6) information technology and services; 7) manufacturing; 8) a motorsports facility; 9) a motorsports racing team; 10) research and development; 11) warehousing; or 12) wholesale trade.

In addition, a taxpayer must satisfy general eligibility requirements by: 1) meeting wage standards published by the Department of Commerce; 2) providing health insurance for all full-time employees at the credit-qualifying establishment and paying at least 50% of health care premiums; 3) having a good environmental record; 4) having a good OSHA record; and 5) having no overdue tax debts with the State.

The creating jobs and business property credits are taken in four equal installments and the real property credit in seven installments, beginning with the taxable year following the year in which the qualifying activity took place. The credits are allowed against the franchise tax, the income tax, and the gross premiums tax. The taxpayer may divide a credit between the taxes against which it is allowed. The total of all credits may not exceed 50% of the cumulative amount of taxes against which they are allowed for the taxable year, reduced by the sum of all other credits against those taxes. Unused credits may be carried forward for the succeeding five years (15 years for the credit for investment in real property and 20 years for investments of $150,000,000 over two years). A pass-through entity that claims an Article 3J credit may elect to treat some or all of it as a tax payment on the return.

Additional information on the Article 3J credits is available on the Department of Revenue website at http://www.dornc.com/taxes/corporate/article3j.pdf.
OTHER INCOME TAX CREDITS

Income tax credits also are available for the following: 1) investing in renewable energy property; 2) construction of low-income housing; 3) construction of renewable fuel facilities; 4) North Carolina State Ports Authority wharfage, handling and throughput charges; 5) contributions of cash or property to improvement projects undertaken by development zone agencies; 6) rehabilitating historic structures and historic mills; 7) donations of real property used for public access, conservation, or conservation tillage equipment; 8) gleaned crops; 9) S&L supervisory fees; 10) construction of cogenerating power plants; 11) recycling of oyster shells; 12) certain telephone subscriber line charges; 13) investing in large or major recycling facilities; 14) construction of dwelling units for handicapped persons; 15) construction of poultry composting facilities; 16) certain holding company expenses related to dividends; 17) qualified film or television production expenses; 18) small business health insurance costs; 19) biodiesel producers; 20) expenses of research performed in the state or payments for research to universities in the State; 21) construction or leasing of a railroad intermodal facility in the State; and 22) developing certain interactive digital media.

INCOME TAXES FOR S CORPORATIONS

S Corporations are not subject to the corporate income tax. Each shareholder’s pro rata share of S Corporation income attributable to North Carolina is taxed under the individual income tax. A shareholder who is a resident of the State also takes into account his share of S Corporation income not attributable to North Carolina when computing his individual income tax.

An S Corporation incorporated or doing business in this State is required to file an information return with the Department of Revenue. The return should show the name, address, social security or federal identification number of each shareholder, and for each shareholder, income attributable and the amount of income not attributable to the State.

An S Corporation is required to file an agreement with the Department of Revenue for each nonresident shareholder whereby each nonresident shareholder agrees to file an income tax return, pay tax imposed by the State, and be subject to personal jurisdiction in the State for purposes of collecting unpaid taxes, penalties, interest, etc. However, an S Corporation may file a composite return and make composite payment of tax on behalf of some or all of its nonresident individual shareholders.

SPECIAL TAX PROVISIONS FOR LIMITED LIABILITY COMPANIES

An LLC is subject to income taxation as a partnership if it is classified as a partnership for federal income tax purposes or as a corporation if it is classified as a corporation for federal income tax purposes. A single-member LLC may also be classified as a disregarded entity, meaning its income, losses, and income tax credits are reported on the owner's income tax return. An LLC classified as a corporation (C or S) for federal income tax purposes is subject to the franchise tax, but all other LLCs are exempt. However, it is the intent of the law that the franchise tax applies equally to assets held by corporations and assets held by corporate-affiliated LLCs. A non-corporate LLC’s assets are attributed to a controlling corporation if the corporation or affiliated group of corporations owned 50% or more of the LLC’s assets. This is to prevent corporations from reducing their franchise tax by transferring assets to their LLC.

WITHHOLDING INCOME TAX

Employers are required to withhold individual income tax from wages and salaries of their employees. A pension payer that must withhold federal income tax from a pension payment to a North Carolina resident is required to withhold State income tax. A pension recipient may elect not to have taxes withheld and certain pension payments are exempt.
EMPLOYMENT SECURITY TAX

Business entities are subject to a payroll tax under the North Carolina Employment Security Law if they have one or more employees for 20 different weeks during a calendar year or pay $1,500 in wages in any calendar quarter during a calendar year in this State. The tax is payable quarterly and applies to wage payments up to $19,700 per employee per year in 2010. Entities commencing business in North Carolina are subject to a tax rate of 1.20% during the first two years. The rate may be changed after the entity comes under experience rating. The minimum tax rate allowed in 2010 under the experience rating tables is 0% of taxable payrolls; the maximum tax rate, 6.84%.

The tax is administered by the Division of Employment Security within the North Carolina Department of Commerce. Information regarding the tax is available at http://www.ncesc1.com/business/UI/UiTax.asp.

OCCUPATIONAL LICENSE TAXES

Occupational license taxes are levied by the county and municipal governments on a variety of occupations and businesses, and by the State on a small number of activities. State law limits the tax which may be levied on certain occupations and businesses by local governments, and prohibits the taxation of others by these units. Municipalities have general licensing authority, but are specifically limited in regard to certain businesses.

INSURANCE TAX

In lieu of paying the corporate income and franchise tax, insurance companies are subject to this tax. Most insurance companies must pay a tax rate of 1.9% of their gross premiums. The tax rate on gross receipts for contracts applicable to liabilities under the Workers’ Compensation Act is 2.5%. The tax rate on HMOs is 1.9%. Insurance companies also are subject to a regulatory charge equal to a percentage (currently 6.0%) of their gross premiums tax. There is an additional tax on property coverage contracts at the rate of 0.74%.

DRY-CLEANING SOLVENT TAX

Dry-cleaning solvent retailers and dry-cleaning facilities must pay $10 for each gallon of dry-cleaning solvent that is halogenated hydrocarbon-based and $1.35 for each gallon of dry-cleaning solvent that is hydrocarbon-based.

PRIVILEGE TAXES ON CERTAIN MACHINERY AND EQUIPMENT

A privilege tax of 1% of sales price, with a maximum of $80 per article, is imposed on purchasers (excluding motion picture or film production companies or retailers of foods prepared for consumption) of manufacturing machinery, parts, and accessories stored, used, or consumed in the state, and on purchasers of crane systems, port or dock facilities, rail equipment, and material handling equipment if they are used in connection with a major recycling facility in the state and on research and development companies in the physical, engineering, and life sciences, specified software publishing companies, industrial machinery refurbishing companies, and eligible datacenters that purchase certain capitalized equipment. The privilege tax is imposed in lieu of State use tax, and a credit is allowed when a substantially equivalent tax is due and paid to another state. Effective June 27, 2011 the privilege tax on datacenter machinery and equipment is applied retroactively to sales or purchases made on or after October 1, 2007. Effective July 1, 2013 the privilege tax will be imposed upon purchases of specialized equipment to be used at a ports facility to unload or process bulk cargo, and machinery, parts and accessories used, stored, or consumed in North Carolina by a large manufacturing and distribution facility. A large manufacturing and distribution facility is allowed a refund of all local sales and use taxes and a portion of State sales and use taxes paid on such purchases made on or after July 1, 2012 but before July 1, 2013.
SPECIFIC STATE TAXES FOR INDIVIDUALS

ESTATE TAX

North Carolina has no inheritance tax, but it does impose an estate tax based on the federal estate tax calculation. The North Carolina estate tax is equal to the state estate tax credit that was allowable under Section 2011 of the Internal Revenue Code as it existed prior to 2002.

GIFT TAX

The gift tax was repealed for gifts made on or after January 1, 2009.
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