

21st Century Tax Rate Reduction and Modernization Plan

- Broadens the tax bases, lowers every major tax rate
 - Stabilizes State's tax base
 - Provides a reliable revenue stream for the future
 - Adopts the comprehensive tax reform recommendations of numerous study committees charged with developing a 21st Century tax policy for the State. The last study committees to recommend tax policy changes include the Governor's Commission to Modernize State Finances, the Institute for Emerging Issues, the State and Local Fiscal Modernization Committee, and the Joint Select Committee on Economic Development Incentives. Their recommendations include:
 - ❖ Expand sales tax base by including more services.
 - ❖ Expand the personal income tax base to federal adjusted gross income.
 - ❖ Reduce the individual income tax burden of low-income taxpayers.
 - ❖ Eliminate tax exemptions, deductions, and credits in the individual income, corporate and franchise, and sales tax bases.
 - ❖ Expand franchise tax base to include all types of business organizations with limited liability protection.
 - Provides tax adjustments necessary to balance the Senate's 2009-2011 budget.
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• **Personal Income Tax Changes**

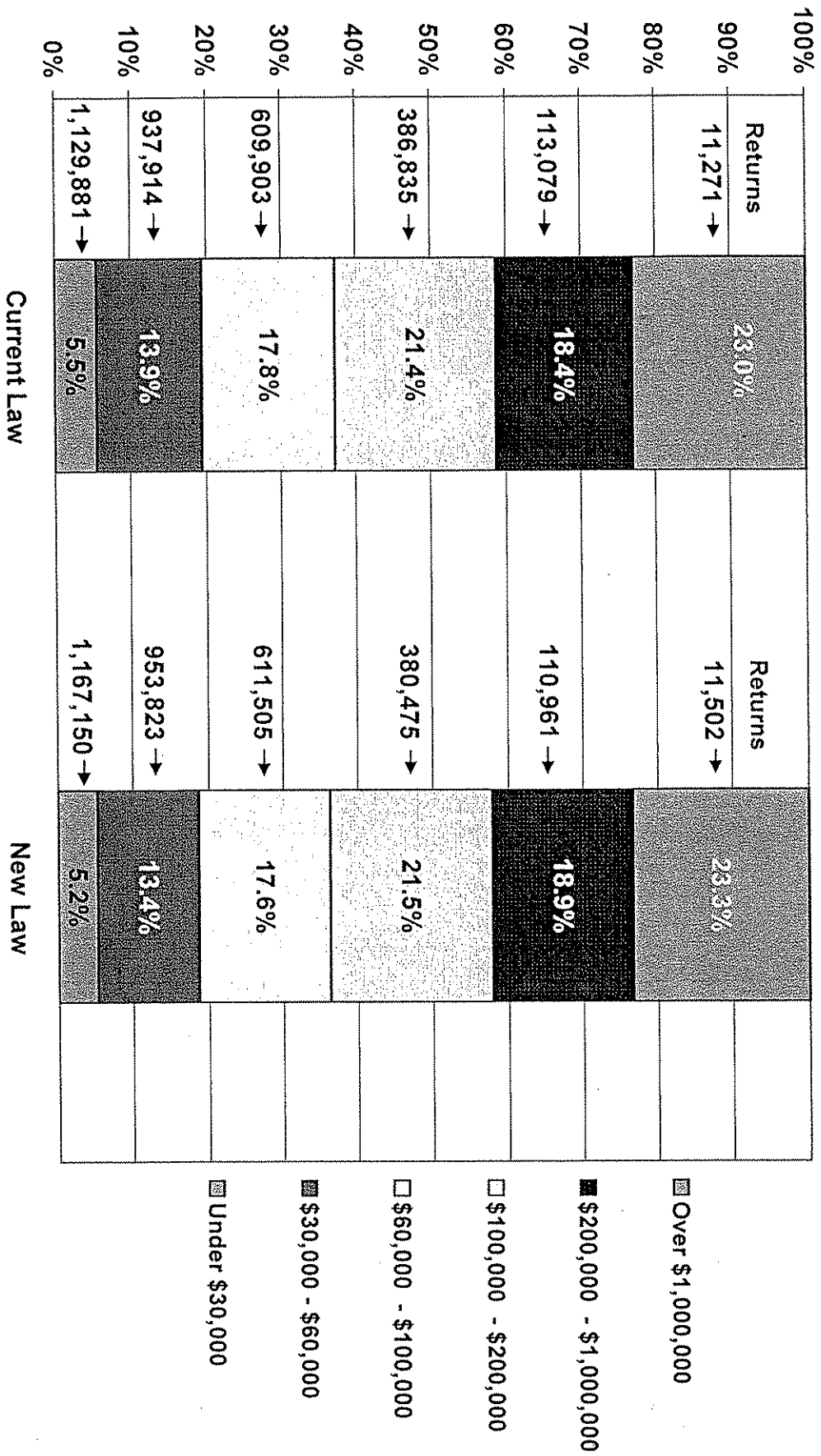
- Expands tax base to federal adjusted gross income
 - 27 states begin their tax calculation with AGI
 - Applies a means test to social security income, same as federal law
- Reduces every rate for each tax bracket
 - Establishes a zero tax rate bracket that would eliminate many low income taxpayers from filing requirements. (\$10,000 for MFJ)
 - Eliminates the marriage penalty in the tax brackets.
- Limits tax credits to family expenses
 - Credit for mortgage interest expense (limited to primary residence)
 - Credit for children
 - Increases the credit for children from \$100 to \$125 and increases the AGI limitation from \$100,000 to \$125,000 (MFJ)
 - Retains the current dependent care credit
 - Credit for charitable giving
 - Credit for medical expenses
- Temporarily suspends, for taxable years 2009 and 2010, State income tax on the first \$4,800 of unemployment benefits received

• **Sales Tax Changes**

- Expands base to include more services with varying effective dates
- Reduces State sales tax rate effective May 1, 2010, for a combined rate of 6% rather than 6.75%
- Caps sales tax refund for nonprofits

- **Business Tax Changes**
 - Simplifies business tax structure and puts the State in a better competitive position
 - **Franchise and Privilege License Tax Changes**
 - Applies franchise tax to all types of business organizations with limited liability protection
 - Repeals State and local privilege license taxes
 - Repeals annual report fees and report fee credit
 - Simplifies franchise tax base to owners' equity
 - **Corporate Income Tax Changes**
 - Adopts throwout requirement
 - Reduces tax rate over 2 years: 5.8% and 4.5%
 - **Tax Credit Changes**
 - Repeals Article 3J credits
 - Repeals credit for payment to Insurance Guaranty Association
 - Repeals other credits EXCEPT
 - Research & Development
 - Refundable financing credits (low-income housing and film)
 - Credits granted as part of an incentive package, such as the major recycling facility credit
 - **Sales tax changes**
 - Limits equipment exemptions to depreciable property
 - Manufacturing equipment (repeals 1%/\$80 category and exempts depreciable equipment)
 - Farming equipment
 - Telephone, cable, broadcasting, laundry equipment
 - Limits farm exemptions to small farmers (100% exemption for gross receipts < \$1 million; 50% exemption for gross receipts < \$2.5 million)
 - Repeals railroad diesel fuel exemption
- **Excise Tax Changes**
 - Increases cigarette tax 15-cents a pack
 - Increases tax on other tobacco products by 3%
 - Increases excise tax on alcohol
- **Revenue Balance between State and Local Governments**
 - Sales tax base expansion improves the stability and revenue of local governments
 - Transfers 0.1% of the local sales tax rate to the State
 - Repeals local sales tax refunds
 - State retains local beer & wine distributions
 - Eliminates corporate income tax earmark for Public School Capital Building Fund
 - Adjusts hold harmless distributions based upon sales tax revenue

21st Century Tax Rate Reduction Plan Personal Income Tax Distribution, 2012



North Carolina tax after credits by AGI for Tax Year 2012

SINGLE	Current Returns		New Returns		Current Law (Millions)		New Law (Millions)		Tax Change (Millions)		Average Tax Change (Dollars)		Change in Tax Liability	
	Current Returns	New Returns	Current Law (Millions)	New Law (Millions)	Current Law (Millions)	New Law (Millions)	Tax Change (Millions)	Average Tax Change (Dollars)	Change in Tax Liability					
0 < 9999	191,076	161,523	29.25	19.79	173.35	184.90	11.55	(33.05)	-7.5%					
9999 < 19999	264,417	267,252	130.07	123.88	175.69	179.46	3.77	(7.87)	-0.5%					
19999 < 29999	228,861	230,252	239.46	229.52	252.35	255.45	3.10	(5.88)	-0.3%					
29999 < 39999	169,344	170,793	272.59	263.51	327.35	329.88	2.53	(0.32)	0.0%					
39999 < 49999	115,980	117,342	249.44	244.81	382.52	385.58	3.06	(0.32)	0.1%					
49999 < 59999	74,325	75,330	196.11	198.82	392.32	393.96	1.64	32.07	0.9%					
59999 < 69999	46,350	46,872	145.20	151.73	382.51	387.25	4.74	78.59	1.9%					
69999 < 79999	29,871	30,210	108.66	115.52	828.67	823.96	(4.71)	53.64	1.1%					
79999 < 89999	19,710	19,704	79.39	85.79	585.62	613.78	28.16	435.14	6.8%					
89999 < 99999	13,200	13,206	60.14	65.48	415.86	440.21	24.35	619.16	7.9%					
99999 < 124999	19,017	18,873	102.47	111.88	301.44	319.53	18.09	739.68	8.0%					
124999 < 149999	9,348	9,309	63.58	69.85	82,986	82,986	0.00	1,214.62	8.0%					
149999 < 174999	5,169	5,157	42.45	46.17	1,284.10	1,362.86	78.76	2,867.73	8.0%					
174999 < 199999	3,342	3,282	32.37	34.98	557.23	586.93	29.70	4,914.24	7.7%					
199999 < 499999	8,979	8,670	140.84	147.39	2,175.86	2,248.77	72.91		2.1%					
499999 < Infinity (+)*	3,228	3,327	371.72	396.52										
TOTALS:	1,202,217	1,181,112	2,263.74	2,305.64	8,234.87	8,512.52	277.65	47.20	0.8%					

MARRIED FILING JOINTLY		Current Returns	New Returns	Current Law (Millions)	New Law (Millions)	Tax Change (Millions)	Average Tax Change (Dollars)	Change in Tax Liability
0 < 39999*	243,873	281,103	173.35	184.90	11.55	(33.05)	-7.5%	
39999 < 49999	121,461	124,746	175.69	179.46	3.77	(7.87)	-0.5%	
49999 < 59999	127,296	129,243	252.35	255.45	3.10	(5.88)	-0.3%	
59999 < 69999	129,462	130,479	327.35	329.88	2.53	(0.32)	0.0%	
69999 < 79999	124,182	125,031	382.52	385.58	3.06	(0.32)	0.1%	
79999 < 89999	109,809	109,287	392.32	393.96	1.64	32.07	0.9%	
89999 < 99999	92,730	92,124	382.51	387.25	4.74	78.59	1.9%	
99999 < 124999	162,213	159,615	828.67	823.96	(4.71)	53.64	1.1%	
124999 < 149999	91,263	89,577	585.62	613.78	28.16	435.14	6.8%	
149999 < 174999	53,286	52,260	415.86	440.21	24.35	619.16	7.9%	
174999 < 199999	32,532	31,935	301.44	319.53	18.09	739.68	8.0%	
199999 < 499999	84,435	82,986	1,284.10	1,362.86	78.76	2,867.73	8.0%	
499999 < 999999	14,970	14,640	557.23	586.93	29.70	4,914.24	7.7%	
999999 < Infinity (+)*	9,288	9,402	2,175.86	2,248.77	72.91		2.1%	
TOTALS:	1,396,800	1,432,428	8,234.87	8,512.52	277.65	47.20	0.8%	

* Collapsed Federal Adjusted Gross Income ranges due to minimum number of returns necessary.

North Carolina tax after credits by AGI for Tax Year 2012

	MARRIED FILING SEPARATELY		Current Returns	New Returns	Current Law (Millions)	New Law (Millions)	Tax Change (Millions)	Average Tax Change (Dollars)	Change in Tax Liability
	Current Returns	New Returns							
0 < 9999	4,233	5,046	0.67	0.70	0.03	(19.56)	-12.4%		
9999 < 19999	12,714	13,218	5.96	5.91	(0.05)	(21.66)	-4.5%		
19999 < 29999	16,968	17,115	16.26	16.06	(0.20)	(19.92)	-2.1%		
29999 < 39999	14,574	14,751	20.86	21.16	0.30	3.16	0.2%		
39999 < 49999	10,284	10,314	19.38	20.01	0.63	55.60	3.0%		
49999 < 59999	6,177	6,144	14.73	15.12	0.39	76.28	3.2%		
59999 < 69999	3,900	3,948	16.43	17.34	0.91	179.28	4.3%		
69999 < 79999	2,442	2,454	8.75	9.37	0.62	235.13	6.6%		
79999 < 89999	1,584	1,545	6.09	6.55	0.46	394.79	10.3%		
89999 < 99999	1,143	1,128	5.14	5.44	0.30	325.76	7.2%		
99999 < 124999	1,536	1,494	7.64	8.32	0.68	594.98	12.0%		
124999 < Infinity (+)*	2,961	2,946	132.51	156.38	23.87	8,330.37	18.6%		
TOTALS:	78,516	80,103	254.42	282.36	27.94	284.60	8.8%		
HEAD OF HOUSEHOLD									
	Current Returns	New Returns	Current Law (Millions)	New Law (Millions)	Tax Change (Millions)	Average Tax Change (Dollars)	Change in Tax Liability		
0 < 29999*	281,916	311,502	139.99	144.80	4.81	(31.72)	-6.4%		
29999 < 39999	102,093	103,281	119.75	113.75	(6.00)	(71.59)	-6.1%		
39999 < 49999	52,020	52,407	90.50	86.54	(3.96)	(88.41)	-5.1%		
49999 < 59999	29,463	29,601	67.17	65.02	(2.15)	(83.26)	-3.7%		
59999 < 69999	16,734	16,821	47.09	46.16	(0.93)	(69.84)	-2.5%		
69999 < 79999	9,579	9,621	31.93	31.66	(0.27)	(42.62)	-1.3%		
79999 < 89999	5,637	5,550	22.40	21.40	(1.00)	(117.89)	-3.0%		
89999 < 99999	3,570	3,525	15.82	15.70	(0.12)	22.53	0.5%		
99999 < 124999	4,089	4,032	21.92	22.86	0.94	308.92	5.8%		
124999 < Infinity (+)*	5,529	5,433	99.85	102.43	2.58	793.98	4.4%		
TOTALS:	510,630	541,773	656.42	650.32	(6.10)	(85.15)	-6.6%		

* Collapsed Federal Adjusted Gross Income ranges due to minimum number of returns necessary.

North Carolina tax after credits by AGI for Tax Year 2012

Federal Adjusted Gross Income	Current Returns	New Returns	Current Law (Millions)	New Law (Millions)	Tax Change (Millions)	Average Tax Change (Dollars)	Change in Tax Liability
0 < 9999	199,680	170,136	39.96	20.70	(19.26)	(78.45)	-39.2%
9999 < 19999	413,946	467,196	170.55	174.37	3.82	(38.78)	-9.4%
19999 < 29999	516,255	529,818	417.67	418.32	0.65	(19.48)	-2.4%
29999 < 39999	400,188	408,696	520.02	510.59	(9.43)	(50.12)	-3.9%
39999 < 49999	299,745	304,809	535.02	530.82	(4.20)	(43.43)	-2.4%
49999 < 59999	237,261	240,318	530.35	534.41	4.06	(11.54)	-0.5%
59999 < 69999	196,446	198,120	536.08	545.11	9.03	22.52	0.8%
69999 < 79999	166,074	167,316	531.86	542.14	10.28	37.67	1.2%
79999 < 89999	136,740	136,086	500.20	507.70	7.50	72.69	2.0%
89999 < 99999	110,643	109,983	463.60	473.87	10.27	118.52	2.2%
99999 < 124999	186,855	184,014	960.69	967.02	6.33	113.78	2.8%
124999 < 149999	103,302	101,520	668.28	702.44	34.16	450.04	7.0%
149999 < 174999	59,901	58,815	469.27	498.19	28.92	636.37	8.1%
174999 < 199999	36,777	36,126	342.11	363.38	21.27	756.40	8.1%
199999 < 499999	95,877	94,068	1,462.22	1,549.83	87.61	1,224.64	8.0%
499999 < 999999	17,202	16,893	638.88	672.69	33.81	2,680.77	7.2%
999999 < 1499999	4,443	4,416	292.88	303.24	10.36	2,749.05	4.2%
1499999 < Infinity (+)	6,828	7,086	2,329.78	2,436.04	106.26	2,572.38	0.8%
TOTALS:	3,188,163	3,235,416	11,409.42	11,750.86	341.44	53.27	1.5%

Single

Married Filing Jointly

Married Filing Separately

Head of Household

Tax Brackets

0 - 5,000	0.00%	0 - 10,000	0.00%	0 - 5,000	0.00%	0 - 8,000	0.00%
5,000 - 18,500	5.25%	10,000 - 37,000	5.25%	5,000 - 18,500	5.25%	8,000 - 29,600	5.25%
18,500 - 50,000	6.50%	37,000 - 100,000	6.50%	18,500 - 50,000	6.50%	29,600 - 80,000	6.50%
50,000 and above	7.50%	100,000 and above	7.50%	50,000 and above	7.50%	80,000 and above	7.50%

21st Century Tax Rate Reduction and Modernization Plan (in Millions)

STATE

LOCAL

Effective Date	FY 09-10	FY 10-11	FY 11-12	FY 09-10	FY 10-11	FY 11-12
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Reduce All Personal Income Tax Rates and Simplify Start Calculation with AGI as in 27 states	01/01/2010					
Reduce current rates of 6.0%, 7.0%, 7.75% to 5.25%, 6.5%, and 7.5%	1,884.4	4,718.2	4,784.3			
Create new zero bracket (0% up to \$10,000, Married Filing Jointly) and eliminate the "marriage penalty"	(418.9)	(1,054.8)	(1,077.0)			
AGI Excludes Only:	(695.9)	(1,746.8)	(1,764.2)			
Exempt \$4800 of Unemployment Benefits, 2009 and 2010 tax years	(84.6)	(71.9)				
Earned Income Tax Credit	(35.0)	(71.1)	(72.5)			
6% Mortgage Credit, 10,000 cap	(181.7)	(454.8)	(456.8)			
6% Charitable Credit, 20% AGI cap	(214.9)	(542.6)	(559.1)			
Per Child Credit, \$125	(102.6)	(255.9)	(253.9)			
6% Medical Credit, Federal eligibility	(69.9)	(176.7)	(182.4)			
Existing Refundable Credits: Low-Income Housing, Film Production	(18.1)	(38.6)	(40.6)			
Other Credits: R&D, Dependent Care Expenses	(13.6)	(40.4)	(34.3)			
Subtotal: Personal Income Tax Changes	49.1	264.7	343.5			

Reduce State Sales Tax Rate from 4.75% to 4%	Tax Week Payroll						
Digital products & click throughs	01/01/2010	8.3	15.0	15.8	3.6	7.5	7.9
Warranties, installations, & repairs to tangible personal property	10/01/2009	178.1	222.1	233.8	77.6	111.0	116.9
Convert amusement/movies privilege tax to sales tax	10/01/2009	22.7	26.6	28.0	9.9	14.2	14.9
Recreation and entertainment	01/01/2010	57.8	105.3	110.9	25.2	56.2	59.2
Home and real property, some personal services	05/01/2010	42.3	175.1	184.4	18.4	93.4	98.3
Storage and moving	01/01/2010	19.4	35.3	37.1	8.4	18.8	19.8
Building repairs & alterations, not including new construction	05/01/2010	10.7	74.6	75.5	3.4	23.7	26.3
Web-based and other information services	01/01/2010	6.2	11.3	11.9	2.7	6.0	6.3
Sub-state government sales tax refund	01/01/2010	-	67.8	71.4	-	(67.8)	(71.4)
Limit nonprofit refund for all institutions at \$5M	07/01/2009	13.7	60.3	63.5	6.3	32.1	33.9
Subtotal: Sales and Use Tax Changes	05/01/2010	359.2	793.3	832.4	155.6	295.0	312.2
Transfer 0.1% of Existing and Expanded Local Base to the State (Combined 6%)		(129.7)	(777.9)	(799.7)	(25.1)	(118.5)	(122.2)
Subtotal: Sales and Use Tax Changes		254.6	133.9	155.0	130.6	176.5	189.9

21st Century Tax Rate Reduction and Modernization Plan (in Millions)

STATE

LOCAL

Effective Date FY 09-10 FY 10-11 FY 11-12 FY 09-10 FY 10-11 FY 11-12

Business Tax Changes

01/01/2010

Franchise and Privilege License Taxes

Apply franchise tax to all limited liability businesses									
Repeal state and local privilege license taxes	59.0	131.1	134.7					(54.7)	(55.7)
Repeal annual report fee and report fee credit	(42.8)	(38.2)	(38.9)						
Corporate Income	(20.2)	(25.5)	(26.0)						
Adopt throwout	5.5	11.9	12.5						
Reduce rate over 2 yrs: 5.8% to 4.5%	(55.4)	(201.2)	(325.5)						
Eliminate Public School Building Capital Fund	60.5	64.5	72.9					(60.5)	(64.5)
Tax Credits and Exemptions									(72.9)
Repeal Article 3J credits	3.0	9.2	16.5						
Repeal other credits except R&D, refundable credits, and targeted incentives	8.4	20.9	14.5						
Repeal credit for payments to Insurance Guaranty Association	17.0	17.0	17.0						
Repeal railroad diesel fuel exemption	8.3	16.1	17.0					3.9	8.6
Sales Tax									9.1
Exempt depreciable equipment; tax supplies and accessories at general rate; repeal 1%, \$80	57.0	110.8	116.7					26.5	59.1
Limit farm exemption to small farms (100% of farms with gross receipts <\$ 1M, 50% of farms w/ gross receipts <\$2.5M)	27.5	53.4	56.2					12.8	28.5
Subtotal: Business Tax Changes	110.7	170.0	67.5					(17.4)	(23.0)

Increase Excise Taxes

08/01/2009

Increase cigarette excise tax 15-cents per pack									
Increase OTP by 3%	63.6	72.4	71.0						
Increase alcohol excise tax (based on alcohol content)	7.5	7.7	8.1						
Subtotal: Excise Tax Changes	106.9	123.2	123.5						

Adjust Revenue Distributions

07/01/2009

Certain Local Distributions Substitute									
Retain Beer & Wine Distribution	11.2	11.2	10.5						
Subtotal: Distribution Changes	33.2	34.1	35.1					(33.2)	(34.1)

Conform in Part to IRC

07/01/2009

2008 IRC/ESSA									
2009 IRC/ARRA (85% AB)	(30.4)	(22.1)	(8.0)						
Subtotal: IRC Update Changes	8.6	17.8	5.3					(21.8)	(4.3)

Department of Revenue Implementation Costs

2009-2011 Budget Requirement									
Remainder	(\$5.0)	(667.1)	\$732.4	\$80.0	\$119.4	\$127.5			
	(\$500.4)	(\$65.7)	\$732.4	\$80.0	\$119.4	\$127.5			