

Highlights of the Finance Provisions

The Finance Provisions in the Conference Report reduce General Fund revenue by \$1,325.7 million in FY 2021-22 and by \$1,990.3 million in FY 2022-23. The highlights of the Finance section provisions follow below:

Personal Income Tax Reduction (Section 42.1) – Reduces the Personal Income tax rate from 5.25% to 3.99% over 6 years; increases the standard deduction to \$25,500 (MFJ); increases the child deduction by \$500 and expands eligibility for the child deduction to more families. The changes are effective for taxable years beginning on or after January 1, 2022.

Eliminate Tax on Military Pension Income (Section 42.1A) – Exempts most military retirement income from taxation effective January 1, 2021.

Phase Out Corporate Income Tax (Section 42.2) – Phases out the Corporate Income tax over 6 years beginning in 2025.

Franchise Tax Reduction and Simplification (Section 42.3) – Simplifies the franchise tax base calculation and, for some taxpayers, reduces the amount of franchise tax due, by eliminating the two tax bases calculated using property values. This change is effective for taxable years beginning on or after January 1, 2023 and applicable to the calculation of franchise tax reported on the 2022 and later corporate income tax returns.

Conform to Federal Tax Treatment for PPP Loans and Related Business Assistance/IRC Update (Section 42.4) – Updates the reference to the Internal Revenue Code to April 1, 2021, and conforms to:

- The permanent 7.5% federal medical expense deduction threshold.
- The deductibility of expenses using funds from forgiven PPP loans and from similar pandemic-related loan and grant programs.

This section decouples from various provisions consistent with previous State practice.

Reduce Impact of Federal SALT Cap by Allowing Certain Pass-throughs to Elect to Pay Tax at The Entity Level (Section 42.5) – Allows pass-through entities to elect to pay the State income taxes at the entity level, which is not subject to the federal state and local tax cap of \$10,000. This change is effective for taxable years beginning on or after January 1, 2022.

Create Separate State Net Operating Loss Calculation for Individual Income Tax Purposes (Section 42.6) – Creates a separate North Carolina NOL calculation to more closely align to the calculation of North Carolina taxable income. This change is effective for taxable years beginning on or after January 1, 2022.

Extend the Time to Complete an Eligible Project under the Mill Rehabilitation Tax Credit Programs (Section 42.7) – Reenacts the Mill Rehabilitation/Railroad Tax Credit and extends the time to complete previously eligible mill rehabilitation projects and rehabilitation railroad station projects.

Expand and Extend Historic Rehabilitation Credit (Section 42.7A) – Expands the Historic Rehabilitation Tax Credit to include historic schools and extends the tax credit through 2030.

Limit Gross Premiums Tax on Surety Bonds (Section 42.8) – Limits the gross premiums tax on surety bonds for bail bonds to the amount remitted by the surety bondsman to the bond insurer. This change is effective for taxable years beginning on or after January 1, 2022.

Modify Excise Tax on Cigars and Clarify Delivery Sales and Remote Sales of Tobacco Products (Section 42.9) – Subjects all cigars, whether sold online or in-person, to the existing rate of excise tax, which is 12.8% of the cost price per cigar, and places a cap on the excise tax in the amount of 30¢ per cigar. The section also adjusts the percentage of Other Tobacco Product tax revenue that goes to the University Cancer Research Fund to hold that Fund’s revenue stable. This section would become effective July 1, 2022 and would apply to sales or purchases occurring on or after that date.

Credit Short-term Vehicle Rental Proceeds to Highway Fund (Section 42.10) – Credits to the Highway Fund the proceeds from the alternate highway use tax that is levied on short-term vehicle rentals and on vehicle subscriptions. Currently, only the first \$10 million of these proceeds goes to the Highway Fund, and the remainder goes to the General Fund.

Graduate Late Payment Penalties (Section 42.11) – Replaces the flat 10% penalty assessed for failure to pay a tax when due with a graduated amount, effective July 1, 2022.

Property Tax Exemptions (Section 42.12) – Exempts the following property from the local property tax base, effective for taxes imposed for taxable years beginning on or after July 1, 2022: i) vaccines held by private medical practices, and ii) burial property owned and held for purposes of sale or rental, or sale of burial rights therein.

Revenue Laws Technical, Clarifying, and Administrative Change (Section 42.13) – Makes technical, clarifying, and administrative changes to the tax law, as recommended by the Department of Revenue.