

LOOPHOLES, TAX BREAKS AND SPECIAL FAVORS

A Partial List of Taxes Lost That Benefit Special Interests: Total \$1.1 BILLION

Excerpted from Table of Tax Expenditures prepared by Legislative Fiscal Research Staff, updated July 2001

NC Law: GS 105	Description	Current Law Limits Normal Taxation	Options to Achieve Tax Fairness	Cost in millions
SALES & USE TAX				
187.2	Motor vehicles	3%, \$1,500 limit	3%, no limit	\$2.36
164.4a(1b)	Boats, aircraft, railway cars	3%, \$1,500 limit	3%, no limit	\$10.5
164.3 (16)(f)	Vending machines	Sales through vending machine are reduced by 50% (except closed-container soft drinks and tobacco prods)	Tax vending machine sales at 100%.	\$6.0 FY99-00
164.4a(1d) & 164.4A	Manufacturing & farm machinery, phone company property, tobacco equipment, broadcasting machinery, etc.	1%, \$80 limit	1%, no limit 3%, no limit 4%, no limit	21.0 132.0 178.5
164.4a(4a)	Coin calls from pay telephones	Exempt from 3% tax	Reinstate 3% tax	1.9
164.4a(4c)	Interstate telecommunications	Exempt	6.0%	82.4
164.4	Cable TV	Exempt	4%	15.1
164.4	Satellite TV	Exempt	5%	24.5
164.4	Services: Professional Nonprofessional	Exempt Exempt	4% 4%	201.5 86.4
CORPORATE AND INDIVIDUAL INCOME TAX				
130.5(a)(2)	Bank expenses	State domiciled financial institutions receive a deduction for expenses Incurred to earn tax-exempt income.	Repeal the deduction	\$85 to 114
129.9	Machinery & equipment	Tax credit is equal to 7% of the excess eligible investment over a threshold based on enterprise tier and development zone designation.	Repeal the credit	109.5 FY 04-05
129.10	Research and development	General credit is allowable for 5% of the increase in research and development expenses attributable to North Carolina.	Repeal the credit	10.4 FY 04-05
129.16	Business property	Tax credit is equal to 4.5% of the cost of business property that a taxpayer purchased or leased and placed in service in NC during taxable year.	Repeal the credit	16.9
130.4	Apportionment formula	Apportionment of corporate income is now based on a double weighted sales factor - sales (1/2), payroll (1/4), and property (1/4).	Convert to equal weighted factors - sales (1/3), payroll (1/3), and property (1/3).	56.1
130.7	Subsidiary dividends	A corporation can deduct all dividends received from corporations in which it owns more than 50% of the outstanding voting stock.	Require % of related expenses be netted before deduction	30.0
130.4	Corporate nexus	Currently credit card companies do business in North Carolina, but pay no income tax, if they do not have a "physical presence" in the state. (Note:The Department of Revenue asserts nexus to companies which use intangibles in this state and also to mortgage lenders with more than \$5 million of loans secured by real estate in this state.)	Provide that nexus may be based on a substantial customer base. Would result in the taxation of several out of state credit-card firms	45.9
130.4	Corporate throwback rule	Some out-of-state sales of multi-state corporations escape all state taxation.	Enact Corp Inc. Tax Throwback Rule to tax "nowhere sales"	12.0
131.1	S Corporation	No tax paid by corporation - income and losses go to shareholders	3% corporate tax (California law)	70.0
130.8	Net economic loss	Corporate income tax carry forward for net economic loss is 15 years.	Return carry forward of loss to 5 years as it was prior to 1998.	16.0
TOBACCO/ALCOHOL				
130.45	Manufacturing cigarettes for export	Tax credit is based on the increase in volume of cigarettes exported over the amount exported in 1998. A taxpayer is limited to \$6 million in credit.	Repeal the credit	\$8.7
113.9	Nonresident distrbtr., wholesaler or retailer	Tax exemption for out-of-state sales and sales to nonresident wholesaler or retailer registered with Revenue but with no place of business in NC	No exemption	NA
113.35	Other tobacco products tax	"Other Tobacco Products" are taxed at 2% of the cost price of product.	Increase the rate to 4%.	2.9
164.13(37)	Liquor sales	Exempt from sales tax but subject to excise tax	6% sales tax	22.9
113.85	Beer and wine distributor discount	Distributors can deduct 4% from their excise tax payment to compensate for administering the tax and for spoilage and breakage.	Repeal 4% discount.	4.39
INSURANCE COS				
164.14(i)	Nonprofit insur. cos	Sales tax refund for 8 yrs on supplies, fixtures etc. (4 yrs on computer equip)	4%	\$1.2
228.5	HMOs	HMOs pay Income and Franchise Taxes, not Gross Premiums Tax.	Cut Income and Franchise Tax, add 1% Gross Premiums Tax	22.2
228.5	Article 65 corps.	Blue Cross and Delta Dental pay .5% tax	Tax at 1%	6.1
228.5A	Guaranty Fund tax credit	Insurance cos. receive a 100% credit for assessments paid to NC Insurance Guaranty Assn and NC Life & Health Ins. Assn. The credit is taken over 5 yrs.	Repeal the credit	5.3

Adapted by Democracy South from "NC Tax Expenditures," table prepared General Assembly's Fiscal Research Office, July 2001