

**GENERAL ASSEMBLY OF NORTH CAROLINA  
SESSION 2005**

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**SENATE BILL 344  
Finance Committee Substitute Adopted 8/10/05**

Short Title: 2005 Economic Growth and Tax Relief Act.

(Public)

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Sponsors:

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Referred to:

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March 3, 2005

A BILL TO BE ENTITLED

1 AN ACT TO FOSTER ECONOMIC GROWTH IN NORTH CAROLINA BY  
2 LOWERING THE INDIVIDUAL AND CORPORATE INCOME TAX RATES  
3 AND PROVIDING FOR OTHER TAX RELIEF.  
4

5 The General Assembly of North Carolina enacts:

6 **PART I. REPEAL ESTATE AND GIFT TAXES**

7 **SECTION 1.1.** Article 1A of Chapter 105 of the General Statutes is  
8 repealed.

9 **SECTION 1.2.** Article 6 of Chapter 105 of the General Statutes is repealed.

10 **SECTION 1.3.** G.S. 105-241.1(e) reads as rewritten:

11 "(e) Statute of Limitations. – There is no statute of limitations and the Secretary  
12 may propose an assessment of tax due from a taxpayer at any time if (i) the taxpayer did  
13 not file a proper application for a license or did not file a return, (ii) the taxpayer filed a  
14 false or fraudulent application or return, or (iii) the taxpayer attempted in any manner to  
15 fraudulently evade or defeat the tax.

16 If a taxpayer files a return reflecting a federal determination as provided in  
17 G.S. 105-29, 105-130.20, 105-159, 105-160.8, or 105-163.6A, ~~or 105-197.1,~~ the  
18 Secretary must propose an assessment of any tax due within one year after the return is  
19 filed or within three years of when the original return was filed or due to be filed,  
20 whichever is later. If there is a federal determination and the taxpayer does not file the  
21 required return, the Secretary must propose an assessment of any tax due within three  
22 years after the date the Secretary received the final report of the federal determination.

23 If a taxpayer forfeits a tax credit or tax benefit pursuant to forfeiture provisions of  
24 this Chapter, the Secretary must assess any tax due as a result of the forfeiture within  
25 three years after the date of the forfeiture. If a taxpayer elects under section  
26 1033(a)(2)(A) of the Code not to recognize gain from involuntary conversion of  
27 property into money, the Secretary must assess any tax due as a result of the conversion  
28 or election within the applicable period provided under section 1033(a)(2)(C) or section  
29 1033(a)(2)(D) of the Code. If a taxpayer sells at a gain the taxpayer's principal

1 residence, the Secretary must assess any tax due as a result of the sale within the period  
2 provided under section 1034(j) of the Code.

3 In all other cases, the Secretary must propose an assessment of any tax due from a  
4 taxpayer within three years after the date the taxpayer filed an application for a license  
5 or a return or the date the application or return was required by law to be filed,  
6 whichever is later.

7 If the Secretary proposes an assessment of tax within the time provided in this  
8 section, the final assessment of the tax is timely.

9 A taxpayer may make a written waiver of any of the limitations of time set out in  
10 this subsection, for either a definite or an indefinite time. If the Secretary accepts the  
11 taxpayer's waiver, the Secretary may propose an assessment at any time within the time  
12 extended by the waiver."

13 **SECTION 1.4.** Section 1.1 of this part is effective for the estates of  
14 decedents dying on or after July 1, 2007. Sections 1.2 and 1.3 of this part become  
15 effective July 1, 2007, and apply to gifts made on or after that date.

16  
17 **PART II. REDUCE CORPORATE INCOME TAX RATE**

18 **SECTION 2.1.** G.S. 105-130.3 reads as rewritten:

19 "**§ 105-130.3. Corporations.**

20 A tax is imposed on the State net income of every C Corporation doing business in  
21 this State. An S Corporation is not subject to the tax levied in this section. The tax is a  
22 percentage of the taxpayer's State net income computed as follows:

| Income Years Beginning         | Tax                         |
|--------------------------------|-----------------------------|
| In 1997                        | 7.5%                        |
| In 1998                        | 7.25%                       |
| In 1999                        | 7%                          |
| After 1999 <u>through 2005</u> | <del>6.9%</del> <u>6.9%</u> |
| <u>In 2006</u>                 | <u>6.75%</u>                |
| <u>After 2006</u>              | <u>6.5%.</u> "              |

30 **SECTION 2.2.** G.S. 115C-546.1(b) reads as rewritten:

31 "(b) Each calendar quarter, the Secretary of Revenue shall remit to the State  
32 Treasurer for credit to the Public School Building Capital Fund an amount equal to the  
33 applicable fraction provided in the table below of the net collections received during the  
34 previous quarter by the Department of Revenue under G.S.105-130.3. All funds  
35 deposited in the Public School Building Capital Fund shall be invested as provided in  
36 G.S. 147-69.2 and G.S. 147-69.3.

| Period   | Fraction                          |
|--|-----------------------------------|
| 10/1/97 to 9/30/98                                 | One-fifteenth (1/15)              |
| 10/1/98 to 9/30/99                                 | Two twenty-ninths (2/29)          |
| 10/1/99 to 9/30/00                                 | One-fourteenth (1/14)             |
| <del>After 9/30/00</del> <u>10/1/00 to 9/30/06</u> | Five sixty-ninths (5/69)          |
| <u>10/1/07 to 9/30/07</u>                          | <u>Two twenty-sevenths (2/27)</u> |
| <u>After 9/30/07</u>                               | <u>One thirteenth (1/13)".</u>    |

44 **SECTION 2.3.** This part is effective when it becomes law.

**PART III. INDIVIDUAL INCOME TAX CHANGES**

**SECTION 3.1.** Section 39.1 of S.L. 2003-284 is repealed.

**SECTION 3.2.** G.S. 105-134.2(a) reads as rewritten:

"(a) A tax is imposed upon the North Carolina taxable income of every individual. The tax shall be levied, collected, and paid annually and shall be computed at the following percentages of the taxpayer's North Carolina taxable income.

(1) For married individuals who file a joint return under G.S. 105-152 and for surviving spouses, as defined in section 2(a) of the Code:

| Over      | Up To     | Rate                       |
|-----------|-----------|----------------------------|
| 0         | \$21,250  | 6%                         |
| \$21,250  | \$100,000 | 7%                         |
| \$100,000 | \$200,000 | 7.75%                      |
| \$200,000 | NA        | <del>8.25%</del> <u>8%</u> |

(2) For heads of households, as defined in section 2(b) of the Code:

| Over      | Up To     | Rate                       |
|-----------|-----------|----------------------------|
| 0         | \$17,000  | 6%                         |
| \$17,000  | \$80,000  | 7%                         |
| \$80,000  | \$160,000 | 7.75%                      |
| \$160,000 | NA        | <del>8.25%</del> <u>8%</u> |

(3) For unmarried individuals other than surviving spouses and heads of households:

| Over      | Up To     | Rate                       |
|-----------|-----------|----------------------------|
| 0         | \$12,750  | 6%                         |
| \$12,750  | \$60,000  | 7%                         |
| \$60,000  | \$120,000 | 7.75%                      |
| \$120,000 | NA        | <del>8.25%</del> <u>8%</u> |

(4) For married individuals who do not file a joint return under G.S. 105-152:

| Over      | Up To     | Rate                          |
|-----------|-----------|-------------------------------|
| 0         | \$10,625  | 6%                            |
| \$10,625  | \$50,000  | 7%                            |
| \$50,000  | \$100,000 | 7.75%                         |
| \$100,000 | NA        | <del>8.25%</del> <u>8%</u> ". |

**SECTION 3.3.** G.S. 105-134.2(a), as amended by Section 3.2 of this part, reads as rewritten:

"(a) A tax is imposed upon the North Carolina taxable income of every individual. The tax shall be levied, collected, and paid annually and shall be computed at the following percentages of the taxpayer's North Carolina taxable income.

(1) For married individuals who file a joint return under G.S. 105-152 and for surviving spouses, as defined in section 2(a) of the Code:

| Over                 | Up To                   | Rate  |
|----------------------|-------------------------|-------|
| 0                    | \$21,250                | 6%    |
| \$21,250             | \$100,000               | 7%    |
| \$100,000            | <del>\$200,000</del> NA | 7.75% |
| <del>\$200,000</del> | NA                      | 8%    |

(2) For heads of households, as defined in section 2(b) of the Code:

| Over                 | Up To                   | Rate  |
|----------------------|-------------------------|-------|
| 0                    | \$17,000                | 6%    |
| \$17,000             | \$80,000                | 7%    |
| \$80,000             | <del>\$160,000</del> NA | 7.75% |
| <del>\$160,000</del> | NA                      | 8%    |

(3) For unmarried individuals other than surviving spouses and heads of households:

| Over                 | Up To                   | Rate  |
|----------------------|-------------------------|-------|
| 0                    | \$12,750                | 6%    |
| \$12,750             | \$60,000                | 7%    |
| \$60,000             | <del>\$120,000</del> NA | 7.75% |
| <del>\$120,000</del> | NA                      | 8%    |

(4) For married individuals who do not file a joint return under G.S. 105-152:

| Over                 | Up To                   | Rate  |
|----------------------|-------------------------|-------|
| 0                    | \$10,625                | 6%    |
| \$10,625             | \$50,000                | 7%    |
| \$50,000             | <del>\$100,000</del> NA | 7.75% |
| <del>\$100,000</del> | NA                      | 8%".  |

**SECTION 3.4.** G.S. 105-134.6(b) is amended by adding a new subdivision to read:

"(b) Deductions. – The following deductions from taxable income shall be made in calculating North Carolina taxable income, to the extent each item is included in taxable income:

...

(18) An amount equal to the exemption amount set in this subdivision for each personal exemption the taxpayer is allowed to deduct under section 151 of the Code. The amount of the personal exemption varies depending upon the taxpayer's adjusted gross income (AGI) as calculated under the Code.

a. For married individuals who file a joint return under G.S. 105-152 and for surviving spouses, as defined in section 2(a) of the Code:

| <u>AGI Over</u>  | <u>AGI Up To</u> | <u>Exemption Amount</u> |
|------------------|------------------|-------------------------|
| <u>0</u>         | <u>\$30,000</u>  | <u>\$2,900</u>          |
| <u>\$30,000</u>  | <u>\$65,000</u>  | <u>\$2,700</u>          |
| <u>\$65,000</u>  | <u>\$100,000</u> | <u>\$2,500</u>          |
| <u>\$100,000</u> | <u>\$150,000</u> | <u>\$2,000</u>          |
| <u>\$150,000</u> | <u>\$250,000</u> | <u>\$1,500</u>          |
| <u>\$250,000</u> | <u>\$350,000</u> | <u>\$1,000</u>          |
| <u>\$350,000</u> | <u>NA</u>        | <u>\$500.</u>           |

b. For heads of household, as defined in section 2(b) of the Code:

| <u>AGI Over</u>  | <u>AGI Up To</u> | <u>Exemption Amount</u> |
|------------------|------------------|-------------------------|
| <u>0</u>         | <u>\$24,000</u>  | <u>\$2,900</u>          |
| <u>\$24,000</u>  | <u>\$52,000</u>  | <u>\$2,700</u>          |
| <u>\$52,000</u>  | <u>\$80,000</u>  | <u>\$2,500</u>          |
| <u>\$80,000</u>  | <u>\$120,000</u> | <u>\$2,000</u>          |
| <u>\$120,000</u> | <u>\$200,000</u> | <u>\$1,500</u>          |
| <u>\$200,000</u> | <u>\$280,000</u> | <u>\$1,000</u>          |
| <u>\$280,000</u> | <u>NA</u>        | <u>\$500.</u>           |

c. For unmarried individuals other than surviving spouses and heads of households:

| <u>AGI Over</u>  | <u>AGI Up To</u> | <u>Exemption Amount</u> |
|------------------|------------------|-------------------------|
| <u>0</u>         | <u>\$18,000</u>  | <u>\$2,900</u>          |
| <u>\$18,000</u>  | <u>\$39,000</u>  | <u>\$2,700</u>          |
| <u>\$39,000</u>  | <u>\$60,000</u>  | <u>\$2,500</u>          |
| <u>\$60,000</u>  | <u>\$90,000</u>  | <u>\$2,000</u>          |
| <u>\$90,000</u>  | <u>\$150,000</u> | <u>\$1,500</u>          |
| <u>\$150,000</u> | <u>\$210,000</u> | <u>\$1,000</u>          |
| <u>\$210,000</u> | <u>NA</u>        | <u>\$500.</u>           |

d. For married individuals who do not file a joint return under G.S. 105-152:

| <u>AGI Over</u>  | <u>AGI Up To</u> | <u>Exemption Amount</u> |
|------------------|------------------|-------------------------|
| <u>0</u>         | <u>\$15,000</u>  | <u>\$2,900</u>          |
| <u>\$15,000</u>  | <u>\$32,500</u>  | <u>\$2,700</u>          |
| <u>\$32,500</u>  | <u>\$50,000</u>  | <u>\$2,500</u>          |
| <u>\$50,000</u>  | <u>\$75,000</u>  | <u>\$2,000</u>          |
| <u>\$75,000</u>  | <u>\$125,000</u> | <u>\$1,500</u>          |
| <u>\$125,000</u> | <u>\$175,000</u> | <u>\$1,000</u>          |

1                                    \$175,000                                    NA                                    \$500."

2            **SECTION 3.5.** G.S. 105-134.4(c)(4a) reads as rewritten:

3            "(c) Additions. – The following additions to taxable income shall be made in  
4 calculating North Carolina taxable income, to the extent each item is not included in  
5 taxable income:

6            ...  
7            (4a) ~~The amount by which each of the taxpayer's personal exemptions has~~  
8 ~~been increased for inflation under section 151(d)(4)(A) of the Code.~~  
9 ~~This amount is reduced by five hundred dollars (\$500.00) for each~~  
10 ~~personal exemption if the taxpayer's adjusted gross income (AGI), as~~  
11 ~~calculated under the Code, is less than the following amounts:~~

| <b>Filing Status</b>       | <b>AGI</b> |
|----------------------------|------------|
| Married, filing jointly    | \$100,000  |
| Head of Household          | 80,000     |
| Single                     | 60,000     |
| Married, filing separately | 50,000.    |

17            ~~For the purposes of this subdivision, if the taxpayer's personal~~  
18 ~~exemptions have been reduced by the applicable percentage under~~  
19 ~~section 151(d)(3) of the Code, the amount by which the personal~~  
20 ~~exemptions have been increased for inflation is also reduced by the~~  
21 ~~applicable percentage.~~Any amount deducted from gross income under  
22 section 151 of the Code."

23            **SECTION 3.6.** Sections 3.2, 3.4, and 3.5 of this part are effective for taxable  
24 years beginning on or after January 1, 2006. Section 3.3 of this part is effective for  
25 taxable years beginning on or after January 1, 2007. The remainder of this part is  
26 effective when it becomes law.

27  
28 **PART IV. TOBACCO TAX CHANGES**

29            **SECTION 4.1.** If Senate Bill 622, 2005 General Assembly, becomes law,  
30 then Section 34.1(b) of that act is repealed.

31            **SECTION 4.2.** If Senate Bill 622, 2005 General Assembly, becomes law,  
32 then G.S. 105-113.5, as amended by that act, reads as rewritten:

33 **"§ 105-113.5. Tax on cigarettes.**

34            A tax is levied on the sale or possession for sale in this State, by a distributor, of all  
35 cigarettes at the rate of ~~one and one half cents (1.50¢)~~two cents (2¢) per individual  
36 cigarette."

37            **SECTION 4.3.** This part becomes effective July 1, 2006.

38  
39 **PART V. SALES TAX CHANGES**

40            **SECTION 5.1.** Section 34.13(c) of S.L. 2001-424, as amended by Section  
41 38.1 of S.L. 2003-284, Section 9.1 of S.L. 2005-144, and Section 33.1 of Senate Bill  
42 622, 2005 General Assembly, if that bill becomes law, reads as rewritten:

43            **"SECTION 34.13.(c)** This section becomes effective October 16, 2001, and applies  
44 to sales made on or after that date. ~~This section is repealed effective for sales made on~~

1 ~~or after July 1, 2007.~~ This section does not affect the rights or liabilities of the State, a  
2 taxpayer, or another person arising under a statute amended or repealed by this section  
3 before the effective date of its amendment or repeal; nor does it affect the right to any  
4 refund or credit of a tax that accrued under the amended or repealed statute before the  
5 effective date of its amendment or repeal."

6 **SECTION 5.2.** This part is effective when it becomes law.

7  
8 **PART VI. INCREASE MINIMUM WAGE**

9 **SECTION 6.1.** G.S. 95-25.3(a) reads as rewritten:

10 "**§ 95-25.3. Minimum wage.**

11 (a) Every employer shall pay to each employee who in any workweek performs  
12 any work, wages of at least ~~the minimum wage set forth in paragraph 1 of section 6(a)~~  
13 ~~of the Fair Labor Standards Act, 29 U.S.C. 206(a)(1), as that wage may change from~~  
14 ~~time to time, six dollars (\$6.00) per hour, except as otherwise provided in this section."~~

15 **SECTION 6.2.** This part becomes effective January 1, 2006.

16  
17 **PART VII. EFFECTIVE DATE**

18 **SECTION 7.** Except as otherwise provided, this act is effective when it  
19 becomes law.