



Tax Thoughts

Presented to the
NC Chamber Tax
Conference
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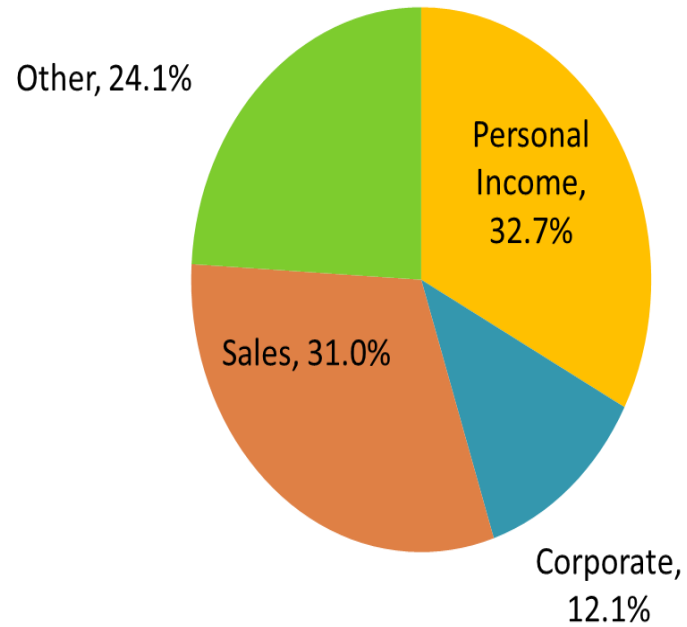
Tax Thoughts

- Overview of North Carolina's tax structure
- Overview of tax reform opportunities
- Overview of 2009-2010 biennium tax changes
- Highlights of 2010 finance law changes
- Overview of revenue issues for the 2011-2012 biennium



North Carolina's Tax Structure

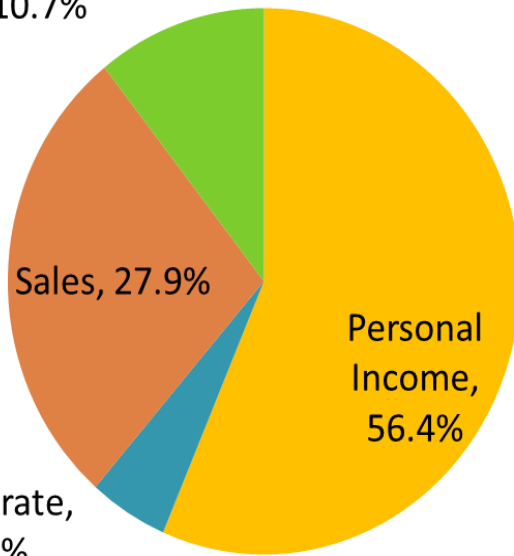
1970-2009



State Tax Structure

1970-71

Other, 10.7%



Corporate,
5.0%

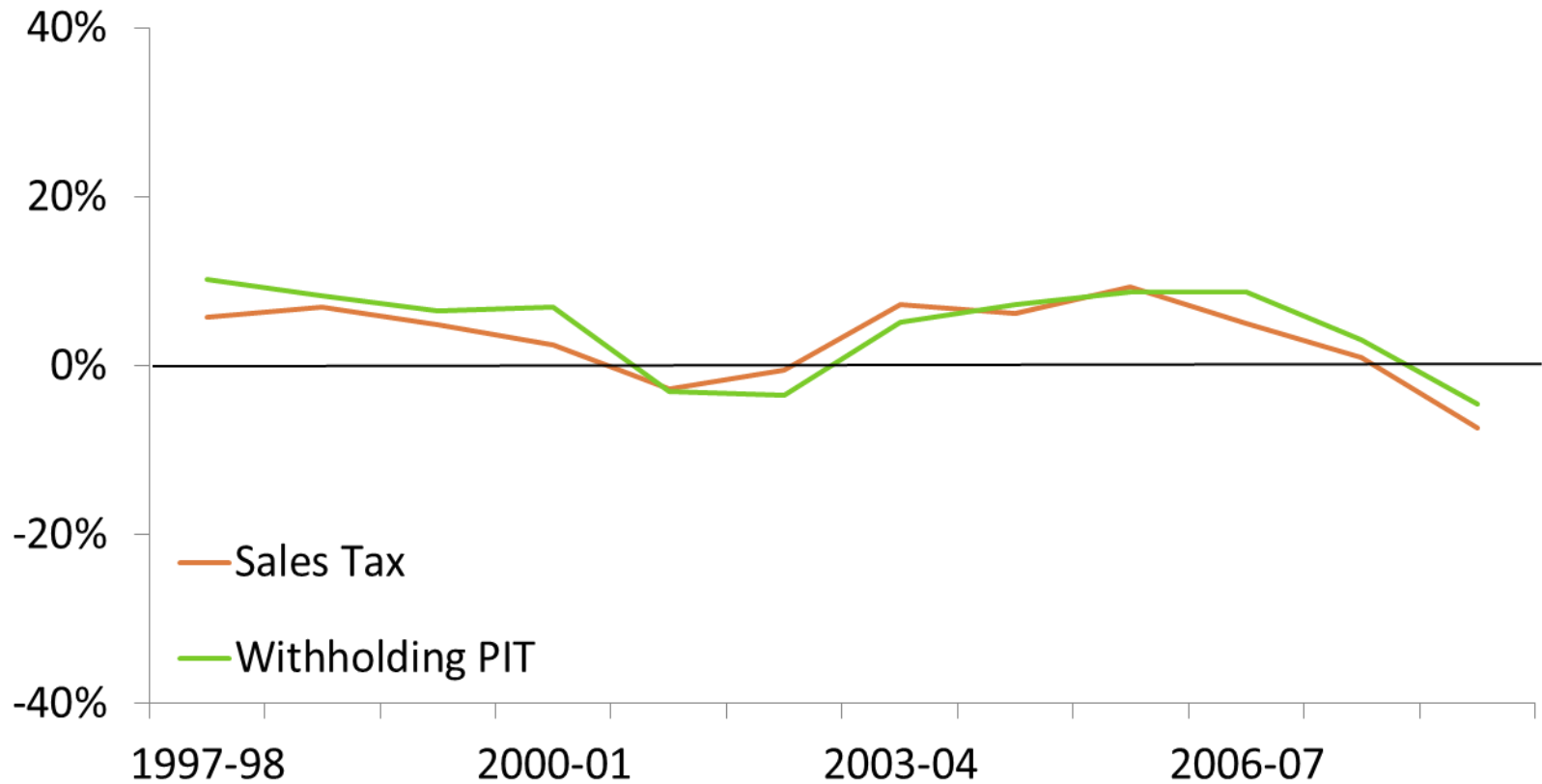
Sales, 27.9%

Personal
Income,
56.4%

State Tax Structure

2008-09

Growth & Stability



Growth & Stability



Variety of Causes

- New forms of business
 - Internet sales
 - Sales of services
 - Business formation
- Tax planning strategies
- Tax policy decisions
 - Federal
 - State



**Shrinking tax
bases!**

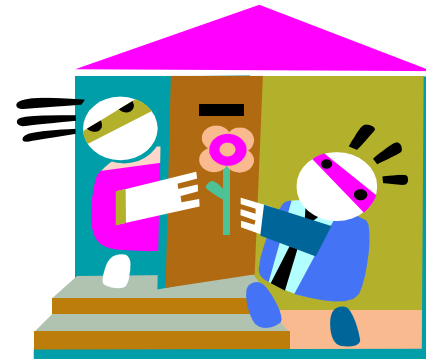


Overview of Tax Reform Opportunities

1991-2010

Cycles of Revenue Inadequacy

- 1991
 - 8.1% shortfall
 - Increase tax rates
 - Tax Reform Study
- 2001 (2003 & 2005)
 - 10.8% shortfall
 - Temporary increase in tax rates
 - Tax Reform Study
- 2009
 - 15.2% shortfall
 - Temporary increase in tax rates
 - Tax Reform Study



Tax Reform Studies

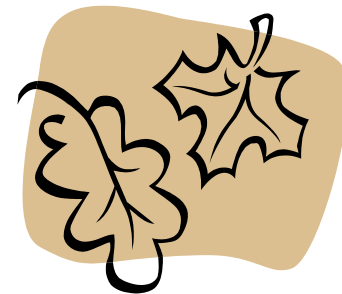
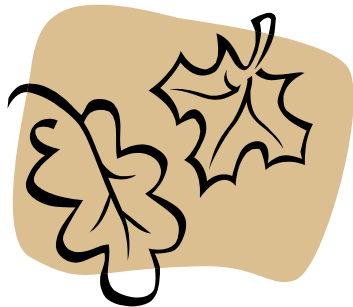
- Fiscal Realities for the 90s
- Governor's Study (2001)
- Governor's Study to Modernize State Finances (2002)
- IEI's Financing the Future (2005-2009)
- State and Local Fiscal Modernization (2006)
- Economic Development Incentives (2009)
- Tax Reform Finance Meetings (2010)

Message of Tax Reform

- Tax structure is too complicated
- Tax structure should be modernized to
 - Reflect changes in the economic environment
 - Generate sufficient revenues without repeatedly resorting to *ad hoc* revenue adjustments
- Tax rates too high

Tax Reform in a Nutshell

- Simplicity
- Fairness
- Minimal number of exemptions
- **Broaden the bases, lower the rates**





Overview of Biennium Tax Changes

2009-2010

- Extension of tax expenditure sunsets = 10
- Expansion of existing tax expenditures = 10
- New tax expenditures = 11
- Increase tax rates = 6
- Expand tax base = 4

Narrowed the Bases

Increased the Rates

Extension of Sunsets

- Energy conservation (2016)
- Constructing renewable fuel facilities (2013)
- Biodiesel producers (2013)
- Oyster shell recycling (2013)
- Mill rehab (2014)
- QBV (2013)
- Article 3J (2013)
- Passenger air carriers (2013)
- Motorsports aviation fuel (2013)
- Datacenters (2015)

Expansion of Tax Expenditures

- IRC Update: EITC, small business expensing (2x), NOLs for small business
- Income Tax: Film credit (2x), energy conservation tax credit, credit for placing renewable energy property in service
- Sales Taxes: Exemption for Internet datacenters, modify investment threshold for datacenters to qualify for 1% excise tax

New Tax Expenditures

- Deduct \$2400 of UI payments (*IRC Update*)
- UI refundable tax credit
- Interactive digital media credit
- Renewable energy property facility
- Sales tax refunds
 - Paper to pulp
 - Turbine
- Wood chippers
- Flight simulators
- C aprmt. formula
 - Single sales factor
 - Modification
- Eco-industrial parks

Increased Tax Rates

- Temporary sales tax increase of 1%
- Temporary corporate income tax surtax of 3%
- Temporary individual income tax surtax
 - 2% for NC taxable income over \$100k
 - 3% for NC taxable income over \$250k
- Tax increase on beer, wine, alcohol, cigarettes, and tobacco products

Sales Tax Base Expansion

- Nexus clarification (click-throughs)
- Digital products
- Require online travel companies to collect tax on **sales price** of accommodations
- Extend sales tax to Internet resale of tickets by a person engaged in the business of reselling (*privilege tax*)



Session Highlights

2010

Session at a Glance ...

- Small Business Relief
- Economic Incentives
- Renewable Energy
- Sales/Admissions Tax Changes
- Tax Administration

Small Business Relief

- Unemployment Insurance Refundable Tax Credit
- Extension of 5-year Carryback Period for NOLs
- Lower Sales Tax Compliance Burden on Small Retailers
- Relieve Annual Report Compliance Burden on Small Business



Economic Incentives



- Datacenters
- Film Industry
- Interactive Digital Media Industry
- Eco-Industrial Parks
- Sales Tax Refunds
- Sunset Extensions

Renewable Energy

- Constructing renewable fuel facilities & biodiesel producers
- Investing in renewable energy property
- Renewable energy property facility
- Financing energy programs
- Donated property for conservation purposes
- § 179D deduction
- Grants for investing provided by ARRTA

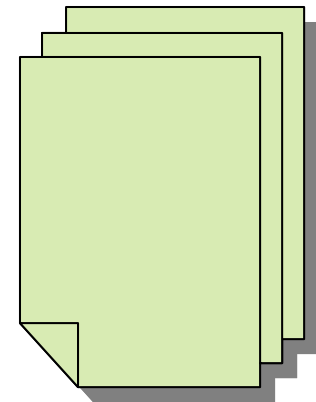
Sales Tax Changes

- Online travel companies collect tax on sales price
- 3% privilege tax on Internet ticket resales
- Woodchippers



Tax Administration

- Notice of Revised Tax Interpretations
- Fair Tax Penalties
- Mailbox Rule
- Improve Tax and Debt Collection Process





What's in Store for 2011?

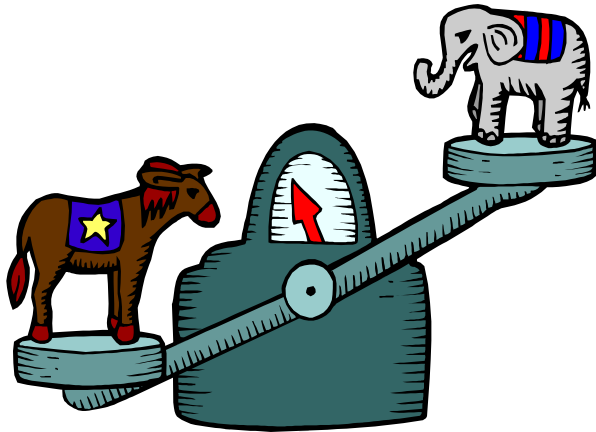
2011-2012

Some Things Haven't Changed ...

- \$1.3 billion in temporary taxes expire in FY 2011-12
- \$1.6 billion in federal stimulus dollars no longer available
- Static budget gap of \$3.2 billion
- Weak economy
- Modest growth at best



Some Things Have Changed a Lot ...



- Republicans control both the House and the Senate – First time since 1869

2010 Finance Law Changes

- Available online: **www.ncleg.net**
 - NCGA website (under “Legislative Publications”)
 - Revenue Laws website
 - Legislative Library website
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