
North Carolina Tax Guide 2010



Office of State Budget and Management
20320 Mail Service Center
Raleigh, NC 27699-0320
919/807-4700
<http://www.osbm.state.nc.us>

PREFACE

The Office of State Budget and Management prepares the *North Carolina Tax Guide* annually. The *Guide* provides an overview of North Carolina's tax structure including General Fund, Highway Fund, Highway Trust Fund, and local government taxes. The information contained herein is intended for state lawmakers and planners, the business community, public interest groups, and individuals. The *North Carolina Tax Guide* is not available in hard copy. If further information is required, please contact this office at 919-807-4700.

TABLE OF CONTENTS

PART I. INTRODUCTION

Overview	3
Tax Burden	4
Chart 1. Tax Collections Received By North Carolina Governments (2009-10)	5
Chart 2. North Carolina State Tax Collections (2009-10)	6

PART II. GENERAL FUND TAXES

General Fund Taxes	9
Chart 3. North Carolina General Fund Tax Collections (2009-10)	9
Alcoholic Beverage Tax	10
Cigarette/Tobacco Tax	14
Corporate Income Tax	16
Estate Tax	21
Franchise Tax	23
Freight Car Tax	26
Gift Tax	27
Individual Income Tax	29
Insurance Tax	33
Manufacturing Tax	35
Piped Natural Gas Tax	36
Privilege License Tax	38
Sales and Use Tax	40

PART III. HIGHWAY FUND TAXES

The Highway Fund	47
Chart 4. North Carolina Highway Fund Tax Collections (2009-10)	48
Dealer and Manufacturer License Fees	49
Driver's License Fees	51
Financial Security Restoration Fees	54
Gasoline Inspection Tax	56
International Registration Plan	58
Motor Fuels Excise Tax	60
Overweight/Oversize Permits	64
Penalties	65
Registration Fees	67
Safety Equipment Process Fees	69
Staggered Registration Fees	71
Truck License Plate Fees	73

PART IV. HIGHWAY TRUST FUND TAXES

[The Highway Trust Fund](#)77
[Chart 5. North Carolina Highway Trust Fund Tax Collections \(2009-10\)](#)78
[Highway Use Tax](#)79
[Lien Recording Fees](#)81
[Motor Fuels Excise Tax](#)82
[Title and Registration Fees](#)85

PART V. LOCAL GOVERNMENT TAXES

[Local Government Tax Revenues](#)89
[Chart 6. North Carolina Tax Collections Received by Local Government \(2009-10\)](#)90
[Excise Tax on Beer and Wine - Local Share](#)91
[Excise Tax on Conveyances](#)93
[Land Transfer Tax](#)95
[Liquor By-The-Drink Tax](#)96
[Prepared Meals Tax](#)97
[Privilege License Tax](#)99
[Property Tax](#)100
[Room Occupancy Tax](#)103
[Sales and Use Tax](#)104
[Scrap Tire Disposal Tax](#)106
[Utility Excise Tax](#)107
[White Goods Disposal Tax](#)109

**PART VI. COMPARISON OF NORTH CAROLINA TAX COLLECTIONS
WITH THOSE OF OTHER STATES**

[Table 1. Level and Percentage Distribution of State and Local Tax Collections
by Source for 2007-08](#)113
[Table 2. State Ranking of State and Local Tax Burden, Per Capita and Percent
Personal Income for 2007-08](#)115
[Table 3. State and Local Tax Collections, Per Capita and as a Percent of
Personal Income, for the United States, the Eleven Most Populated States, and the
Southeast, 2007-08](#)117
[Table 4. Percentage Distribution of State and Local Taxes by Type of Tax for
the United States, Eleven Most Populated States, the Southeast, and North
Carolina, 2007-08](#)119
[Table 5. Per Capita State and Local Tax Collections by Type of Tax for the United States,
Eleven Most Populated States, the Southeast, and North Carolina, 2007-08](#)120
[Table 6. State and Local Tax Collections as a Percent of Personal Income by Type
of Tax for the United States, Eleven Most Populated States, the Southeast,
and North Carolina for 2007-08](#)120

PART I

INTRODUCTION

OVERVIEW

The *Tax Guide* is designed to give the reader an overview of the tax structure of both state and local governments of North Carolina. It contains a concise summary of each North Carolina tax law, a statement of the tax calendar, and the growth and distribution of tax collections. Whenever possible, comparisons of North Carolina tax laws with those of other states are presented.

The Tax Guide consists of six sections. Part I is the Introduction. The overall scope of the Tax Guide is discussed in this section, along with an explanation of tax burden. Summaries of the tax laws governing North Carolina's General Fund, Highway Fund, Highway Trust Fund, and local government taxes follow in Parts II, III, IV and V.

In the last section, Part VI, an analysis is given of the total state and local tax burden in North Carolina in comparison to that of other states. Tax burdens are evaluated on a per capita and percentage of personal income basis. Special emphasis is made to compare North Carolina with the six southeastern states and the eleven most populated states.

For information on recent tax legislation, see the 2010 Legislative Overview at:
<http://www.ncga.state.nc.us/FiscalResearch/>

TAX BURDEN

Tax burden measures the impact of a tax on the purchasing power of an individual or a business. An understanding of tax burden is important in evaluating who pays a tax, how much is paid, and in comparing tax efforts among different states.

Tax burden is the amount of sacrifice individuals make when paying their taxes. In its simplest form, tax burden can be measured in terms of the number of dollars of an individual's income that must be dedicated to tax payments. The more dollars an individual must sacrifice the greater the tax burden.

Two common measures of tax burden are per capita tax payments and taxes paid as a percentage of personal income. The per capita tax payment is the average amount of taxes paid by each individual. It is found by dividing total state and local tax payments of a state by the population of the state.

EXAMPLE

The population of State A is 100. The state and local tax burden of all the tax payers in State A is \$50,000. State B has a population of 75 citizens who have a combined state and local tax burden of \$30,000. The per capita tax payments in each state are determined as follows:

$$\text{Per Capita Tax Payments (State A)} = \frac{\text{Total State and Local Taxes Paid}}{\text{Total State Population}} = \frac{\$50,000}{100} = \$500$$

$$\text{Per Capita Tax Payments (State B)} = \frac{\text{Total State and Local Taxes Paid}}{\text{Total State Population}} = \frac{\$30,000}{75} = \$400$$

Taxes paid as a percentage of personal income are found by dividing the total amount of state and local taxes paid by the total state personal income. For instance, suppose the citizens of State A have a total income of \$1,000,000 while the citizens of State B have a total income of \$400,000. Taxes paid as a percentage of personal income are found as shown below:

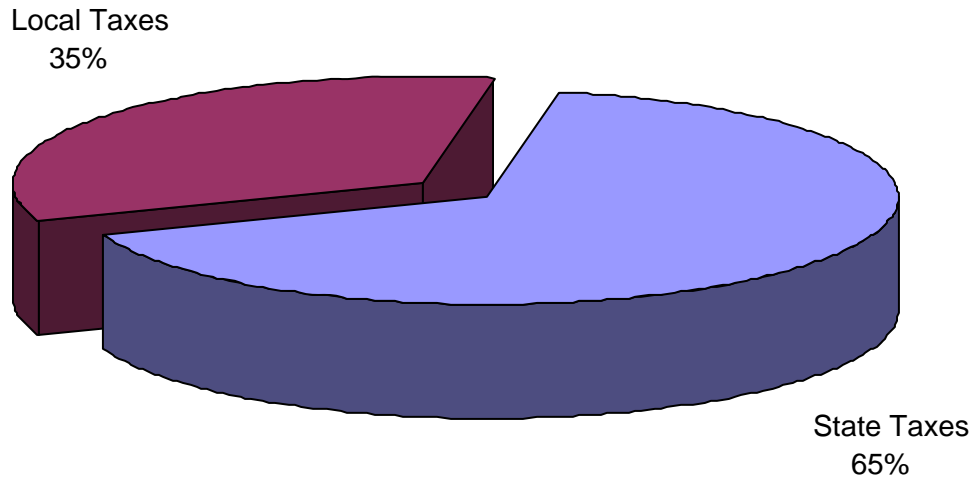
$$\text{Taxes Paid as a Percentage of Personal Income (State A)} = \frac{\text{Total State and Local Taxes Paid}}{\text{Gross State Personal Income}} = \frac{\$50,000}{\$1,000,000} = 5\%$$

$$\text{Taxes Paid as a Percentage of Personal Income (State B)} = \frac{\text{Total State and Local Taxes Paid}}{\text{Gross State Personal Income}} = \frac{\$30,000}{\$400,000} = 7.5\%$$

Taxes paid as a percentage of personal income are a better measure of tax burden than per capita tax payments. In the above example, the average citizen in State A paid more taxes than the average citizen in State B. Citizens in State A had a higher per capita tax burden. However, since the average income of citizens in State A was much higher than that of State B, they sacrificed a smaller portion of their income in tax payments. Obviously, their tax burden in terms of real sacrifice (amount of private consumption given up to pay taxes) was less. The

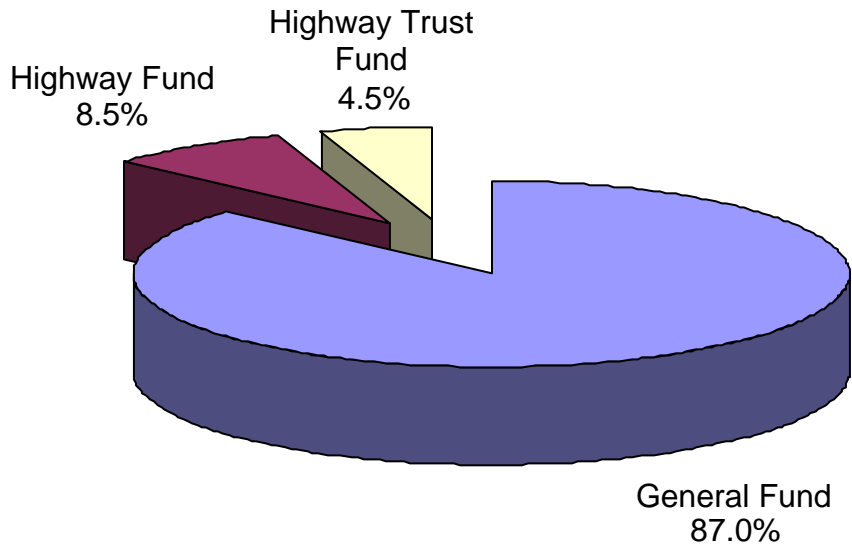
concept of tax burden is frequently used in Part VII to analyze the tax effort of citizens of North Carolina compared to the tax burden of citizens of other states.

Chart 1
State and Local Tax Collections
2009 - 10



State Taxes	\$ 20,386,834,738
Local Taxes	11,204,908,485
Total	<hr/> \$ 31,591,743,223

Chart 2
North Carolina State Tax Collections
2009 - 10



General Fund	\$ 17,746,040,209
Highway Fund	1,731,643,883
Highway Trust Fund	909,150,646
Total	\$ 20,386,834,738

PART II
GENERAL FUND TAXES

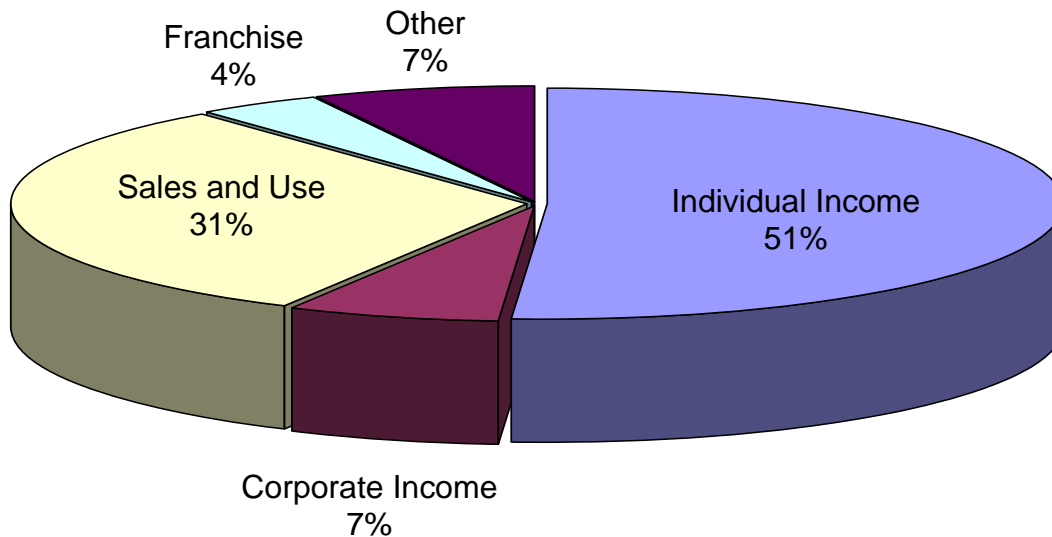
GENERAL FUND TAXES

General Fund tax revenues are used to finance state administered programs such as education, public health, public safety, and the general services of state government.

The General Fund receives support from twelve primary sources. An income tax is levied on individuals and businesses if some or all of their income is derived from North Carolina sources during the tax year. Other business taxes, such as the franchise tax and privilege license taxes are levied for the right to do business in and be protected under the revenue laws of this state. Consumption related taxes, such as an excise tax, serve to control the consumption and distribution of controlled substances. The sales tax is levied on most retail transactions. The use tax applies when tangible personal property is purchased outside the state for consumption within the state. The sales and use tax also applies to the lease of tangible personal property. An estate tax is levied on the value of all property transferred at death. The gift tax is levied when someone gives away money or an asset without receiving fair market value.

Each summary outlines the subject being taxed, the tax rate or rates, total collections, any distributions made from the collections, and any exemptions. A comparison with similar taxes from other states is made for most schedules and is updated as often as national data is available.

**Chart 3
North Carolina General Fund Tax Collections
2009-10**



Individual Income	\$	9,047,605,408
Corporate Income		1,197,865,423
Sales and Use		5,565,043,256
Franchise		724,451,377
Other		1,211,074,745
Total	\$	17,746,040,209

ALCOHOLIC BEVERAGE TAX

Alcoholic beverage taxes are levied on beer, fortified and unfortified wines, and spirituous liquor. Beer and wine are sold through retail outlets. The sale of spirituous liquor is administered through local ABC boards and sold only in local ABC stores. Alcoholic beverages can only be sold in those counties and cities for which such sales have been authorized.

ADMINISTERED BY

[Department of Revenue](#) and the [Alcoholic Beverage Control Commission](#)

Table 1
General Fund Excise Tax on Alcoholic Beverages

Fiscal Year	General Fund Collections	Annual Percent Change	Percent of General Fund Tax Collections
2002-03	170,896,552	-2.2	1.4
2003-04	182,392,510	6.7	1.3
2004-05	189,308,658	3.8	1.2
2005-06*	200,845,242	6.1	1.2
2006-07	212,608,231	6.0	1.1
2007-08	225,125,416	6.0	1.2
2008-09	228,458,572	1.5	1.4
2009-10	282,316,942	24.0	1.6

**Partial year collection at combined state and local sales and use tax rate, effective October 1, 2005. [{G.S. 105-164.4\(7\)}](#)*

BASE AND RATE

Wholesalers and importers remit the excise taxes on beer and wine. Local alcoholic beverage control boards remit the excise taxes on spirituous liquor.

[{G.S. 105-113.80}](#) Excise taxes on beer, wine, and spirituous liquors

- Beer is taxed at a rate of 61.71 cents per gallon. (Equivalent rate 5.8 cents/can.)
- Unfortified wine is taxed at 26.34 cents per liter.
- Fortified wine is taxed at 29.34 cents per liter.
- Spirituous liquor is taxed at 30% of case cost plus local board mark-up.

[{G.S. 18B-804}](#) Mark-up for local ABC Boards

An additional 3.5% levy on the retail price is allocated as part of ordinary profits of the ABC store to the respective localities where the ABC store is located. Similarly, an add-on tax of 5 cents and 1 cent (mini bottle) per bottle of liquor sold in ABC stores is levied, with the revenue distributed to local governments in the same manner as profits from the ABC stores.

By authorization of local elections, liquor “by the drink” may be sold by qualified restaurants and clubs. Liquor sold by the drink in restaurants and clubs is subject to an additional tax of \$20 per 4 liters. Liquor sold through a guest room cabinet is also taxed at \$20 per 4 liters rate.

{G.S. 18B-902} Applications for Permits issued by NC Alcoholic and Beverage Control

Commission:

- To sell either malt beverages, fortified wine, or unfortified wine on premises - \$400
- To sell either malt beverages, fortified wine, or unfortified wine off premises - \$400
- Brown bagging permit for an establishment seating 50 or more - \$400
 - An establishment seating less than 50 - \$200
- Special occasion permit - \$400
 - Limited special occasion permit - \$50
- Mixed beverage or guest room cabinet permit - \$1,000
- Culinary, winery special event, or mixed beverage catering permit - \$200
- Unfortified and fortified winery, limited winery, brewery, distillery, wine importer and wholesaler, malt beverage importer and wholesaler, or bottler permit - \$300
- Fuel alcohol permit - \$100
- Salesman permit - \$100
- Vendor representative permit and certain special one-time permits - \$100
- Nonresident malt beverage vendor or nonresident wine vendor permit - \$100
- Liquor importer and bottler permit - \$500
- Special wine tasting permit for wineries - \$300, and for retail establishments - \$100.

LOCAL GOVERNMENT DISTRIBUTION

{G.S. 105-113.82} State, Local Government, and Special Earmark Revenue

Local governments, for which the sale of beer and wine has been authorized, receive 23.75% of the excise tax on malt beverages, 62% of the excise tax on unfortified wine, and 22% of the excise tax on fortified wine. The remaining revenue is deposited into the General Fund for general purposes.

{G.S. 105-113.81A} Revenue deposited in the General Fund is used for general purposes except for \$900,000 in excise tax collections on unfortified wine bottled in North Carolina. This revenue is allocated to the Department of Commerce for the promotion of N.C. grapes. Of the \$20 per four liters levy on alcohol used for liquor by-the-drink sales, \$10 goes to the General Fund, \$1 to the Department of Human Resources, and \$9 to the local governments where the sales took place. In addition, the 5 cents and the 1 cent per bottle “add-on” tax on all alcohol sold in Alcoholic Beverage Control (ABC) stores goes to county commissioners for rehabilitation of alcoholics.

{G. S. 18B-805(4) & C (1)} Local governments that have approved the sale of spirituous liquor receive a portion of the profits. The local ABC Board pays quarterly, to the general fund of the county or city for which the board is established, the sum of 3.5% mark-up, 1 cent per 50 milliliter bottle or less, and 5 cents on each bottle greater than 50 milliliter. The remaining revenue is deposited into the General Fund for general purposes.

TAX CALENDAR

{G.S. 105-113.83} Wholesalers and importers of beer and wine, and ABC Boards must file returns including monthly tax payments by the fifteenth day of the month for the previous month's activities.

COMPARISON WITH OTHER STATES

All fifty states levy alcoholic beverage taxes. Eighteen states, including North Carolina, sell spirituous liquor only in state-licensed stores. Tax rates vary considerably as each state enacts different tax rates on beer, wine, and spirituous liquors. Because of the wide variety of laws, it is difficult to make an exact comparison of North Carolina's laws with those of other states. However, the following comparison will give the reader a good approximation of the relative tax burdens.

The latest complete survey on the taxation of alcoholic beverages is for calendar year 2007 and consists of the combined revenue per wine gallon from all state and local taxes, fees, and levies on alcoholic beverages.

Taxes on beer range from \$0.11 per gallon to \$2.48 per gallon. The average overall tax rate for the nation is \$1.12 per gallon, while the average rate for the six southeastern states ⁽¹⁾ stands at \$1.31 and \$1.18 for the eleven most populated states ⁽²⁾. North Carolina's rate is \$1.35 per gallon. North Carolina ranks eleventh in the nation, third among the controlled states, third among the six southeastern states, and third among the eleven most populated states.

Taxes on wine range from \$0.77 per gallon to \$9.24 per gallon. The average overall tax rate for the nation is \$.67 per gallon, while the average rate for the six southeastern states stands at \$3.96 and \$4.00 for the eleven most populated states. North Carolina's rate is \$4.71 per gallon. North Carolina has the seventh highest tax rate in the nation, while first among the six southeastern states, third among the eleven most populated states and fifth among the control states.

Taxes on distilled spirits range from \$3.96 per gallon to \$36.51 per gallon. The average overall tax rate for the nation is \$16.68 per gallon, while the average rate for the six southeastern states stands at \$18.73 and \$18.00 for the eleven largest states. North Carolina's rate is \$29.96 per gallon. North Carolina has the fourth highest combined tax rate in the nation, while second among the six southeastern states, third among the eleven most populated states, and seventh among the control states.

(1) Georgia, Kentucky, North Carolina, South Carolina, Tennessee, and Virginia.

(2) California, Georgia, Florida, Illinois, Michigan, Ohio, Pennsylvania, New Jersey, New York, North Carolina, Texas.

Table 2
Revenue per Gallon from Combined State and Local Tax Collections

STATES	BEER	WINE	SPIRITS
United States	\$ 1.12	\$.67	\$ 16.68
Six Southeastern States	1.31	3.96	18.73
Eleven Largest States	1.18	4.00	18.00
Surrounding States			
Georgia	1.73	4.18	12.94
Kentucky	1.00	4.64	13.18
North Carolina	1.35	4.71	29.96
South Carolina	1.11	2.36	10.86
Tennessee	1.69	4.22	16.15
Virginia	0.99	3.62	29.26

Source: Distilled Spirits Council of the United States, Inc. "Public Revenues from Alcohol Beverages, 2007," Washington, D.C., January, 2009.

CIGARETTE/TOBACCO TAX

All tobacco products including cigarettes, pipe tobacco, and smokeless tobacco are subject to a state excise tax. This tax is levied on the sale or possession of tobacco products in the state by a distributor.

ADMINISTERED BY
[Department of Revenue](#)

Table 3
General Fund Excise Tax on Tobacco Products

Fiscal Year	General Fund Collections	Annual Percent Change	Percent of General Fund Tax Collections
2001-02	41,531,347	-1.2	0.3
2002-03	41,998,713	1.1	0.3
2003-04	43,732,769	4.1	0.3
2004-05	42,981,044	-1.7	0.3
2005-06*	171,636,758	300.0	1.0
2006-07	241,174,320	41.0	1.3
2007-08	237,377,533	-1.6	1.3
2008-09	227,056,891	-4.35	1.4
2009-10	251,730,957	11.0	1.4

* Prior to the legislative change effective July 1, 2006, the tax rate was 5 cents per pack.

BASE AND RATE

[{G.S. 105-113.5}](#) A tax rate of 45 cents per pack of 20 cigarettes is levied on distributors effective September 1, 2009. The rate per cigarette is 2.25 cents.

[{G.S. 105-113.35}](#) The excise tax levied on tobacco products other than cigarettes is 12.8% of the cost price of the product.

[{G.S.105-113.36}](#) A \$25 license fee is levied on wholesale dealers, and a \$10 license fee is levied on retail dealers for each place where a wholesale or retail dealer makes tobacco products other than cigarettes, or receives or stores non-tax-paid tobacco products.

DISTRIBUTION

Revenue is deposited in the General Fund for general purposes.

TAX CALENDAR

[{G.S. 105-113.37}](#) Distributors, wholesalers, and retailer dealers file monthly returns with payment of tax by the twentieth of each month for the previous month's activity.

COMPARISON WITH OTHER STATES

All states levy an excise tax on cigarettes. Tax rates, per pack of 20 cigarettes, range from 7 cents to \$3.46 per pack. Municipalities in six states can levy additional cigarette taxes. The median tax for the nation was 118 cents per pack and North Carolina ranks 43rd in the nation with an excise tax rate of 45 cents per pack.

Table 4
Distribution of State Cigarette Tax Rates
January 1, 2008

Cents Per Pack	Number of States
Below 9 cents	1
10 cents to 49 cents	7
50 cents to 99 cents	15
100 cents to 149 cents	7
150 cents to 199 cents	6
Above 200 cents	14

Source: Federation of Tax Administrators, "State Excise Tax Rate on Cigarette, January 2010", Washington, DC. March 2010.

CORPORATE INCOME TAX

All corporations, both domestic and foreign, that do business in this state are required to file annual income tax returns unless exempt from the corporate income tax.

ADMINISTERED BY
[Department of Revenue](#)

Table 5
General Fund Corporate Income Tax Collections

Fiscal Year	General Fund Collections	Annual Percent Change	Percent of General Fund Tax Collections
2001-02	409,322,540	-11.1	3.3
2002-03	840,499,824	105.3	3.7
2003-04	776,964,847	-7.6	5.6
2004-05	1,193,529,164	53.6	7.7
2005-06	1,204,102,940	.9	7.1
2006-07	1,451,399,198	21.0	8.0
2007-08	1,111,668,852	-23.4	6.0
2008-09	835,544,512	-24.8	5.0
2009-10	1,197,865,423	43.4	7.0

BASE AND RATE

Temporary tax surcharge effective for tax years 2009 and 2010

All corporations subject to the corporate income tax are required to pay a 3% income tax surcharge on North Carolina income. The surcharge is applied before the deduction of any qualified tax credits or payments.

[G.S. 105-130.3](#) & [G.S. 105-130.4](#) An income tax is levied on the net taxable income of all corporations chartered in North Carolina (domestic) and foreign corporations doing business in the state. In computing state net income, a corporation uses the net taxable income (as defined in the Internal Revenue Code) rate in effect for the income year for which the returns are filed. The applicable corporate income tax rate is 6.9%.

Multi-state corporations, those corporations that have taxable nexus in at least one state other than North Carolina, are required to use a specific formula to determine taxable income to North Carolina. The allocation formula used is a three-factor formula with a double weighting of the sales factor. The formula is the average of the corporation's ratio of capital stock, payroll, and sales made within North Carolina to the totals of these factors, where the sales factor is double weighted.

Three Factor Formula Details

Property Factor {[G.S. 105-130.4](#), [17 NCAC 05C.0800](#)}

The property factor includes all real and tangible property, employed by the corporation during the income year and used to produce apportionable income.

Payroll Factor {[G.S. 105-130.4](#), [17 NCAC 05C.0900](#)}

The payroll factor includes the total amount of compensation paid in connection with earning apportionable income during the income year.

Sales Factor {[G.S. 105-130.4](#), [17 NCAC 05C.1000](#)}

The sales factor means all gross receipts derived from transactions and regular business activities in the course of its regular business operations.

EXEMPT CORPORATIONS

[{G.S. 105-130.11}](#) The following corporations are exempt from the North Carolina corporate income tax. A more thorough list can be found in the General Statutes.

1. Fraternal beneficiary societies, operating for the exclusive benefit of the members
2. Co-operative banks organized for mutual purposes without profits and capital stock
3. Cemetery corporations and religious corporations
4. Business leagues, chambers of commerce, merchants associations, etc.
5. Insurance companies subject to the tax on gross premiums
6. Telephone membership and electric membership corporations
7. Organizations marketing the products of its members
8. Civic leagues organized for the purpose of promoting social welfare
9. Homeowner associations.

[{G.S. 105-131.11}](#) The taxation of the profit from an S-corporation is not subject to the 6.9% corporate income tax rate. Rather, the pro rata share of the stockholder's profits from an S-corporation is subject to North Carolina's individual income tax. Part-year resident shareholders and nonresident shareholders of an S-corporation must also pay the tax. Part-year and nonresident shareholders of an S-corporation pay the tax based on ratios of attributable and non-attributable income to the state, during the tax year, and on the number of days the shareholder resides in the state or in some other state during the tax year. S-corporations may claim the credits and deductions for nonresident shareholders who elect not to file individual income tax returns in North Carolina.

CORPORATE TAX CREDITS

North Carolina provides many corporate income tax credits. To qualify for credits, companies must meet various criteria. The credits often apply to a portion of expenditures, and are subject to maximum allowable amounts. Listed are some of the credits certain corporations are allowed when filing a North Carolina corporate income tax return. Please refer to the Revenue Laws of North Carolina for a more detailed list.

{G.S. 105-130.22} Credit for constructing a dwelling for handicapped persons

Corporate owners of multi-family rental units are allowed a credit of \$550.00 for each dwelling unit constructed for physically handicapped persons during the income year.

{G.S. 105-130.25} Credit for constructing a co-generating power plant

Any corporate entity, other than a utility, that constructs a co-generating power plant is allowed a 10% credit of the cost to purchase and install the electrical or mechanical power generating equipment.

{G.S. 105-130.34} Credit for donating real property for conservation purposes

Corporations that make a donation in perpetuity of interest in real property are allowed a 25% credit of the fair market value of the property.

{G.S. 105-130.36} Credit for conservation tillage equipment

Corporations that purchase conservation tillage equipment to be used in the farming process and in the tree cultivation process are allowed a 25% credit of the cost of the equipment.

{G.S. 105-130.37} Credit for gleaned crop

Corporations that grow and allow the gleaning of a crop are allowed a credit of 10% of the market price of the quantity of the crop.

{G.S. 105-130.39} Credit for certain telephone subscriber line charges

Corporations that provide local telephone services to low income residential customers at reduced rates are allowed a credit equal to the difference in the discount rate and what the customer would have paid had regular rates been charged.

{G.S. 105-130.41} Credit for use of North Carolina Ports

An income tax credit equal to 50% of a corporation's income tax liability is allowed to those corporations who use the state ports to load cargo onto or unloaded cargo from an ocean going carrier.

{G.S. 105-130.44} Credit for poultry composting facility

Corporations that construct a poultry composting facility are allowed a credit of 25% of the cost of installation, materials, and equipment costs of construction of such a facility during the income year.

{G.S. 105-130.46} Credit for manufacturing cigarettes for export, increasing employment, and utilizing state ports

Any corporation that manufactures cigarettes for export through the state ports and meets certain employment levels is allowed a credit of 40 cents per one thousand cigarettes exported.

{G.S. 105-130.47} Credit for qualified expenses of a production company

Any production company that has qualified expenses of \$250,000 or more is allowed a credit of 15% of the company's qualified expenses for the income year.

{Article 3A of Chapter 105} Quality job and business expansion credits

The William S. Lee Quality Jobs and Business Expansion Act provides tax credit to corporate taxpayers for investments in manufacturing machinery and equipment, job creation, research and development, and work force training. The credits are based on a system that divides the state into five enterprise zones. Each county in a zone is given a tier rank with tier one being the most economically distressed and tier five being the least economically distressed. Taxpayers must meet certain eligibility requirements and provide defined business development and expansion in a zone to receive one of several allowed corporate income tax credits.

DISTRIBUTION

{G.S. 115C-546.1(b)} Revenue is deposited in the General Fund for general purposes, except for 2/31st of each previous quarter's collection, which is transferred to the Public School Building Capital Fund. Only General Fund revenue is shown above.

TAX CALENDAR

{G.S. 105-130.17} Corporations are required to file a corporate tax return on or before the fifteenth day of the third month following the close of the corporation's income year. Some mutual associations are required to file by the fifteenth of September following the close of the calendar year and those associations that operate on a fiscal year basis file on or before the fifteenth day of the ninth month following the close of the fiscal year. Exempt organizations that are required to file a return file on their unrelated business income by the fifteenth day of May following the close of the calendar year and those operating on a fiscal year file their return on or before the fifteenth day of the fifth month following the close of the fiscal year. **{G.S. 105-131.7}** S Corporations file their annual return by the due date for C Corporations.

COMPARISON WITH OTHER STATES

Forty-five states levy corporate income taxes. Most states follow the federal definition of income. Of the 44 states levying corporate income taxes, 25 states had a higher marginal rate than North Carolina, while 18 states had a lower marginal rate.

**Table 6
Distribution of State Corporate Income Tax Rates
As of January 2009**

Highest Marginal Rate	Number of States
Below 5.0%	9
5.0% to 5.9%	4
6.0% to 6.9%	13
7.0% to 7.9%	8
8.0% to 8.9%	10
9.0% to 9.9%	5
10.0% and above	1

Source: Federation of Tax Administrators, "State Excise Tax Rate on Cigarette, January 2010", Washington, DC. March 2010.

ESTATE TAX

In 1999, North Carolina repealed the inheritance tax in favor of the estate tax. An estate tax is imposed on the right to transfer property at death and is not based on the relationship of the beneficiaries.

ADMINISTERED BY
[Department of Revenue](#)

Table 7
General Fund Estate Tax Collections

Fiscal Year	General Fund Collections	Annual Percent Change	Percent of General Fund Tax Collections
2001-02	104,750,885	-15.0	1.0
2002-03	112,504,407	7.4	1.0
2003-04	128,479,443	14.2	1.0
2004-05	135,211,344	5.2	1.0
2005-06	133,379,473	-1.4	1.0
2006-07	161,586,810	21.2	1.0
2007-08	158,764,850	-2.0	1.0
2008-09	104,256,014	-34.3	1.0
2009-10	71,905,766	-31.0	0.4

BASE AND RATE

[{G.S. 105-32.1}](#) For decedents dying on or after January 1, 2005, the amount of North Carolina estate tax imposed is the amount of the state death tax credit that, as of December 31, 2001, would have been allowed under section 2011 of the Code against federal taxable income. The tax may not exceed the amount of the federal estate tax due under the Code. The federal taxable estate and the amount of the federal estate tax due are determined without taking into account the deduction for state death taxes allowed under section 2058 of the Code, and the credits allowed under sections 2011 through 2015 of the Code. [{G.S. 105-32.2}](#)

North Carolina conformed to the federal estate tax by increasing the exemption from \$1.5 million to \$2.0 million effective January 1, 2006.

DISTRIBUTION

Revenue is deposited in the General Fund for general purposes.

TAX CALENDAR

A North Carolina estate tax return is due and payable on the date the federal estate tax return is due and payable. Interest accrues on any unpaid tax beginning nine months after the date of death.

COMPARISON WITH OTHER STATES

Over the past 20 years, most states have repealed their inheritance tax and retained the federal estate death tax credit, also referred to as the state pick-up tax. In 2001, the federal government passed the Economic Growth and Tax Relief Act which repealed the federal death tax credit over four years. However, with the passage of the Act, many states began eliminating their estate taxes completely. As of February 2004, 28 states were scheduled to repeal their estate, inheritance, or succession taxes starting in 2005. Some of the remaining states continue to retain a revenue stream from an inheritance tax or an estate tax by remaining linked to federal law as it existed prior to 2001. The states that decoupled from federal law continue to levy stand-alone inheritance or estate taxes and are unaffected by the federal legislation.

Fourteen states decoupled and continue to levy an estate tax that is very similar to the state pick-up tax. Three states replaced their pick-up tax with estate taxes: Connecticut, Kansas and Washington State. Kansas created a separate rate schedule and, effective January 1, 2006, increased the exemption to \$2 million; in 2009 the exemption increases to \$3 million. Maine has permanently decoupled with a \$1 million exemption.

Seven states levy an inheritance or estate tax that was never tied to the federal estate death tax credit. Maryland, Nebraska, and New Jersey levy an inheritance tax and an estate tax that is similar to the pick-up tax prior to the 2001 federal act.

Effective for tax year 2006, the portion of the federal estate tax that is exempt from taxation was \$2 million per individual and \$4 million per couple. In 2009, the exemption increases to \$3.5 million per individual or \$7 million per couple culminating in a full repeal in 2010.

As of March 2006, seventeen states and the District of Columbia have retained their estate taxes after the federal changes. Of these, thirteen states, including North Carolina, acted to decouple from the federal changes. Four states and the District of Columbia will remain decoupled unless they take legislative action.

Sources:

- Commerce Clearing House, Inc. "State Tax Handbook". Chicago, Illinois, 2010.
- Joel Michael, Legislative Analyst, "State Response to the 2001 Federal Estate Tax Credit". Minnesota House of Representatives, February 2004.
- Elizabeth C. McNichol, "State Taxes on Inherited Wealth Remain Common: 24 States Levy an Estate or Inheritance Tax", Center on Budget and policy Priorities, Washington DC. 2006.

FRANCHISE TAX

A franchise tax is levied on domestic and foreign corporations, associations, joint stock companies, trust, and any other organization which has capital stock represented by shares and enjoys corporate powers, rights, and privileges under the laws of North Carolina.

ADMINISTERED BY
[Department of Revenue](#)

Table 8
General Fund Franchise Tax Collections

Fiscal Year	General Fund Collections	Annual Percent Change	Percent of General Fund Tax Collections
2000-01	580,431,850	89.1	4.6
2001-02	446,270,680	-23.1	4.0
2002-03	429,128,005	-4.0	4.6
2003-04	445,294,486	3.8	3.2
2004-05	498,681,391	12.0	3.2
2005-06	477,055,108	-4.3	3.0
2006-07	531,412,140	11.4	3.0
2007-08	574,460,805	8.1	3.0
2008-09	651,938,670	13.5	4.0
2009-10	724,451,377	11.1	4.1

BASE AND RATE

[{G.S. 105-122}](#) The franchise tax includes taxes on persons, partnerships, and certain corporations both foreign and domestic for the privilege of doing business in the state.

The franchise tax is computed by applying the rate of \$1.50 per \$1,000.00 to the largest of the three bases:

- Capital stock, surplus, and undivided profits apportioned to the state
- The net accounting value of real and tangible property in the state
- 55% of the appraised value of property subject to the property tax.

The minimum tax liability is \$35.00, with no maximum except for qualified holding companies.

Corporations doing business in North Carolina and in other states calculate the share of capital stock tax due to North Carolina by the same method used for the corporate income tax: the average of the corporation's shares of property, payroll and sales, with the sales factor double weighted.

{G.S. 105-114.1} Limited Liability Companies

Limited liability companies are exempt from the franchise tax. However, if a corporation or an affiliated group of corporations owns more than 50% of the capital interest in a limited liability company, the corporation or group of corporations must include in its three tax bases (capital stock, surplus, and undivided profits) the limited liability company's appraised ad valorem tax value of property and the company's actual investment in tangible property in the state.

{G.S. 105-116} Power and Light, Water, and Sewerage Companies

A 3.22% tax rate is applied to the total gross receipts resulting from the sale of electricity in the state, less certain allowable deductions. Water companies are taxed at 4.0% and public sewage companies are taxed at 6.0%. In addition, power and light utility services are also subject to a sales tax. (See "Sales and Use Tax" in this section.)

{G.S. 105-121.1} Mutual Burial Associations

The franchise tax on mutual burial associations is based on membership and ranges from \$15 for associations having less than 3000 members to \$50 for associations having 30,001 or more.

{G.S.105-120.2} Holding Companies

The tax rate is \$1.50 per \$1,000 of the value of the capital stock, surplus, and undivided profits apportioned to North Carolina. There is a maximum tax liability of \$75,000 for corporations subject to the franchise tax, and a minimum tax of \$35.00. If the tax liability exceeds \$75,000 the franchise tax is calculated on the greater amount of:

1. Fifty-five percent (55%) of the appraised value of real estate and tangible personal property in North Carolina

-or-

2. Net book value of real and tangible personal property in North Carolina.

DISTRIBUTION

{G.S. 105-116.1(a)(2)} The state distributes to municipalities approximately 3.09% of the 3.22% gross receipts tax levied and collected on power and light companies from taxable sales within municipal districts. Distributions are made seventy five days after the end of a calendar quarter and reduced by a limited hold harmless adjustment and an amount for administering the distribution. The remaining gross receipts revenue, plus revenue from all other sources under the franchise tax schedule remain with the General Fund, and are used for general purposes.

TAX CALENDAR

{G.S. 105-122(a)} & {G.S. 105-116(b)} Electric power companies remit the franchise tax in the same manner as the sales and use tax **{G.S. 105-164.16}**. If a company's tax liability is less than \$100.00 monthly the franchise tax is remitted quarterly. When a company's tax liability exceeds \$100.00 but is less than \$10,000 a month, the tax is remitted monthly. In the case where the tax liability exceeds \$10,000 in a month, the company is to remit semi-monthly through electronic transfer. All other utility companies with an average utility franchise tax of \$20,000 or more per month are required to remit by electronic transfer. Mutual Burial Associations pay the tax on or

before April 1 of each year. General business corporations, unless otherwise stated, file on the 15th day of the third month following the close of the income year.

COMPARISON WITH OTHER STATES

It is difficult to make a national comparison of corporate franchise taxes. The classification of a “franchise tax” can lead to misinterpretation if one relies on name alone. Some states use corporate income as the base for the franchise tax. Other states may impose a franchise tax on some measure of capital stock. In some states, one-time or recurring registration fees are classified as a franchise tax. In the states where the franchise tax is measured on a definition of capital stock, the base almost always includes a combination of shares of outstanding stock, surplus, undivided profits, and indebtedness, for which the intent is to act as a measure of the privileges granted through the franchise tax. The apportionment practices among states vary widely in the treatment of capital stock for both domestic and foreign corporations. Generally, the tax rate many states impose ranges from \$1 to \$3 per \$1,000 of capital stock. However the rate structure varies widely across states with differential rates and percentages that apply to different types of domestic and foreign corporations.

Sources:

- Commerce Clearing House, Inc. “State Tax Handbook”. Chicago, Illinois, 2010.
- Matthew N. Murray, Franchise/Privilege Tax, State. University of Tennessee, 1996.

FREIGHT CAR TAX

Companies that engage in the operation and lease of freight cars pay a gross earnings tax. This tax is in place of a property tax.

ADMINISTERED BY
[Department of Revenue](#)

Table 9
General Fund Freight Car Tax Collections

Fiscal Year	General Fund Collections	Annual Percent Change	Percent of General Fund Tax Collections
2001-02	518,887	4.3	<.01
2002-03	379,551	-26.9	<.01
2003-04	527,447	39.0	<.01
2004-05	351,890	-33.3	<.01
2005-06	269,932	-23.3	<.01
2006-07	324,535	20.2	<.01
2007-08	278,555	-14.2	<.01
2008-09	183,472	-34.1	<.01
2009-10	345,419	88.3	<.01

BASE AND RATE

[{G.S. 105-228.1}](#) A levy of 3% is placed on the gross earnings of freight line companies. The gross earnings tax applies to all sources of earnings derived from operating or leasing freight cars for transporting freight over railroad lines in the state. This tax is in lieu of the property tax.

DISTRIBUTION

Revenue is deposited in the General Fund for general purposes.

TAX CALENDAR

[{G.S. 105-228.2}](#) Taxes are due by April 30 for gross earnings of the previous calendar year.

COMPARISON WITH OTHER STATES

Fifteen states levy specific and separate taxes on freight car lines. The levies are typically based on gross receipts that range from 1% to 6%. North Carolina's rate is 3%. However, some states levy taxes based on net earnings or on a per mile basis.

Source: Commerce Clearing House, Inc. "State Tax Handbook", Chicago, Illinois, 2010.

GIFT TAX

North Carolina levies a gift tax on the shares in property given from one person to another when the gift exceeds the annual exclusion amount. The tax is based on the relationship the recipient has to the donor.

ADMINISTERED BY
Department of Revenue

Table 10
General Fund Gift Tax Collections

Fiscal Year	General Fund Collections	Annual Percent Change	Percent of General Fund Tax Collections
2001-02	13,390,362	-33.9	0.1
2002-03	19,304,091	44.2	0.2
2003-04	16,630,438	-14.0	0.1
2004-05	18,896,837	14.0	0.1
2005-06	16,237,070	-14.1	0.1
2006-07	15,641,779	-4.0	0.1
2007-08	17,354,083	11.0	.01
2008-09	12,291,039	-29.2	.07
2009-10	12,028,801	-2.1	.07

BASE AND RATE

[{G.S. 105-188}](#)

The gift tax is repealed for gifts made on or after January 1, 2009.

The gift tax is levied on the transfer of real or personal property located in the state. The tax rate is determined by the relationship between the donor and the donee and the amount of the gift. The state gift tax is levied on the amount of the gift that exceeds the annual exclusion. The annual exclusion is equal to the federal inflation-adjusted exclusion under section 2503(b) of the Internal Revenue Code. Tax rates are separated into four donee classifications and only the amount of the gift that exceeds the exclusion is subject to tax. The tax on gifts made to nonresidents applies only if the property is within the jurisdiction of the state.

Donor classifications for gift tax purposes:

- Spouse
- Class A, which includes lineal issues or ancestors, stepchildren, or adopted children.
- Class B, which includes brothers, sisters, issues of either, or blood aunts, or uncles.
- Class C, which includes other relatives or unrelated persons.

The annual exclusion amount is \$12,000 for gifts made on or after January 1, 2006. A donor with permission of the other spouse may use some or all of the spouse's \$12,000 annual exclusion. In

addition to the annual exclusion, there is a \$100,000 per donor lifetime exemption to be deducted from gifts made to a Class A donor. Gifts to state or political subdivisions or nonprofit charitable, religious, or educational corporations within the state are exempt.

Table 11
Gift Tax Rate and Bracket Schedule

Tax Brackets	Rate for Class A Donee	% Rate for Class B Donee	Rate for Class C Donee
\$ 0 - 5,000	-NA-	4	-NA-
5,001 - 10,000	1	5	8
10,001 - 25,000	2	6	9
25,001 - 50,000	3	7	10
50,001 - 100,000	4	8	11
100,001 - 200,000	5	10	12
200,001 - 250,000	6	10	12
250,001 - 500,000	6	11	13
500,001 - 1,000,000	7	12	14
1,000,001 - 1,500,000	8	13	15
1,500,001 - 2,000,000	9	14	16
2,000,001 - 2,500,000	10	15	16
2,500,001 - 3,000,000	11	15	17
Above 3,000,000	12	16	17

DISTRIBUTION

Revenue is deposited in the General Fund for general purposes.

TAX CALENDAR

{G.S. 105-197} Taxes are due by April 15 of the calendar year on the amount of a gift that exceeds the annual exclusion.

COMPARISON WITH OTHER STATES

Four states including North Carolina levy a gift tax. The additional three are Connecticut, Louisiana, and Tennessee. The estate and gift tax does not apply in Connecticut to estates of those dying on or after January 1, 2005. Each state’s tax is based on graduated schedules that vary widely in terms of exemptions, rates, and recipient categories.

Source: Commerce Clearing House, Inc. “State Tax Handbook”, Chicago, Illinois, 2010.

INDIVIDUAL INCOME TAX

The individual income tax is imposed on the taxable income of residents, part-year residents and nonresidents, and children and dependents who receive income from a North Carolina source during the tax year.

ADMINISTERED BY
[Department of Revenue](#)

Table 12
General Fund Individual Income Tax Collections

Fiscal Year	General Fund Collections	Annual Percent Change	Percent of General Fund Tax Collections
2001-02	7,134,629,832	-3.5	57.0
2002-03	7,088,526,873	-0.7	58.8
2003-04	7,509,898,086	6.0	54.3
2004-05	8,409,288,618	12.0	54.3
2005-06	9,400,167,970	12.0	55.2
2006-07	10,507,966,531	12.0	56.0
2007-08	10,902,299,190	4.0	58.0
2008-09	9,470,172,885	-13.1	56.4
2009-10	9,047,605,408	-4.5	51.0

BASE AND RATE

Temporary tax surcharge effective for tax years 2009 and 2010

The individual income tax surcharge applies to individuals who meet certain income requirements and the surtax applies to the amount owed before any withholding, payments, or credits.

Exemption

- Taxpayers married filing a joint individual income tax return with taxable incomes below \$100,000.

A 2% surcharge applies to the following:

- Married filing jointly with incomes greater than \$100,000 up to \$250,000.
- Married filing separately with incomes greater than \$50,000 up to \$125,000.
- Heads of households with incomes greater than \$80,000 up to \$200,000.
- Individuals with incomes greater than \$60,000 up to \$150,000.

A 3% surcharge applies to the following:

- Married filing jointly with incomes greater than \$250,000.
- Married filing separately with incomes greater than \$125,000.

- Heads of households with incomes greater than \$200,000.
- Singles with incomes greater than \$150,000.

{G.S. 105-134.2} Every individual resident, including part-year residents and nonresidents, and S-corporations and partnerships that receive income for the tax year from a North Carolina source, is required to file an individual income tax return.

Resident

Residents of North Carolina are required to file an individual income tax return if their federal gross income equals or exceeds the listed federal adjusted gross income by filing status in Table 13.

Part-year Resident and Nonresident

A part-year resident who received income while a nonresident of North Carolina and whose gross income equals or exceeds the listed federal adjusted gross income (Table 13) is required to file a return, if income was derived from any of the following activities:

- The ownership of any interest in real or tangible personal property in the state.
- From a business, trade, profession or occupation carried on in the state.
- Gambling activities.

**Table 13
North Carolina Filing Status
Based on Federal Adjusted Gross Income**

Filing Status	Federal Adjusted Gross Income
Single	\$5,500
Single age 65 ≥	\$6,200
Married, filing jointly	\$11,000
Married, filing jointly one age 65 ≥	\$11,600
Married, filing jointly both age 65 ≥	\$12,200
Married filing separate returns	\$2,500
Head of Household	\$6,900
Head of Household age 65 ≥	\$7,650
Widow w/ dependent	\$8,500
Widow age 65 ≥	\$9,100

Children and other Dependents

There is a separate filing status for single and married dependents either age 65 or older or blind. These individuals are subject to the individual income tax if the amount of earned, unearned, and/or gross income exceeds specific minimum amounts. In addition, these taxpayers must follow specific instructions when making adjustments to federal taxable income in order to determine state taxable income. For additional information on the tax treatment of this class of taxpayer, please see the Department of Revenue’s Instructions for Filing Form D-400.

<http://www.dor.state.nc.us/downloads/D401.pdf>

[{G.S. 105-134.6}](#) In calculating state taxable income, certain adjustments must be made to the federal taxable income in order to derive state taxable income.

Each personal exemption for married filing jointly (two exemptions), head of household, single, and married filing separately taxpayers is \$2,500 for a taxpayer(s) whose federal adjusted gross income (AGI) is less than the amounts shown below, and \$2,000 if more than these amounts.

<u>Filing Status</u>	<u>Federal Adjusted Gross Income</u>
Married, filing jointly	\$100,000
Head of Household	80,000
Single	60,000
Married, filing separately	50,000

Effective for taxable years beginning on or after January 1, 2004, the filing status and standard deduction are as follows:

<u>Filing Status</u>	<u>Standard Deduction</u>
Married, filing jointly	\$6,000
Head of Household	\$4,400
Single	\$3,000
Married, filing separately	\$3,000

Table 14
Rate and Tax Bracket Structure

[{G.S. 105-134.2}](#)

<u>Rate</u>	<u>Married Filing Joint</u>	<u>Married Filing Separate</u>	<u>Head of Household</u>	<u>Single</u>
6.0%	\$ 0 - 21,250	\$ 0 - 10,625	\$ 0 - 17,000	\$ 0 - 12,750
7.0%	21,251 - 100,000	10,626 - 50,000	17,001 - 80,000	12,751 - 60,000
7.75%	100,001 - Above	50,001 - Above	80,001 - Above	60,001 - Above

DISTRIBUTION

Revenue is deposited in the General Fund for general purposes, except for \$95,331,927 that is dedicated to local governments as a reimbursement for the repeal of the intangible personal property tax.

TAX CALENDAR

Returns and tax payments are due by April 15 for income earned during the previous calendar year.

[{G.S. 105-163.2 & G.S. 105-163.6}](#) Employers who withhold an average of less than \$250 per month are required to file and remit tax payments quarterly. Payments are due on the last day of the first month following the end of the calendar quarter for withholdings of the previous quarter. Every employer required to deduct and withhold an average of between \$250 and \$2,000 in

income taxes per month, and all employers engaged in any business which is seasonal or temporary in nature, shall make returns and payments of such withholdings by the fifteenth day of the month following the month in which such amounts were withheld. Amounts withheld in December of the tax year are due on January 31. Employers who withhold an average of at least \$2,000 per month are required to remit payments (semiweekly) in accordance with the federal withholding payment schedule.

{G.S. 105-163.15(f)} Estimated income tax payments are required, if the taxpayer expects the net estimated tax less allowable credits to be more than \$1,000. Payments are due in four installments for the estimated current year's income by April 15, June 15, September 15, and January 15 (for the last quarter of the preceding year).

COMPARISON WITH OTHER STATES

As of January 1, 2010, forty three states levy individual income taxes, with two taxing only dividend and interest income and seven states do not tax individual income. Most states follow the Federal definition of gross or taxable income. However, tax rates, deductions, and exemptions vary widely by state.

For tax year 2010, North Carolina has the fifteenth highest marginal tax rate in the nation at 7.75%, North Carolina has the second marginal tax rate among the six southeastern states, and the fourth highest among the eleven most populous states.

For fiscal year 2007-08, North Carolina relied more heavily on the individual income tax than most other states, obtaining 22% of its state and local taxes from the individual income tax as compared to 16% for the nation.

On a national basis, 2.5% of state personal income was devoted to state individual income tax payments, while North Carolina citizens allocated 3.3% of their income to individual income tax payments.

In terms of per capita income, the average taxpayer in the nation paid \$1,003.00 in individual income tax payments, while North Carolina taxpayers paid \$1,192.00.

- (1) Georgia, Kentucky, North Carolina, South Carolina, Tennessee, Virginia.
- (2) California, Florida, Georgia, Illinois, Michigan, New Jersey, New York, North Carolina, Ohio, Pennsylvania, Texas.

Source: Federation of Tax Administrators, "State Excise Tax Rate on Cigarette, January 2010", Washington, DC. March 2010.

Source: United States Census Bureau. State and Local Government Finance by Level of Government and by State; 2007-08.

INSURANCE TAX

The gross premiums from all insurance contracts covering persons, property and risk are subject to the insurance tax. Insurance companies that pay a gross premiums tax are not taxed under the franchise tax or the corporate income tax.

ADMINISTERED BY

[Department of Revenue](#) and [Department of Insurance](#)

Table 15
General Fund Gross Receipts on Insurance Companies

Fiscal Year	General Fund Collections	Annual Percent Change	Percent of General Fund Tax Collections
2001-02	340,785,358	11.4	2.7
2002-03	408,873,355	20.0	2.4
2003-04	423,405,050	3.6	3.1
2004-05	431,664,202	2.0	3.0
2005-06	431,729,295	.02	3.0
2006-07	475,545,413	10.0	3.0
2007-08	492,698,607	4.0	3.0
2008-09	466,601,945	-5.3	3.0
2009-10	486,848,660	4.3	3.0

BASE AND RATE

[{G.S. 105-228.5}](#) The insurance tax is measured on the gross premiums from business done during the previous year on contracts covering persons, property, and risks resident or located in the state. There are two base gross premium tax rates that are applied to insurance companies:

- 2.5% tax on the gross premiums of worker's compensation policies
- 1.9% tax on the gross premiums of all other insurance policies including health maintenance corporations, hospitals, and medical and dental service corporations.

Note: The 1.0% gross premiums tax on HMO's was repealed effective January 1, 2007.

ADDITIONAL TAXES

[{G.S. 105-228.5}](#) In addition to the 2.5% rate, fire and lightning contracts are taxed an additional 1.33% on the gross premiums. Fire and lightning contracts, for coverage within fire districts, are taxed an additional .05%. A portion of the proceeds from each of these taxes goes to help fund fire safety organizations.

[{G.S. 58-6-25}](#) Insurance Regulatory Charge

The General Assembly sets the insurance regulatory by legislation. For the 2009 calendar year, the rate is 5.5% of an insurance company's premium tax liability for the tax year. The rate for

calendar year 2010 is increased to 6%. When computing this charge, an insurance company does not include any of the additional taxes levied under G.S.105-228.

{G.S. 105-228.5A} Insurance Guaranty Association

The [North Carolina Guaranty Association](#) covers life insurance and casualty insurance companies. Assessments are levied to cover the cost of insolvency and liquidations. A tax credit against premium tax payments equal to the amount of the assessment is allowed.

An insurer who pays the gross premiums tax is allowed a credit against the tax equal to 20% of the amount of the assessment in each of the five taxable years following the year in which the assessment was made.

DISTRIBUTION

{G.S. 105-228.5(d), G.S. 58-87-5, and G.S. 58-6-25} The proceeds from the insurance regulatory charge are credited to the Insurance Regulatory Fund. Moneys from the Fund are used to defray the expenses associated with the operations of the Department of Insurance.

Twenty five percent of the 1.33% gross premiums on fire and lightning contracts are deposited with the Volunteer Fire Department Fund. These funds are used to make grants to purchase equipment and for capital improvements by volunteer fire departments. Three percent of the tax proceeds from the .05% gross premiums tax on fire and lightning contracts are credited to the State Fireman's Association for general purposes. The remainder of the tax proceeds is deposited in the General Fund. Only General Fund revenue is shown above.

TAX CALENDAR

{G.S. 105-228.5 (e) & (f)} Gross premium taxes are due by March 15 for the previous calendar year's activities. Insurance companies with a premium tax liability of \$10,000 or more are allowed to remit the tax in three equal installments. The installment payments must equal at least 33 1/3% of the premium tax liability for the previous year. Payment is due on or before the fifteenth of April, June, and October. Regulatory fees are due at the time the gross premium tax is due.

Effective for the tax year 2007, health maintenance organizations are to remit two estimated tax payments, with each payment being equal to 50% of their estimated premium tax liability for the 2007 tax year. The estimated payments are due by April 15 and June 15, 2007.

COMPARISON WITH OTHER STATES

Every state levies an insurance premium tax, which is paid in lieu of other taxes. The most typical premium tax rate is approximately 2%. It is difficult to compare rates between states because premium taxes vary depending on the type of policy and other special provisions apply. However, it appears that North Carolina's premium taxes are typical in comparison to other states.

Source: Commerce Clearing House, Inc. "State Tax Handbook", Chicago, Illinois, 2010.

MANUFACTURING TAX

There is a special type of privilege tax classification applied to certain machinery and equipment used in manufacturing and recycling. The special classification also applies to replacement parts and accessories.

ADMINISTERED BY
[Department of Revenue](#)

Table 16
General Fund Manufacturing Tax Collections

Fiscal Year	General Fund Collections	Annual Percent Change	Percent of General Fund Tax Collections
2005-06	11,951,991	N/A	.07
2006-07	36,558,7801	206	.20
2007-08	37,748,630	3.3	.20
2008-09	32,865,620	-13.0	.20
2009-10	31,897,136	-3.0	.20

Note: FY 2005-06 is a partial year collection.

HISTORIC NOTE

In the past, North Carolina levied a 1% sales and use tax with an \$80.00 cap that was applied to certain manufacturing and agriculture equipment. The tax was known as the mill machinery tax. Prior to Fiscal Year 2005-06 the tax collections from the 1% manufacturing class of property were included under the sales and use tax. Due to the [Streamlined Tax Agreement](#), in which North Carolina participated, a 1% preferential sales tax rate was not allowed to be considered in the sales and use tax classification. In 2005, the General Assembly classified manufacturing equipment subject to a manufacturing privilege tax.

BASE AND RATE

[{G.S. 105-187.51}](#) Certain equipment and machinery, including parts and accessories used in the production process, are taxed at 1% with an \$80.00 cap. The 1% classification also applies to equipment purchased and used by recycling and research and development companies. Fuel used in the production process is taxed at 1% without a cap.

DISTRIBUTION

The net proceeds from this tax are deposited in the General Fund for general purposes.

TAX CALENDAR

[{G.S. 105-164.16}](#) The manufacturing tax is collected and remitted in the same manner as the sales and use tax.

COMPARISON WITH OTHER STATES

A comparison with other state has not been prepared.

PIPED NATURAL GAS TAX

Piped natural gas received for consumption within the state is subject to an excise tax. Natural gas sales subject to the excise tax are not subject to the sales and use tax or the gross receipts tax.

ADMINISTERED BY
[Department of Revenue](#)

Table 17
General Fund Tax Collections on Piped Natural Gas

Fiscal Year	General Fund Collections	Annual Percent Change	Percent of General Fund Tax Collections
2001-02	40,949,924	10.0	.33
2002-03	36,853,402	-10.0	.30
2003-04	38,994,881	6.0	.30
2004-05	35,081,603	-10.0	.23
2005-06	33,654,268	-4.1	.20
2006-07	36,057,204	7.1	.20
2007-08	36,476,388	1.2	.20
2008-09	34,240,028	-6.1	.20
2009-10	33,794,094	-1.3	.20

BASE AND RATE

[{G.S. 105-187.41}](#) Prior to 1999, piped natural gas sales were subject to 3% sales and use tax and a 3.22% gross receipts tax. In 1999, the sales and gross receipts taxes were repealed in favor of an excise tax. The tax is based on the monthly volume of natural gas received by the final user. (The excise tax became effective July 1, 1999)

A local distribution company making deliveries to a sales or transportation customer is considered the final user for tax purposes and is responsible for paying the tax. If the piped natural gas is received by direct access from an interstate gas pipeline, the person, firm, or corporation receiving the gas is responsible for paying the tax.

Therms	Rate
First 200	\$0.050
201 to 15,000	0.035
15,001 to 60,000	0.024
60,001 to 500,000	0.015
Over 500,000	0.003

DISTRIBUTION

[{G.S. 105-187.44}](#) Taxpayers are required to file quarterly returns with the Department of Revenue. The quarterly returns report the amount of piped natural gas delivered to sales and transportation customers in each city of the state. Within 75 days of the end of each quarter, the Department of Revenue distributes to municipalities one-half of the amount of tax attributable to the activity within their jurisdiction. The remaining revenue is deposited in the General Fund for general purposes.

TAX CALENDAR

[{G.S. 105-187.43}](#) Payments are due semimonthly in accordance with the schedule set out in section [G.S. 105-164.16](#) for semimonthly payments of sales and use taxes.

TAX COMPARISON

A tax comparison was not undertaken.

PRIVILEGE LICENSE TAX

A license tax is imposed on certain business for the privilege of engaging in a specific business activity during the fiscal year.

ADMINISTERED BY
[Department of Revenue](#)

Table 18
General Fund Privilege License Tax Collections

Fiscal Year	General Fund Collections	Annual Percent Change	Percent of General Fund Tax Collections
2001-02	26,579,102	-41.0	.02
2002-03	44,721,244	68.3	.04
2003-04	41,615,694	-7.0	.30
2004-05	44,992,019	8.1	.29
2005-06	45,569,504	1.3	.27
2006-07	46,277,585	1.6	.30
2007-08	56,309,007	22.0	.30
2008-09	37,515,608	-33.4	.20
2009-10	39,196,662	4.5	.22

BASE AND RATE

[{G.S. 105-33}](#) Various business license taxes are levied on persons, firms, or corporations engaging in certain businesses or professions. The tax is paid annually on or before the first of July.

[{G.S. 105-37.1}](#) Dances, Athletic Events, Shows, Exhibitions and Other Entertainment

A 3% gross receipts tax is levied on the receipts of certain athletic, entertainment, and exhibition events where the admission fee exceeds 50 cents. Counties and cities are allowed to levy a privilege license tax on some business activities but the tax cannot exceed \$25.00.

[{G.S. 105-38.1}](#) Motion Picture Shows

A 1% gross receipts tax is levied on the operation of motion picture shows. If a person engages in motion picture entertainment and a business under G.S. 105-37.1, the privilege license tax under G.S. 105-37.1 applies to the entire gross receipts from both activities.

[{G.S. 105-41}](#) Attorneys and Other Professionals

Individuals engaged in various professions including physicians, attorneys, engineers, public accountants, and so forth pay a \$50 annual license fee. Accounting firms pay an additional privilege tax of \$12.50 for each employee engaged in accounting practices. If an individual engages in more than one business activity under this section, the individual must secure a

privilege license for each activity. Counties and cities are not authorized to levy a tax under this section.

{G.S. 105-83} Installment Paper Dealers

Privilege license taxes are also levied on installment paper dealers at a rate of .227% of the face value of all installment paper, notes, bonds, contracts or evidence of debt for which a lien against personal property, located in the state, is made to secure payment.

{G.S. 105-88} Loan Agencies

Any business, firm, or organization engaged in the business of making loans and lending money, check cashing, and in the pawnbroker business must pay a privilege license tax of \$250.00 for each location. This section does not include banks, industrial banks, trust companies, savings and loan associations, cooperative credit unions, and real estate companies.

{G.S. 105-102.3} Banks

Every bank or banking association, including national banking associations that operate in the state, must pay a privilege license tax equal to \$30.00 per \$1,000,000 in total assets.

{G.S. 105-102.6} Publishers of Newsprint Publications

The privilege license tax for newspaper publishers is based on a minimum recycled content. The tax is levied on each publisher whose recycled content is less than 40%. The rate is \$15.00 for each ton by which a publisher falls short of the minimum.

DISTRIBUTION

Net Proceeds of the privilege license tax are deposited in the General Fund for general purposes.

TAX CALENDAR

Taxes for annual licenses are due annually by July 1 for the upcoming fiscal year. Gross receipts taxes on entertainment and motion pictures are due by the 10th day after the end of each month.

COMPARISON WITH OTHER STATES

All states have occupation or business license taxes or fees. The occupations and privilege license tax rates vary significantly within and between states.

Source: Commerce Clearing House, Inc. "State Tax Handbook", Chicago, Illinois, 2010.

SALES AND USE TAX

The sales and use tax is levied on the gross receipt of taxable transactions such as retail sales, the lease or rental of tangible personal property and some services. The sales and use tax rate is a combined rate made up of the state rate and the sum of the local option sales and use tax rates.

ADMINISTERED BY
[Department of Revenue](#)

Table 19
General Fund Sales and Use Tax Collections

Fiscal Year	General Fund Collections	Annual Percent Change	Percent of General Fund Tax Collections
2001-02	3,705,769,832	8.0	30.0
2002-03	3,922,821,877	6.0	27.3
2003-04	4,222,201,842	7.6	30.5
2004-05	4,477,159,178	6.0	29.0
2005-06	4,893,911,220	9.3	29.0
2006-07	4,995,570,841	2.1	27.0
2007-08	4,981,673,149	-.3	27.0
2008-09	4,677,947,376	-6.10	28.0
2009-10	5,565,043,256	19.0	31.4

BASE AND RATE

Temporary sales and use tax increase

Effective September 1, 2009, the North Carolina General Assembly enacted a temporary additional 1% state sale and use tax rate to the general sales and use tax rate. The temporary rate is set to expire July 1, 2011. For this period, the combined state and local rate will increase in most counties from 6.75% to 7.75%. (See section on local government sales and use tax for the affect of the temporary sales and use tax increase on the local government sales and use tax rate.)

{G.S. 105-164.4} The general state sales tax is imposed on the retail sale, lease, or rental of tangible personal property not specifically exempt or subject to taxation at a reduced rate. Until October 1, 2008, all items that are subject to the state sales tax rate of 4.25% are also subject to the 2.5% Local Government Sales and Use Tax. After October 1st, the state rate will increase to 4.5% and the local rate will be reduced to 2.25%. Effective October 1, 2009, the state and local rates will change again by one-quarter of a percent. At that time the state rate will be 4.75% and the local rate will be 2%. When added to the temporary additional 1% rate the state rate will be 5.75%. The “combined rate” is 7.75% in eight-two counties of the state. (See sales tax section under Local Government Revenues for changes in some local tax rates.) This rate swap is due to actions by the 2007 session of the General Assembly authorizing the state to take over the local

government portion of Medicaid expenses. Local governments are allowed one of two additional taxing options to make-up the revenue loss. Note: Only the state rate is recorded in this section.

The Local Government Sales and Use Tax is made up of three separate rates defined in [Article 39](#), [Article 40](#), [Article 42](#), [Article 44](#), and [Article 46](#) of Chapter 105 of the North Carolina General Statutes. Mecklenburg County collects an additional .5 cent on the local option sales and use tax. ([Article 43](#) of Chapter 105) The revenue from this tax is used for public transportation. For additional information, see the Local Government section of this publication.

The gross receipts from the lease or rental of tangible personal property, services such as the rental of certain lodging accommodations, cleaning services provided by dry cleaners and similar types of businesses are subject to the state rate.

REDUCED BASES AND RATES

[{G.S. 105-187.5\(b\) & G.S. 105-187.9\(a\)}](#) The gross receipts from the long-term rental or leases of motor vehicles are subject to the 3% highway use tax, and collections are credited to the Highway Trust Fund. Short-term leases of motor vehicles (less than 365 continuous days) are subject to the 8% rate and credited to the General Fund. For additional information on the Highway Use Tax, see the Highway Trust Fund section of this publication.

[{G.S. 105-164.4\(a\)\(1a\)}](#) Manufactured housing sold at retail is taxed at a 2% state rate with a maximum tax or cap of \$300.00.

[{G.S. 105-164.4\(8\)}](#) The tax rate on modular homes is 2.5% of the retail price.

[{G.S. 105-164.4\(a\)\(1b\)}](#) A 3% rate of the state sales tax is levied on the retail price of new and used aircraft, and boats, with a maximum levy of \$1,500.

[{G.S. 105-164.4\(a\)\(1f\)}](#) The sale of electricity to commercial laundries is taxed at 2.83%.

[{G.S. 105-164.4\(a\)\(1j\)}](#) Electricity sold to manufacturing industries and manufacturing plants for use in connection with the operations of the industry or plant is taxed at 1.8%. The rate is reduced to 1.4% effective July 1, 2008. The tax rate on this class of taxpayer is further reduced to .8% effective July 1, 2009 and repealed effective July 1, 2010.

[{G.S. 105-164.4C}](#) Telecommunication services, cable services, and satellite services (including satellite radio services and voice mail) are subject to the general state rate.

[{G.S. 105-164.4\(a\)\(4c\)}](#) The combined general sales and use tax rate applies to the gross receipts from telecommunication services.

[{G.S. 105-164.44F \(a\)}](#) Municipalities receive 19.42% of the gross receipts from telecommunication service provided within municipal jurisdictions. Counties and cities share in an additional 8% of the gross receipts from telecommunication services provided statewide.

[{G.S. 105-164.4\(a\)\(6\)}](#) Cable service providers, direct-to-home satellite providers, and any other person or business providing video programming is considered a retailer, and the gross receipt from the sale of such services is subject to the general sales and use tax rate. Cities and counties share in 25% of the net proceeds from video programming services and 37.5% of the net proceeds from direct-to-home satellite services [{G.S. 105-164.44I}](#).

[{G.S. 105-164.4 \(4a\)}](#) Gross receipts derived by a utility from the sale of electricity are subject to the state sales tax of 3%, in addition to the 3.22% rate [{G.S. 105-116}](#) of tax imposed under the franchise tax schedule [{G.S. 105-116.1}](#). Municipalities receive 3.09% of the franchise tax from the sale of electricity within the municipal boundary.

[{G.S. 105-164.13B}](#) Food Exempt from Sale Tax

Food is exempt from the sales tax unless it is sold through a vending machine. Prepared food, soft drinks, candy, and dietary supplements are subject to the sales tax. These items are still subject to the local government sales tax.

[{G.S. 105-164.13C}](#) Sales and Use Tax Holiday

Enacted in 2002, the sales tax holiday extends for three days beginning on the first Friday in August and extending through Sunday. The exemption is extended to clothing, school supplies, sport and recreational equipment, computers, and educational software. There is a \$100 cap per item of clothing and school supplies, a \$50 cap per item of sport or recreational equipment, and a \$3,500 cap per computer. Computer supplies with a sales price of \$250.00 or less are exempt, beginning with the 2006 holiday.

[{G.S. 105-164.13}](#) Sales and Use Tax Exemptions and Exclusions

The federal government and the North Carolina Department of Transportation are exempt from state and local sales and use taxes. Many items, such as prescription medicine and certain medical devices, are exempt from the tax. Due to actions of the North Carolina General Assembly during the 2005 Legislative Session, many of the items taxed at 1% with an \$80.00 cap are now exempt from the State Sales and Use Tax.

[{G.S. 105-164.14}](#) Certain Refunds Authorized

Currently, state government agencies receive a refund of local sales and use taxes paid on their direct purchases for use. Effective July 1, 2004, sales to state agencies are exempt from sales or use tax if the state agency making the purchase furnishes a tax exemption number to the seller. Certain governmental entities, as defined by statute, may obtain refunds, as well as hospitals, educational institutions, churches, orphanages, and charitable and religious institutions not operating for a profit, and certain homes for the aged, sick, or infirm.

DISTRIBUTION

Revenue is deposited in the General Fund for general purposes, except for a small amount dedicated to the Wildlife Resource Fund. Sixty percent of the state sales tax on dry cleaning and laundry services is dedicated to the Dry Cleaning Solvent Cleanup Fund. The sales and use tax, collected from taxable food items, is distributed to local governments. For additional information, see the Local Government section of this publication.

TAX CALENDAR

{G.S.105-164.16} For merchants with a monthly sales and use tax liability of at least \$100, but less than \$10,000, taxes are due monthly by the fifteenth of each month on sales that took place the previous month. Businesses with monthly sales and use tax liabilities of \$10,000 or more are required to remit twice a month. One semimonthly payment covers the period of the month from the first through the fifteenth. The second payment covers the period of the month from the sixteenth through the end of the month. Persons who consistently owe sales or use taxes of less than \$100 per month may file reports quarterly by the last day of the month following the end of the quarter.

COMPARISON WITH OTHER STATES

As of January 2010, forty-five states levy sales and use taxes. State sales tax rates range from 2.9% to 8.25%, with a median rate of 5.75%. (Comparisons are made without any effective temporary rates.) The state sale tax rate for North Carolina is 5.75%. There are twenty four states with a higher state sales tax rate and twenty states with a lower rate than North Carolina. North Carolina ranks fourth among the southeastern states ⁽¹⁾, and eighth among the eleven most populated states ⁽²⁾.

⁽¹⁾ Georgia, Kentucky, North Carolina, South Carolina, Tennessee, Virginia

⁽²⁾ California, Florida, Georgia, Illinois, Michigan, New Jersey, New York, North Carolina, Ohio, Pennsylvania, Texas

Source: Federation of Tax Administrators, "State Excise Tax Rate on Cigarette, January 2010", Washington, DC. February 2010.

PART III
HIGHWAY FUND TAXES

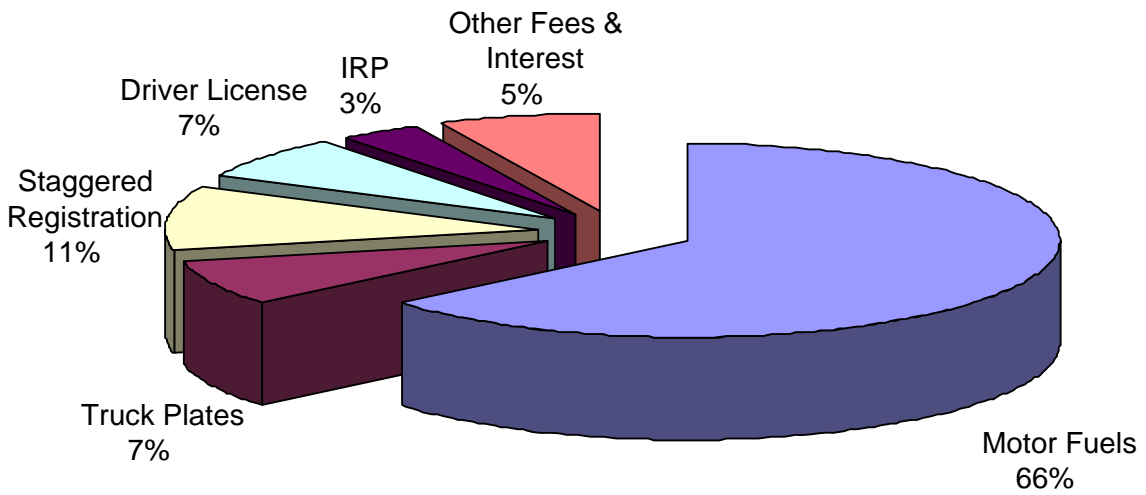
HIGHWAY FUND

Highway Fund revenue is primarily used to maintain the state's 79,262 miles of public roads, and to fund the administrative operations of the [Department of Transportation](#) and its many Divisions, including the [Division of Motor Vehicles](#). In addition, the Fund supports the Department's commitment to a multi-modal transportation network encompassing public transportation, aviation, rail, ferries, and bicycle and pedestrian programs. Highway Fund revenue is also used to provide supplemental funding for secondary road construction and provide aid to municipalities for [Powell Bill](#) road maintenance.

The Highway Fund receives support from three primary revenue sources. The first is the excise tax on motor fuels, of which the Highway Fund receives 75%. The second source of revenue is licenses and fees collected by the Division of Motor Vehicles, and the third source is from interest earned on cash balances held by the state treasurer.

Each summary outlines the subject being taxed, the tax rate or rates, total collections, any distributions made from the collections, and any exemptions. A comparison with similar taxes from other states is made for most schedules and is updated as often as national data is available.

**Chart 4
North Carolina Highway Fund Tax Collections
2009-10**



Motor Fuels	\$ 1,145,528,928
Truck Plates	128,136,502
Staggered Registration	189,076,290
Driver License	126,530,919
IRP	58,684,032
Other Fees & Interest	83,687,212
Total	\$ 1,731,643,883

DEALER AND MANUFACTURER LICENSE FEES

Individuals, firms, and corporations that engage in the sale of new, used, and newly manufactured vehicles must obtain a license from the Division of Motor Vehicles.

ADMINISTERED BY

[Department of Transportation Division of Motor Vehicles](#)

Table 20
Highway Fund Dealer and Manufacturer License Fee Collections

Fiscal Year	Highway Fund Collections	Annual Percent Change	Percent of Highway Fund Tax Collections
2000-01	1,145,552	-20.9	0.1
2001-02	1,078,075	-5.9	.01
2002-03	1,104,651	2.5	.01
2003-04	1,071,555	-3.0	.01
2004-05	1,051,171	-2.0	.01
2005-06	1,272,243	21.0	0.1
2006-07	760,763	-40.0	.004
2007-08	1,032,180	36.0	0.1
2008-09	927,018	-10.0	0.1
2009-10	1,072,841	16.0	0.1

BASE AND RATE

[{G.S. 20-289}](#) Annual license fees are levied on motor vehicle manufacturers, dealers, distributors, distributor branches, wholesalers, and salesmen at the following rates:

1. Motor vehicle dealers, distributors, distributor branches, and wholesalers, \$70.00 for each principal place of business
2. Manufacturers, \$150.00, and for each factory branch, \$100.00
3. Motor vehicle sales representatives, \$15.00
4. Factory and distributor representatives, \$15.00

[{G.S. 20-291}](#) If a representative changes employers, the fee for the issuance of a license stating the name of a new employer is \$10.00.

[{G.S. 20-287}](#) A manufacturer, factory branch, distributor, and distributor branch may operate without obtaining a motor vehicle dealer’s license.

DISTRIBUTION

Revenue is deposited in the Highway Fund for highway purposes.

TAX CALENDAR

[{G.S 20-288}](#) All licenses are granted for a period of one year unless suspended or revoked.

COMPARISON WITH OTHER STATES

A comparison with other states was not taken.

DRIVER'S LICENSE FEES

In order to operate a motor vehicle on public roads, a person must be at least 16 years of age and be licensed by the Division of Motor Vehicles. Persons under the age of 16 can operate a motor vehicle on public roads under limited circumstances.

ADMINISTERED BY

[Department of Transportation Division of Motor Vehicles](#)

**Table 21
Highway Fund Driver's License Fee Collections**

Fiscal Year	Highway Fund Collections	Annual Percent Change	Percent of Highway Fund Tax Collections
2000-01	66,172,057	12.3	5.3
2001-02	68,941,464	4.2	5.4
2002-03	70,463,916	2.2	5.7
2003-04	74,839,528	6.2	5.5
2004-05	79,370,033	6.1	5.7
2005-06	110,492,674	39.2	6.6
2006-07	125,922,739	14.0	7.0
2007-08	133,330,676	6.0	7.5
2008-09	129,657,974	-3.0	7.6
2009-10	126,530,919	-2.4	7.4

Note: Increase in fees effective October 2005; partial year collections FY 2005-06

BASE AND RATES

[G.S. 20-11](#) Limited Learners Permit and Provisional Licenses

Individuals under the age of 18 are required to have both instruction and experience before receiving a basic operator's license. In addition to successfully completing a prescribed driver training course under [G.S. 20-88.1](#), a driver is allowed limited driving privileges. Note: Only the highlights are listed below. For additional driving limitations by level, see [G.S. 20-11](#).

Level I – Limited Learner's Permit

The individual must be 15 years old and is restricted to driving under supervision. For the first six months, level I drivers can only drive between the hours of 5:00 a.m. and 9:00 p.m.

Level II – Limited Provisional License

The individual must have held a limited learner's permit for 12 months and be 16 years old. The driver may drive without supervision under certain limitations regarding time of day and the number of occupants in the vehicle.

Level III – Full Provisional License (Class C)

The individual must be 16 years old and have held a limited provisional license for at least six months, have a driving eligibility certificate or a high school diploma, and have never been convicted of a motor vehicle moving violation.

Minimum Age Requirements for Licensure:

1. [{G.S. 20-9}](#) Classes of regular licenses, Class A-18, Class B-18, Class C -16.
2. [{G.S. 20-10}](#) Public passenger carrying vehicles, same as classes A & B.
3. [{G.S. 20-11}](#) Issuance of limited learners permit is 15 years of age.
4. [{G.S. 20-37.13}](#) Commercial drivers must be 21 years old and a resident of the state.

{G.S. 20-7(i) & G.S. 20-37.16 (d)} Classes of Driver's Licenses A, B, & C

1. Learners permit; issued for 18 months is \$15.00
2. The basic operator's license; class C is issued for a fee of \$4.00 per year
3. Chauffeurs licenses; classes A and B are issued for a fee of \$4.00 per year
4. Commercial licenses; classes A, B, and C are issued for a fee of \$15.00 per year

License Renewal Periods

Under the age of 18 – A license expires on the 21st birthday.

Between the ages of 18 and 65 – A license expires eight years after the date of issuance.

At least 66 years old – A license expires five years after the date of issuance.

In order to operate a motorcycle on the roadways of the state, an operator must have a Class C driver's license and a motorcycle endorsement. The fee for a motorcycle endorsement is \$1.75 cents per year.

Commercial Driver Licenses (CDL)

[{G.S. 20-37.13}](#) The fee for a commercial driver's license permit is \$15.00 per year.

[{G.S. 20-37.15\(a1\)}](#) Application fee for a commercial driver's license is \$30.00 per year.

[{G.S. 20-37.16\(d\)}](#) Commercial driver's license is \$15.00 per year.

[{G.S. 20-37.16\(d\)}](#) The commercial endorsement fee is \$3.00 per year.

In addition, the following fees apply:

1. [{G.S.20-14}](#) Duplicate license is \$15.00.
2. [{G.S. 20-26\(e\)}](#) Limited and complete, exact copy(s) of license is \$8.00 per year.
3. [{G.S. 20-26\(e\)}](#) Certified true copy of complete license record is \$11.00 per year.
4. [{G.S. 20-37.7\(d\)}](#) Special ID cards for non-drivers aged 16 and over are \$15.00 per year.
5. [{G.S. 20-7\(i1\)}](#) Restoration fee to restore a license after revocation is \$50 and \$75 if revoked for driving under the influence. A charge of \$50 applies for failure to surrender a revoked driver's license.
6. [{G.S. 20-16\(e\)}](#) Driver improvement clinic is \$50.

DISTRIBUTION

All revenue collected from licenses and fees is deposited in the Highway Fund for highway purposes, except \$25 of the \$75 license restoration fee. Revenue collected for the restoration of a license revoked for driving under the influence is split between the Highway Fund and the

General Fund. The \$50 license restoration fee and \$50 of the \$75 restoration fee for driving while impaired are deposited in the Highway Fund. Twenty five dollars (\$25) of the seventy five dollar fee (\$75) is deposited in the General Fund for the Center for Alcohol Studies Endowment. Five cents from the issuance of each driver’s license and duplicate license is credited to the License to Give Trust Fund, an online organ donor program. Some of the revenue collected under the Special ID Cards is used to offset DMV operating expenses.

TAX CALENDAR

License fees and other charges are due at the time of purchase of the license or service.

COMPARISON WITH OTHER STATES

North Carolina's driver's license tax is a multifaceted levy consisting of several components. Comparative information was only obtained on operator's license fees. All 50 states levy operator's license fees. Operator's licenses are typically for a four-year period, with only a handful of states (including North Carolina) having a different license period. Converting these license fees to an annual basis, rates ranged from \$1.46 to \$16.89. The average fee in the nation is \$6.43. North Carolina's annual fee is \$6.69. Thirteen states had a higher levy than North Carolina. North Carolina has the highest rate of the southeastern states ⁽¹⁾. Of the most populated states, North Carolina ranked third⁽²⁾.

Table 22
Distribution of Driver’s License Fees
2010

Fees	Number of States
\$1.00 - \$1.99	1
2.00 - 2.99	8
3.00 - 3.99	2
4.00 - 4.99	1
5.00 and Above	38

⁽¹⁾ Georgia, Kentucky, North Carolina, South Carolina, Tennessee, and Virginia.

⁽²⁾ California, Georgia, Florida, Illinois, Michigan, Ohio, Pennsylvania, New Jersey, New York, North Carolina, Texas.

Source: Department of Transportation, Highway Taxes and Fees 2008, U.S. Federal Highway Administration, Washington, D.C., January 2010.

FINANCIAL SECURITY RESTORATION FEES

Owners of a registered motor vehicle, operating on the roads of this state, must maintain financial responsibility through liability insurance coverage on each vehicle throughout the period of registration. When liability coverage lapses and the registration is restored, the owner is charged a civil penalty.

ADMINISTERED BY

[Department of Transportation Division of Motor Vehicles](#)

Table 23
Highway Fund Financial Security Restoration Fee Collections

Fiscal Year	Highway Fund Collections	Annual Percent Change	Percent of Highway Fund Tax Collections
2000-01	10,263,535	21.5	0.8
2001-02	12,716,831	24.0	1.0
2002-03	14,479,061	14.0	1.2
2003-04	15,068,442	4.1	1.1
2004-05	4,764,996	-68.4	0.3
2005-06	5,540,080	16.3	0.3
2006-07	5,483,096	-1.0	0.3
2007-08	5,542,880	1.1	0.3
2008-09	5,525,979	-0.3	0.3
2009-10	5,497,624	-0.5	0.3

BASE AND RATE

[{G.S. 20-309}](#) When notice of a lapse of insurance is received by the Division of Motor Vehicles, the owner is given 10 days to certify to the Division that the vehicle was covered for liability purposes on or prior to the effective date of such termination. In the case of lapsed liability insurance coverage, in order for the owner to restore the registration, the owner must certify to the Division that the vehicle is covered for liability insurance purposes and pay to the Division a civil penalty of \$50.00.

DISTRIBUTION

Revenue is deposited in the Highway Fund for highway purposes.

TAX CALENDAR

Payment is made at the time of restoration.

COMPARISON WITH OTHER STATES

Most states require the owner of a motor vehicle to prove financial responsibility for the operations of a vehicle on public road ways. While similar, penalties vary widely with regard to the type and amount of financial responsibility.

Source: Department of Transportation, Highway Taxes and Fees, U.S. Federal Highway Administration, Washington, D.C., October 2010.

GASOLINE INSPECTION TAX

Petroleum products and related substitutes used in heating and power generation are subject to inspection. The purpose of the inspection tax is to ensure the quality of the products being sold to the public and to prevent reprehensible practices.

ADMINISTERED BY

[Department of Revenue](#)

[Department of Agriculture](#)

Table 24
Highway Fund Gasoline Inspection Tax Collections

Fiscal Year	Highway Fund Collections	Annual Percent Change	Percent of Highway Fund Tax Collections
2000-01	12,803,620	4.3	1.0
2001-02	12,938,330	1.1	1.0
2002-03	13,450,770	4.0	1.1
2003-04	13,881,390	3.2	1.0
2004-05	15,195,902	9.5	1.1
2005-06	14,577,283	-4.1	1.0
2006-07	14,907,956	2.3	1.0
2007-08	14,200,122	-5.0	0.8
2008-09	13,674,635	-4.0	0.8
2009-10	14,105,867	3.2	0.8

BASE AND RATE

[{G.S. 119-18\(a\)}](#) An inspection tax of one fourth of one cent (1/4 of 1¢) per gallon is levied on all petroleum products used as fuels. This includes gasoline, diesel, blended fuels, alternative fuels, kerosene, and fuels exempt from the excise tax on motor fuels. Aviation fuels are also subject to the inspections tax. (For additional information on motor fuel taxation, see Articles 36C and 36D of [Chapter 105](#) of the North Carolina General Statutes.)

DISTRIBUTION

The revenue from the gasoline inspection tax is used to fund the administration and enforcement of the tax by the Departments of Revenue and Agriculture under Articles 36C and 36D of Chapter 105. The balance of the revenue is credited on a monthly basis to the Commercial Leaking Petroleum Underground Storage Tank Cleanup Fund and the Noncommercial Leaking Petroleum Underground Storage Tank Cleanup Fund. If the amount of revenue in the Noncommercial Fund at the end of a month is at least five million dollars (\$5,000,000), one-half of the remainder of the proceeds shall be credited to the Noncommercial Fund and one-half of the remainder of the proceeds shall be credited to the Commercial Fund.

TAX CALENDAR

{G.S. 119-18(a)} The inspection tax on motor fuel is due and payable to the Secretary of Revenue at the same time as the excise tax on motor fuel is due. (See [G.S. 105-449.90](#)) The inspection tax on alternative fuels is due monthly within 25 days after the end of the month. The inspection tax on kerosene is payable monthly to the Secretary by the supplier. Monthly reports on kerosene are due by the 22nd of each month, and apply to sales during the preceding month.

COMPARISON WITH OTHER STATES

As of January 2008, thirty seven states inspect some or all petroleum products. Fifteen states impose either a fee or a tax on one or all of the products that are inspected. However, in most taxing states the set of petroleum products taxed is different and the unit of measure, upon which a tax is applied, can differ between states.

Source: Department of Transportation, Highway Taxes and Fees 2008, U.S. Federal Highway Administration, Washington, D.C., January 2008.

INTERNATIONAL REGISTRATION PLAN

The [International Registration Plan](#) is a reciprocity agreement for motor carriers in the U.S., District of Columbia, and Canada. The Plan is a federally encouraged program to facilitate commercial vehicle registrations and operations among the states and Canadian Provinces.

ADMINISTERED BY

[Department of Transportation Division of Motor Vehicles](#)

Table 25
Highway Fund International Registration Plan Collections

Fiscal Year	Highway Fund Collections	Annual Percent Change	Percent of Highway Fund Tax Collections
2000-01	47,494,993	-13.2	3.8
2001-02	49,909,132	5.1	4.0
2002-03	45,039,506	-10.0	4.0
2003-04	47,623,500	5.74	4.0
2004-05	49,789,517	5.0	4.0
2005-06	66,013,231	32.6	4.0
2006-07	68,385,177	3.6	4.0
2007-08	65,105,480	-5.0	4.0
2008-09	62,065,670	-5.0	4.0
2009-10	58,684,032	-5.5	3.4

BASE AND RATE

[\[G.S. 20-87.1\]](#) North Carolina has participated in the International Registration Plan (IRP) since 1977. The IRP is the registration reciprocity compact among states, the District of Columbia, and Canadian Provinces. Vehicles licensed under the International Registration Plan are owned and operated by registrants of member jurisdictions. Registered vehicles are known as apportion vehicles and pay license fees based on fleet distance operated in member jurisdictions. Registered fleets are granted full intrastate and/or interstate reciprocity and require the issuance of one plate and one cab card per fleet vehicle. The Plan defines a fleet vehicle as one or more apportionable vehicles.

The weight and rate schedule under this plan follows:

Table 26
Schedule of Weights and Rates
(Per 100 lbs. of Gross Weight)

Weight/Rate Bracket	Farm	Non- Farm
Up to 4,000 lbs.	\$.29	\$.59
4,001 to 9,000 lbs.	.40	.81
9,001 to 13,000 lbs.	.50	1.00
13,001 to 17,000 lbs.	.68	1.36
Over 17,000 lbs.	.77	1.54

Vehicles in the “over 17,000” pounds category pay an additional tax of \$3.00. Replacement plates for all vehicles are \$9.

{G.S. 20-385} ADDITIONAL FEES FOR INTERSTATE MOTOR CARRIERS

1. Insurance verification for each for-hire motor carrier operated in the state, \$1.00.
2. Application by interstate motor carrier for certificate of exemption, \$45.00.
3. Certification by an interstate motor carrier that is not regulated by the [U.S. Department of Transportation](#), \$45.00.
4. Emergency permits for interstate motor carrier, \$18.00.

DISTRIBUTION

Revenue is deposited in the Highway Fund for highway purposes.

TAX CALENDAR

License fees are computed according to the percentage of miles driven in each jurisdiction for the preceding fiscal year beginning on the first of July. Effective October 2005 for the 2006 registration year, the annual renewal period for the purchase of plates is staggered.

COMPARISON WITH OTHER STATES

Ten Canadian provinces and 48 contiguous states participate in the International Registration Plan (IRP). For the 48 states that are in the IRP (for five axle tractor trailers) the registration fees are determined according to the weight of the vehicle and the percentage of distance driven in each jurisdiction (participating state) for the preceding year. Because of the manner in which the fees are calculated, it is difficult to compare them across states.

Source: Department of Transportation, Highway Taxes and Fees 2008, U.S. Federal Highway Administration, Washington, D.C., January 2008.

MOTOR FUELS EXCISE TAX

The state levies an excise tax on all motor fuels including alternative motor fuels sold, distributed, and used to power motor vehicles operating on public roads of the state. The revenue collected from the tax is split between the Highway Fund and the Highway Trust Fund. The Highway Fund portion is 75% of collections.

ADMINISTERED BY

[Department of Revenue](#)

[Department of Transportation Division of Motor Vehicles](#)

Table 27
Highway Fund Motor Fuel Excise Tax Collections

Fiscal Year	Highway Fund Tax Collections	Annual Percent Change	Percent of Highway Fund Tax Collections
2000-01	867,815,163	11.1	69.7
2001-02	888,128,994	2.3	69.3
2002-03	848,372,049	-4.5	68.3
2003-04	935,531,825	10.3	69.3
2004-05	956,651,016	2.6	68.5
2005-06	1,100,801,379	14.5	66.0
2006-07	1,186,563,036	7.8	66.0
2007-08	1,168,720,744	-1.5	65.0
2008-09	1,114,992,201	-5.0	65.0
2009-10	1,145,528,928	4.0	67.0

BASE AND RATE

[{G.S. 105-449.80}](#) The motor fuels excise tax is levied on the wholesale price of motor fuel. The excise tax has a fixed rate of 17.5 cents per gallon plus a variable component rate that is 7% of the average wholesale price of motor fuels. The excise tax on motor fuels is computed and set twice a year in January and July and cannot fall below 3.5 cents per gallon.

State Rate

Base period: January 1, 2010 base rate cannot fall below .299 cents/gal

July 1, 2010 base rate is cannot fall below .299 cents/gal

Effective Rate: January 1, 2010 actual tax rate .325 cents/gal

July 1, 2010 actual tax rate .319 cent/gal

Note: By actions of the 2009 General Assembly, A tax rate floor of .299 cents per gallon will be in affective until July 1, 2011.

Federal Rate

Effective Date: October 1, 1997 tax rate gasoline .184 cents

Effective Date: October 1, 1997 tax rate diesel .244 cents

BASE PERIOD

The first base period is the six months ending on the 30th of September. The second base period is the six months ending on the 31st of March.

January Base Period = April, May, June, July, August, September

6

July Base Period = October, November, December, January, February, March

6

Computation of the Wholesale Component for the base period:

- a. Compute the 6 month average sales price of “finished” gasoline
- b. Compute the 6 month average sales price of #2 diesel fuel
- c. Compute the weighted average of the results of the first two calculations based on the proportion of the tax collected on gas and diesel.

$$\text{Gas Weighted Average} = \frac{\text{Total Taxable Gallons Gas}}{\text{Gas Taxable Gallons}}$$
$$\text{Diesel Weighted Average} = \frac{\text{Total Taxable Gallons Diesel}}{\text{Diesel/Special Fuel Taxable Gallons}}$$

- d. Sum the weighted averages and multiply times 7%
- e. Round up to the nearest 1/10 of a cent

EXEMPTIONS

[{G.S. 105-449.88}](#) Fuel sold to the U.S. Government, state government agencies, N.C. counties or municipal corporations, N.C. community colleges, local boards of education for use in public or charter school transportation (including fuel for automobiles owned by school boards), and motor fuel removed from a terminal for export for which the supplier collects the excise tax at the rate of the destination state is exempt from this tax. Diesel that is kerosene sold to an airport is exempt from the tax.

QUARTERLY REFUNDS

[{G.S. 105-449.106}](#) A refund of the excise tax paid less one cent per gallon is given to the following: volunteer fire departments, sheltered workshops recognized and approved by the Department of Human Resources, volunteer rescue squads, taxicabs transporting fare-paying passengers, private nonprofit organizations operating motor vehicles under contract or at the express designation of a unit of local government, and off-highway use of special mobile equipment.

ANNUAL REFUNDS

{G.S. 105-449.107} A refund of the average excise tax paid is given for purchases of fuel not used on the highway. The refund is based on the excise tax paid on fuel used in the preceding calendar year. There is a refund of 33 1/3% of the average tax paid on fuel used in concrete mixing vehicles, solid waste compacting vehicles, commercial vehicles that deliver and spread mulch, soil and similar materials, and certain agricultural and tank delivery vehicles.

DISTRIBUTIONS

{G.S. 105-449.125} Of the tax collected, 1/2 cent per gallon is dedicated as follows:

1. Commercial Leaking Petroleum Underground Storage Tank Cleanup Fund, 19/32
2. Noncommercial Leaking Petroleum Underground Storage Tank Cleanup Fund, 3/32
3. Water and Air Quality Account, 5/16.

Of the remaining revenue, 75% remains in the Highway Fund, and 25% is allocated to the Highway Trust Fund. All motor fuel tax collections credited to the Highway Trust Fund are used for highway construction. Only Highway Fund revenue is shown above.

ADDITIONAL DISTRIBUTION

{G.S. 105-449.126} The Wildlife Resources Fund receives 1/6 of 1% of the excise tax on motor fuels that is allocated to the Highway Fund. The revenues received under this distribution are annual and are used for boating and water safety activities.

POWELL BILL DISTRIBUTION

{G.S. 136-41.1} In October of each year, one and three fourths cents (1 ¾) of the net tax on each gallon of motor fuel and alternative fuels sold or distributed in the state is appropriated from the Highway Fund. This appropriation is made to eligible cities and towns for street maintenance. The funds appropriated from the Highway Fund are based on collections during the fiscal year preceding the distribution date. Seventy five percent (75%) is distributed based on population and twenty five percent (25%) is distributed based on public road mileage.

TAX CALENDAR

{G.S. 105-449.90} The motor fuels excise tax is collected by wholesale distributors of motor fuels on purchases made from major oil companies at the terminal rack. The excise tax collected on motor fuels is paid to the Secretary of Revenue either annually, quarterly, or monthly. Annual returns are due 45 days after the end of the calendar year. Quarterly returns are due by the last day of the month that follows the end of the calendar quarter. Monthly returns are due within 22 days after the end of the month. A monthly return of an occasional importer is due by the third day of each month.

COMPARISON WITH OTHER STATES

All states levy motor fuel taxes on gasoline, diesel fuel, and gasohol. In addition, several states have different levies on jet and other fuels. Sales taxes are applied on motor fuels in addition to the excise tax in some states, and separate local motor fuel taxes are applied in selected jurisdictions in several states.

As of January 2010, state excise taxes on gasoline ranged from 4.0 cents per gallon to 37.5 cents per gallon. The average state gasoline tax was 18.3 cents per gallon. For comparison, North Carolina's rate was 30.30 cents per gallon, and was the third highest tax in the nation. The average motor fuels tax in the southeastern states was 18.3 cents per gallon, and the average for the eleven most populated states was 16.03 cents per gallon. North Carolina had the highest tax rate among the southeastern states and among the eleven most populated states. North Carolina is one of seven states that have a variable motor fuel excise tax rate.

Table 28
Gasoline Excise Tax Rates for the U.S., North Carolina
and Surrounding States
January 2010

State	Tax Rate Cents/gal
United States	18.3
Southeast	19.0
Eleven Largest States	16.03
North Carolina	30.30
 Surrounding States	
Georgia	7.50
Kentucky	22.70
North Carolina	30.30
South Carolina	16.00
Tennessee	20.00
Virginia	17.50

Source: Federation of Tax Administrators, "State Motor Fuel Tax Rates, January 1, 2010", Washington, DC. March 2010.

OVERWEIGHT/OVERSIZE PERMITS

Vehicles that exceed the state's maximum size and weight standards to move or operate on public roads may apply for and be issued an overweight and oversize permit. Generally, such permitting applies to the movement of construction vehicles and mobile and modular homes.

ADMINISTERED BY

Department of Transportation Division of Motor Vehicles

Table 29
Highway Fund Overweight/Oversize Permit Collections

Fiscal Year	Highway Fund Collections	Annual Percent Change	Percent of Highway Fund Tax Collections
2000-01	5,261,816	111.5	0.4
2001-02	6,359,366	21.0	0.5
2002-03	5,024,634	-21.0	0.4
2003-04	3,444,149	-31.5	0.3
2004-05	7,349,815	113.4	0.5
2005-06	6,649,860	-9.5	0.4
2006-07	6,754,596	2.0	0.4
2007-08	6,625,951	-2.0	0.4
2008-09	5,755,377	-13.0	0.3
2009-10	5,268,905	-8.5	0.3

BASE AND RATE

[{G.S. 20-119}](#) Upon receipt of application, the state may issue, at its discretion, special permits granting permission to operate overweight/oversize motor vehicles on North Carolina highways. The single trip permit fee for oversize vehicles is \$12.00 for each dimension over the lawful dimensions including height, length, width, and weight up to 132,000 pounds. The single trip permit for overweight vehicles is \$3.00 per 1,000 pounds over 132,000 pounds. The annual permit fee for moving house trailers is \$200.00 and for other commodities is \$100.00. The application fee for a permit that requires an engineering study for pavement or structures is \$100.00.

DISTRIBUTION

Revenue is deposited in the Highway Fund for highway purposes.

TAX CALENDAR

Revenue is received at the time the permit is issued.

COMPARISON WITH OTHER STATES

A comparison is hard to make between states. Most states levy penalties for violation of size and weight limits. However, penalties by axle weight are not uniform across all states.

PENALTIES

The state sets standards for the size and loads of vehicles operating on public roads. When the maximum standards are violated, and no special use permit has been issued, the owner and/or operator can be charged a penalty.

ADMINISTERED BY

[Department of Transportation Division of Motor Vehicles](#)

Table 30
Highway Fund Overweight/Oversize Permit Collections

Fiscal Year	Highway Fund Collections	Annual Percent Change	Percent of Highway Fund Tax Collections
2000-01	13,263,785	56.9	1.1
2001-02	15,300,462	15.4	1.2
2002-03	16,003,526	5.0	1.3
2003-04	18,366,061	15.0	1.4
2004-05	34,262,047	86.6	2.4
2005-06	35,522,264	3.7	2.0
2006-07	38,969,065	9.7	2.2
2007-08	41,815,227	7.3	2.3
2008-09	34,780,948	-17.0	2.0
2009-10	28,638,488	-18.0	2.0

BASE AND RATE

[{G.S. 20-118}](#) This statute lists the maximum weight by axle group.

[{G.S. 20-118\(e\) \(3\)}](#) For each violation of the license, permit, or axle grouping weight as established in {G.S. 20-118 (b) (3)}, the owner must pay to the Division of Motor Vehicles, a penalty, per violation, as listed in the following table.

Table 31
Violation by Weight

Amount of Pounds Over Maximum	Penalty Per Pound
First 2000 lbs.	2 cents
Second 3000 lbs.	4 cents
In excess of 5000 lbs.	10 cents

[{G.S. 20-118\(e\) \(1\)}](#) For each violation of axle weight as established by G.S. 20-118 (b)(1), (b)(2), and (B)(4) the owner must pay the Division of Motor Vehicles a penalty, per violation, as listed in the following table. (See statute for further explanation.)

Table 32
Violation by Single or Tandem Axle

Amount of Pounds Over Maximum	Penalty Per Pound
First 1000 lbs.	4 cents
Second 1000 lbs.	6 cents
In excess of 2000 lbs.	10 cents

Note: The violations listed are a representation of the penalties levied by type of fine. For a complete listing please see the Motor Vehicle Laws of North Carolina.

DISTRIBUTION

Revenue is deposited in the Highway Fund for highway purposes.

TAX CALENDAR

Payments are due at the time the penalty is issued.

COMPARISON WITH OTHER STATES

A comparison is hard to make between states. Most states levy penalties for violation of size and weight limits. However, penalties by axle weight are not uniform across all states.

REGISTRATION FEES

Fees are charged for certificates of title, registration cards (including special identification cards), and certain registration plates for motor vehicles.

ADMINISTERED BY

Department of Transportation Division of Motor Vehicles

**Table 33
Highway Fund Overweight/Oversize Permit Collections**

Fiscal Year	Highway Fund Collections	Annual Percent Change	Percent of Highway Fund Tax Collections
2000-01	2,594,868	-3.5	0.2
2001-02	2,585,980	-0.3	0.2
2002-03	2,595,095	0.4	0.2
2003-04	2,786,678	7.4	0.2
2004-05	2,743,180	-1.6	0.2
2005-06	3,656,707	33.3	0.2
2006-07	3,956,385	8.2	0.2
2007-08	3,839,311	-3.0	0.2
2008-09	3,516,181	-8.4	0.2
2009-10	3,444,812	-2.0	0.2

BASE AND RATE

Charges are rendered for the following items:

{G.S. 20-37.7} \$15.00 for the issuance of a special identification card

{G.S. 20-85} \$40.00 certificate of title application
 \$15.00 to issue, duplicate, repossess a certificate of title
 \$15.00 to transfer, replace, duplicate registration card and plates
 \$15.00 to apply for and remove a lien from a certificate of title
 \$15.00 for each salvage certificate of title
 \$25.00 for each set of replacement Stock Car Racing Theme Plate

{G.S. 20-73(c)} \$15.00 fee for failure to transfer title of ownership

{G.S. 20-42(b)} \$10.00 fee to certify any DMV document for use in court
 \$5.00 for each accident report

DISTRIBUTION

Legislative changes in 1989 did not identify some of these fees as Highway Trust Fund Revenues. The revenue collected from these fees is credited to the Highway Fund for general

highway purposes. Some of the revenue from the issuance of special ID cards is used to off-set DMV operating expenses.

TAX CALENDAR

These fees are collected on a daily basis.

COMPARISON WITH OTHER STATES

A comparison with other states was not taken.

SAFETY EQUIPMENT PROCESS FEES

All motor vehicles subject to registration by the Division of Motor Vehicles are required to pass an annual safety inspection. Vehicles registered in certain counties are required to pass both a safety and an emission inspection.

ADMINISTERED BY

[Department of Transportation Division of Motor Vehicles](#)

Table 34
Highway Fund Safety Equipment Processing Fee Collections

Fiscal Year	Highway Fund Collections	Annual Percent Change	Percent of Highway Fund Tax Collections
2000-01	4,010,440	-5.8	0.3
2001-02	4,024,782	0.4	0.3
2002-03	4,264,217	6.0	0.3
2003-04	4,421,842	4.0	0.3
2004-05	4,553,823	3.0	0.3
2005-06	4,883,720	7.2	0.3
2006-07	4,552,026	-7.0	0.3
2007-08	4,416,353	-3.0	0.2
2008-09	3,776,184	-15.0	0.2
2009-10	3,579,618	-5.2	0.2

BASE AND RATE

[\[G.S. 20-183.7\]](#) The safety equipment inspection fees total \$9.10 per vehicle inspected. Of that amount, \$8.25 is for the inspection and remains with the inspection station. The remaining \$0.85 is for the inspection sticker, with \$0.55 going to the Highway Fund, \$0.18 earmarked to the Department of Insurance for the Volunteer Rescue/EMS Fund, and \$0.12 dedicated to the Rescue Squad Workers' Relief Fund.

The inspection fee for inspecting both safety and exhaust standards is \$30.00 per vehicle. Of that amount, \$23.50 is for the inspection and remains with the inspection station. The remaining \$6.50 is for the inspection sticker. Of this amount, \$3.00 goes to the emission program account, \$1.75 goes to the telecommunications account, \$0.65 is allocated to the Division of Air Quality, \$0.55 goes to the Highway Fund, \$0.25 goes to the Highway Trust Fund Repayment Fees, \$0.18 is distributed to the Department of Insurance for the Volunteer Rescue/EMS Fund, and \$0.12 for the Rescue Squad Relief Fund.

Note: Effective July 1, 2007, the distribution in the fee amount for the Emissions and Safety Inspection changed from \$23.50 to \$23.75 and the corresponding amount for the Emissions and Safety Sticker is changed from \$6.50 to \$6.25. This change in the fee structure reduces the \$.25

allocation to the Division of Motor Vehicles from the Highway Trust Fund for the implementation of the vehicle emissions and maintenance program.

Inspections are required for both safety and emissions systems in the following counties: Alamance, Cabarrus, Catawba, Chatham, Cumberland, Davidson, Durham, Franklin, Forsyth, Gaston, Guilford, Iredell, Johnston, Lee, Lincoln, Mecklenburg, Moore, Orange, Randolph, Stanly, Rowan, Union, and Wake.

The phase-in dates for those counties that require the additional emissions inspections are below:

[Effective July 1, 2004]

Buncombe, Cleveland, Granville, Harnett, and Rockingham counties

[Effective January 1, 2005]

Edgecombe, Lenoir, Nash, Pitt, Robeson, Wayne, and Wilson counties

[Effective July 1, 2005]

Burke, Caldwell, Haywood, Henderson, Rutherford, Stokes, Surry, and Wilkes counties

[Effective January 1, 2006]

Brunswick, Carteret, Craven, New Hanover, and Onslow counties

DISTRIBUTION

Revenue from safety inspections is divided between the inspection station and the state as stated under "Base and Rate." In addition, revenue from emission inspections is placed under a separate account, and is used to support the emission program. Only Highway Fund revenue is shown above.

TAX CALENDAR

Revenue is collected at the time of the inspection.

COMPARISON WITH OTHER STATES

A comparison with other states was not taken.

STAGGERED REGISTRATION FEES

All private passenger vehicles, vehicles for hire, motorcycles, certain mobile homes, and some special mobile equipment are required to be registered with the Division of Motor Vehicles before such vehicles can legally operate on public roads. A vehicle registration is for a 12 month period generally from the date the title is issued or transferred.

ADMINISTERED BY

[Department of Transportation Division of Motor Vehicles](#)

**Table 35
Highway Fund Staggered Registration Fee Collections**

Fiscal Year	Highway Fund Collections	Annual Percent Change	Percent of Highway Fund Tax Collections
2000-01	147,014,471	1.0	11.8
2001-02	149,565,091	2.0	12.0
2002-03	151,932,070	2.0	12.0
2003-04	158,680,221	4.4	12.0
2004-05	160,037,750	1.0	11.4
2005-06	187,563,245	17.2	11.2
2006-07	199,209,664	6.2	11.0
2007-08	197,432,008	-1.0	11.0
2008-09	195,931,739	-1.0	11.4
2009-10	189,076,290	-3.5	11.0

Note: Increase in fees effective October 2005; partial year collections FY 2005-06

BASE AND RATE

[{G.S. 20-87}](#) All private passenger vehicles (automobiles and motorcycles) and all private property hauling vehicles licensed for 4,000 pounds (private pick-up trucks and vans) are required to enter the staggered registration plan. A fee of \$28.00 is levied on private passenger cars of 15 passengers or less, and a fee of \$31.00 is levied on private passenger cars of more than 15 passengers (Buses). Private passenger motorcycles pay a license plate fee of \$15.00, except when designed to transport property or additional passengers, and the tax is then \$22.00. An additional fee of \$3.00 is imposed on the registration of each private motorcycle and the proceeds are used to fund the Motorcycle Safety Instruction Program.

[{G.S. 20-87\(2\)}](#) U-Drive It Vehicles with the capacity to transport 15 or fewer passengers pay a license plate fee of \$51.00. House trailers pay an \$11.00 license fee in lieu of other registration fees. The fee for busses is \$33.00. Automobile Dealers pay \$28.00 per plate up to 5 plates and \$14.00 for each plate over 5 plates.

{G.S. 20-88(b)(1)} Private pick-up trucks and vans licensed for 4,000 pounds pay a license plate fee of \$28.00.

{G.S. 20-88(c)} Boat trailers, utility trailers and semi-trailers pay a license plate fee of \$19.00.

{G.S. 20-85.1} There is a \$1 processing charge for registrations by mail.

{G.S. 20-50} The fee to issue a temporary 10 day plate is \$5.00.

DISTRIBUTION

Revenue is deposited in the Highway Fund for highway purposes.

TAX CALENDAR

All registrations are for a twelve-month period from the date of the vehicle's initial registration.

COMPARISON WITH OTHER STATES

All 50 states levy automobile registration fees. Fees may be based on vehicle weight, number of passengers carried, engine size, horsepower, retail price, or some combination of the above. Rates often vary within a state depending on the vehicle. Tax rates for the typical automobile ranged from \$7.20 to \$278.70. The median tax rate for the nation was \$67.00. Twenty nine states had a higher automobile registration fee than North Carolina.

The average rate among the southeastern states ⁽¹⁾ and the 11 most populated states ⁽²⁾ was \$28.50 and \$66.15 respectively. North Carolina ranked second in the southeastern states and ninth among the largest states. A comparison of registration fees for small trucks and motorcycles was not undertaken.

⁽¹⁾ Georgia, Kentucky, North Carolina, South Carolina, Tennessee, and Virginia.

⁽²⁾ California, Georgia, Florida, Illinois, Michigan, Ohio, Pennsylvania, New Jersey, New York, North Carolina, Texas.

Source: Department of Transportation, "Highway Taxes and Fees 2008", U.S. Federal Highway Administration, Washington, D.C., 2008, January 1010.

TRUCK LICENSE PLATE FEES

All commercial property-hauling vehicles are required to be registered with regard to weight and load capacity. Effective January 1, 2006, all commercial property hauling vehicles with an annual expiration date fall under a staggered registration plan.

ADMINISTERED BY

[Department of Transportation Division of Motor Vehicles](#)

Table 36
Highway Fund Truck License Plate Fee Collections

Fiscal Year	Highway Fund Collections	Annual Percent Change	Percent of Highway Fund Tax Collections
2000-01	60,570,817	1.8	4.9
2001-02	61,474,240	1.5	5.0
2002-03	61,838,112	0.6	5.0
2003-04	66,816,761	8.1	5.0
2004-05	71,265,550	7.0	5.1
2005-06	126,061,965	77.0	7.5
2006-07	137,651,224	9.2	7.6
2007-08	137,959,629	0.2	7.7
2008-09	134,016,954	-3.0	8.0
2009-10	128,136,502	-4.4	7.5

Note: Increase in fees effective October 2005; partial year collections FY 2005-06

BASE AND RATE

[{G.S. 20-88\(1\)}](#) For the purpose of taxation, the determination of weight is based on combined gross vehicle weight. A minimum fee of \$24.00 for a farm vehicle and \$28.00 for a non-farm vehicle is levied under this schedule.

Vehicles in the truck category consist of private vehicles such as vans and pick-up trucks over 4,000 pounds, and commercial trucks. Commercial trucks generally carry their own products both interstate and intrastate, but do not operate under the authority of either the Interstate Commerce Commission or the North Carolina Utilities Commission. They basically include service trucks, milk trucks, soft drink bottle trucks, beer trucks, and others. There is no separate commercial truck license plate.

Vehicles in the truck category are subject to taxation according to the following rate and weight schedule:

Table 37
SCHEDULE OF WEIGHTS AND RATES
(Per 100 lbs. of Gross Weight)

Weight/Rate Bracket	Farm	Non-Farm
Up to 4,000 lbs.	\$ 0.29	\$ 0.59
4,001 to 9,000 lbs.	0.40	0.81
9,001 to 13,000 lbs.	0.50	1.00
13,001 to 17,000 lbs.	0.68	1.36
Over 17,000 lbs.	0.77	1.54

{G.S. 20-88(6)} The annual plate and registration fee for wreckers fully equipped weighing 7,000 pounds or less is \$75 and those over 7,000 pounds pay \$148.

{G.S. 20-88(6)(c)} A multi-year license plate for trailers or semi-trailers is available for \$75. A multi-year license plate and registration card are valid until the owner transfers the title or surrenders the plate and registration to the Division of Motor Vehicles.

Replacement plates for all vehicles are \$10.

DISTRIBUTION

Revenue is deposited in the Highway Fund for highway purposes.

TAX CALENDAR

Under the annual renewal plates were purchased between January 1 and February 15th for the current calendar year. As of January 1, 2006, annual registration is staggered.

COMPARISON WITH OTHER STATES

All states levy truck license plate fees. Most states have a fee schedule based on the empty weight of the vehicles. All states grant some type of preferential tax treatment to farm vehicles. Rates often vary within a state depending on the vehicle size and weight. Average tax rates for truck and truck tractors regardless of size and weight ranged from \$6.48 to \$173.23 as of December 2008. The median tax rate for the nation was \$55.42. Eleven states had a higher truck registration fee than North Carolina.

The average rate among the southeastern states⁽¹⁾ and the 11 most populated states⁽²⁾ was \$25.65 and \$49.66 respectively. North Carolina ranked first in the southeastern states and second among the largest states.

⁽¹⁾ Georgia, Kentucky, North Carolina, South Carolina, Tennessee, and Virginia.

⁽²⁾ California, Georgia, Florida, Illinois, Michigan, Ohio, Pennsylvania, New Jersey, New York, North Carolina, Texas.

Source: Department of Transportation, “Highway Taxes and Fees 2008”, U.S. Federal Highway Administration, Washington, D.C., January 2009

PART IV
HIGHWAY TRUST FUND TAXES

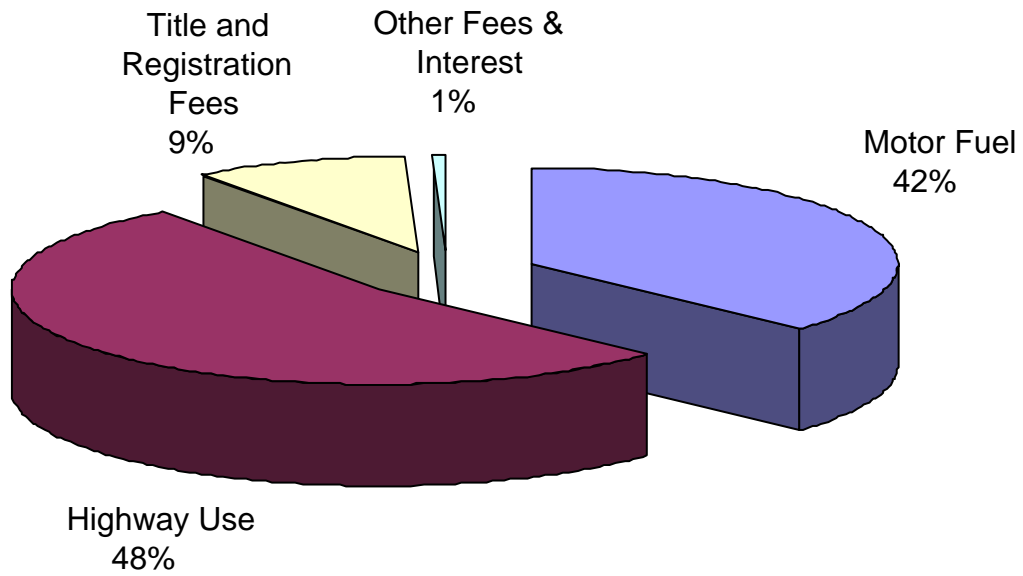
THE HIGHWAY TRUST FUND

Highway Trust Fund revenue is used to design and construct the state's interstate road system. This system includes primary interstate, NC and US routes and provides supplemental funding for Powell Bill road maintenance.

The Highway Trust Fund receives support from four primary revenue sources. The first source is the highway use tax or the sales tax on most noncommercial vehicle sales. The second source is 25% of the excise tax on motor fuels, and the third source is fees on certificates of title and other miscellaneous title fees. The fourth source is from interest earned on cash balances held with the state treasurer.

Each summary outlines the subject being taxed, the tax rate or rates, total collections, any distributions made from the collections, and any exemptions. A comparison with similar taxes from other states is made for most schedules and is updated as often as national data is available.

Chart 5
North Carolina Highway Trust Fund Tax Collections
2009-10



Motor Fuel	\$	381,909,743
Highway Use		440,483,265
Title and Registration Fees		82,843,951
Other Fees & Interest		3,913,687
Total	\$	<u>909,150,646</u>

HIGHWAY USE TAX

When a motor vehicle is sold in the state or the title is transferred into the state, the vehicle is taxed under the use tax. Prior to the creation of the Highway Trust Fund in 1989, the sales and use tax on motor vehicles was collected under the General Fund.

ADMINISTERED BY
[Department of Revenue](#)

Table 38
Highway Trust Fund Use Tax Collections

Fiscal Year	Highway Trust Fund Tax Collections	Annual Percent Change	Percent of Highway Trust Fund Tax Collections
2000-01	545,166,755	-0.0	58.9
2001-02	555,320,540	2.0	59.0
2002-03	552,758,579	-0.5	60.0
2003-04	578,346,241	5.0	59.0
2004-05	580,117,766	0.3	58.0
2005-06	577,236,704	-0.5	55.0
2006-07	605,047,356	5.0	54.0
2007-08	563,165,590	-7.0	53.0
2008-09	441,349,902	-22	49.0
2009-10	440,483,265	-0.2	49.0

BASE AND RATE

[{G.S. 105-187.3}](#) A 3% use tax with no cap is levied on the retail sales of most non-commercial motor vehicles titled in North Carolina. The tax on commercial vehicles is 3% with a maximum tax of \$1,000. The maximum tax rate is \$1000 for a Class A or Class B commercial motor vehicle. Recreational vehicles that are not subject to the \$1000 maximum tax are subject to a \$1500 maximum tax. Motor vehicles purchased in other states and titled in North Carolina are also subject to the tax. For tax purposes, the retail price of the vehicle is the net purchase price after trade.

[{G.S. 105-187.5\(b\)}](#) The tax rate on the gross receipts from the long-term lease (or rental of 365 continuous days or more) of a motor vehicle is 3%. The gross receipts tax, from short-term lease or rental, is 8%. The revenue from the short-term lease or rental is deposited into the General Fund.

[{G.S. 105-187.6}](#) Exemptions:

- 2) Transfer of a vehicle to the insurer because the vehicle is a salvage vehicle
- 3) Sales to a motor vehicle dealer for resale
- 4) Transfer because of a change in the owner's name
- 5) Transfer by will or intestacy

- 6) Gifts between spouses or parent and child
- 7) Distribution of marital property as a result of divorce
- 8) Transfer of a vehicle to a handicapped person from the Department of Human Resources after the vehicle has been specially equipped
- 9) Transfer of a vehicle to a local board of education for use in drivers' education
- 10) Transfers of a vehicle purchased by volunteer fire and/or rescue departments

{G.S. 105-187.6(b)} Partial Exemptions: a maximum tax of \$40 applies when a certificate of title is issued as a result of transfer of a motor vehicle:

- 1) To a secured party who has a perfected security interest in the motor vehicle.
- 2) To a partnership, limited liability company, or corporation as an incident to the formation of the company, when no gain arises from the transfer.

{G.S. 105-187.6(c)} A maximum tax of \$150 applies when a title is issued for an out-of-state vehicle that at the time of applying for the certificate of title, is or has been titled in another state for at least 90 days.

DISTRIBUTION

{G.S. 105-187.9} Taxes collected at the rate of 8% are credited to the General Fund and taxes collected at the 3% are credited to the Highway Trust Fund.

Of total collections, \$170 million is transferred annually to the General Fund. An additional \$2.4 million is transferred to the General Fund, and this amount is adjusted annually based on the increase or decrease of highway use tax collections. The remaining revenue is deposited in the Highway Trust Fund for highway purposes.

TAX CALENDAR

Taxes are due upon application for a certificate of title. The person leasing a vehicle may make an irrevocable option at the time of titling to pay tax on the gross lease or rental receipts instead of on the retail sales price of a motor vehicle.

COMPARISON WITH OTHER STATES

Forty-one states levy state sales or excise taxes on automobiles. (Alaska levies a local tax.) In lieu of a general sales and use tax, twelve states levy a highway use tax on the sale or trade of motor vehicles. One state levies a flat rate of \$30 a year per vehicle. Of the states that levy a highway use tax, California has the highest tax rate at 8.25% and Massachusetts has the lowest at 0.025%. North Carolina and Virginia both tax at 3%.

Source: Department of Transportation, "Highway Taxes and Fees 2008", U.S. Federal Highway Administration, Washington, D.C., January 2009

LIEN RECORDING FEES

A lien can be placed on motor vehicles for failure to make scheduled payments on loans, for failure to pay for mechanic bills and for failure to make payments on any loan for which the registered vehicle serves as a security asset.

ADMINISTERED BY

[Department of Transportation Division of Motor Vehicles](#)

Table 39
Highway Trust Fund Lien Recording Fee Collections

Fiscal Year	Highway Trust Fund Tax Collections	Annual Percent Change	Percent of Highway Trust Fund Tax Collections
2000-01	2,139,360	-0.1	0.2
2001-02	2,067,367	-3.4	0.2
2002-03	2,184,983	5.7	0.2
2003-04	2,141,361	-2.0	0.2
2004-05	3,829,321	79.0	0.4
2005-06	2,997,921	-22.0	0.1
2006-07	3,182,085	6.0	0.1
2007-08	3,293,421	4.0	0.3
2008-09	3,033,355	-8.0	0.3
2009-10	2,884,674	-5.0	0.3

BASE AND RATES

[{G.S. 20-85\(a\)\(8\)}](#) There is a \$15.00 charge for each application for recording a supplementary lien, and a \$15.00 charge for each application for removing a lien from a certificate of title.

DISTRIBUTION

Revenue is deposited in the Highway Trust Fund for highway purposes.

TAX CALENDAR

Taxes are paid at the time of recording.

COMPARISON WITH OTHER STATES

A comparison with other states was not taken.

MOTOR FUELS EXCISE TAX

The state levies an excise tax on all motor fuels including alternative motor fuels sold, distributed, and used to power motor vehicles operating on public roads of the state. The revenue collected from the tax is split between the Highway Fund and the Highway Trust Fund. The Highway Trust Fund receives 25% of collections.

ADMINISTERED BY
[Department of Revenue](#)

Table 40
Highway Trust Fund Motor Fuels Excise Tax Collections

Fiscal Year	Highway Trust Fund Tax Collections	Annual Percent Change	Percent of Highway Trust Fund Tax Collections
2000-01	289,594,678	11.1	31.3
2001-02	296,259,387	2.3	31.4
2002-03	283,055,950	-4.5	31.0
2003-04	310,767,003	9.8	32.0
2004-05	320,410,843	3.1	32.0
2005-06	366,457,976	14.4	35.0
2006-07	397,528,402	8.5	36.0
2007-08	391,612,281	-2.0	37.0
2008-09	377,534,472	-4.0	42.0
2009-10	381,909,743	1.2	42.0

BASE AND RATE

[G.S. 105-449.80](#) The state levies an excise tax on all motor fuels including alternative motor fuels sold, distributed, or used in the state. The motor fuels excise tax is levied on the wholesale price of motor fuel. The excise tax has a fixed rate of 17.5 cents per gallon plus a variable component rate that is 7% of the average wholesale price of motor fuels. The excise tax on motor fuels is computed twice a year in January and July and cannot fall below 3.5 cents per gallon.

Temporary State Rate

Base period: January 1, 2010 base rate cannot fall below .299 cents/gal
 July 1, 2010 base rate is cannot fall below .299 cents/gal

Effective Rate: January 1, 2010 Actual tax rate .325 cents/gal
 July 1, 2010 actual tax rate .319 cents/gal

Note: By actions of the 2009 General Assembly, a tax rate floor of .299 cents per gallon will be in affective until July 1, 2011.

Federal Rate

Effective Date: October 1, 1997 tax rate gasoline .184 cents

Effective Date: October 1, 1997 tax rate diesel .244 cents

BASE PERIOD

The first base period is the six months ending on the 30th of September. The second base period is the six months ending on the 31st of March.

$$\text{January Base Period} = \frac{\text{April, May, June, July, August, September}}{6}$$

$$\text{July Base Period} = \frac{\text{October, November, December, January, February, March}}{6}$$

Computation of the Wholesale Component for the base period:

- a. Compute the 6 month average sales price of “finished” gasoline
- b. Compute the 6 month average sales price of #2 diesel fuel
- c. Compute the weighted average of the results of the first two calculations based on the proportion of the tax collected on gas and diesel.

$$\text{Gas Weighted Average} = \frac{\text{Total Taxable Gallons Gas}}{\text{Gas Taxable Gallons}}$$

$$\text{Diesel Weighted Average} = \frac{\text{Total Taxable Gallons Diesel}}{\text{Diesel/Special Fuel Taxable Gallons}}$$

- d. Sum the weighted averages and multiply times 7%
- e. Round up to the nearest 1/10 of a cent

EXEMPTIONS

[{G.S. 105-449.88}](#) Fuel sold to the U.S. Government, state government agencies, N.C. counties or municipal corporations, N.C. community colleges, local boards of education for use in public or charter school transportation (including fuel for automobiles owned by school boards), and motor fuel removed from a terminal for export for which the supplier collects the excise tax at the rate of the destination state, is exempt from the tax. Diesel that is kerosene and is sold to an airport is exempt from the tax.

QUARTERLY REFUNDS

[{G.S. 105-449.106}](#) A refund of the excise tax paid less one cent per gallon is given to volunteer fire departments, sheltered workshops recognized and approved by the Department of Human Resources, volunteer rescue squads, taxicabs transporting fare-paying passengers, private nonprofit organizations operating motor vehicles under contract or at the express designation of a unit of local government, and off-highway use of special mobile equipment.

ANNUAL REFUNDS

{G.S. 105-449.107} A refund of the average excise tax paid is given for purchases of fuel not used on the highway. The refund is based on the excise tax paid on fuel used in the preceding calendar year. There is a refund of 33 1/3% of the average tax paid on fuel used in concrete mixing vehicles, solid waste compacting vehicles, commercial vehicles that deliver and spread mulch, soil and similar materials, and certain agricultural and tank delivery vehicles.

DISTRIBUTIONS

{G.S. 105-449.125} Of the tax collected, 1/2 cent per gallon is dedicated as follows:

- 1) Commercial Leaking Petroleum Underground Storage Tank Cleanup Fund--19/32
- 2) Noncommercial Leaking Petroleum Underground Storage Tank Cleanup Fund--3/32
- 3) Water and Air Quality Account—5/16.

Of the remaining revenue, 75% remains in the Highway Fund, and 25% is allocated to the Highway Trust Fund. All motor fuel tax collections credited to the Highway Trust Fund are used for highway construction. Only Highway Trust Fund revenue is shown above.

ADDITIONAL DISTRIBUTION

{G.S. 105-449.126} The Wildlife Resources Fund receives 1/6 of 1% of the excise tax on motor fuels that is allocated to the Highway Fund. The revenues received under this distribution are annual and are used for boating and water safety activities within the Wildlife Fund.

POWELL BILL DISTRIBUTION

{G.S. 136-176(b) (3)} There is an annual supplemental appropriation of 6.5% from the Highway Trust Fund to municipalities for street maintenance. The funds appropriated from the Highway Trust Fund are based on collections made during the fiscal year preceding the date the distribution is made. A cash distribution is made in October of each fiscal year.

TAX CALENDAR

{G.S. 105-449.90} The motor fuels excise tax is collected by wholesale distributors of motor fuels on purchases made from major oil companies at the terminal rack. The excise tax collected on motor fuels is paid to the Secretary of Revenue either annually, quarterly, or monthly. Annual returns are due 45 days after the end of the calendar year. Quarterly returns are due by the last day of the month that follows the end of the calendar quarter. Monthly returns are due within 22 days after the end of the month. A monthly return of an occasional importer is due by the third day of each month.

COMPARISON WITH OTHER STATES

See section on "[Motor Fuels Tax](#)" under the Highway Fund.

Source: Federation of Tax Administrators, "State Excise Tax Rate on Cigarette, January 2010", Washington, DC. March 2010.

TITLE AND REGISTRATION FEES

Vehicles must be titled and a registration card and plate must accompany the vehicle to legally operate on public roads of the state.

ADMINISTERED BY

[Department of Transportation Division of Motor Vehicles](#)

Table 41
Highway Trust Fund Title and Registration Fee Collections

Fiscal Year	Highway Trust Fund Tax Collections	Annual Percent Change	Percent of Highway Trust Fund Tax Collections
2000-01	88,504,456	-2.8	9.6
2001-02	88,662,989	0.2	9.4
2002-03	88,674,949	0.01	9.6
2003-04	93,782,538	5.8	9.5
2004-05	93,065,778	-1.0	9.3
2005-06	103,088,916	11.0	10.0
2006-07	105,963,101	3.0	10.0
2007-08	100,348,094	-5.3	10.0
2008-09	82,991,195	-17.3	9.2
2009-10	82,843,951	-0.18	9.1

BASE AND RATE

[{G.S. 20-85 \(a\)}](#) Charges are rendered for the issuance of certificates of title, transfer of registration, and replacement of registration plate fees according to the following schedule:

- 1) Certificate of title, \$40.00
- 2) Duplicate or corrected certificate of title, \$15.00
- 3) Repossessing certificate of title, \$15.00
- 4) Transfer of registration plate, \$15.00
- 5) Replacement of registration plates, \$15.00
- 6) Duplicate registration card or certificate, \$15.00
- 7) Recording supplementary lien, \$15.00
- 8) Removing a lien from a certificate of title, \$15.00
- 9) Manufacturer or dealer title, \$15.00
- 10) Salvage certificate of title, \$15.00
- 11) Replacement of Stock-car racing theme plates, \$25.00

[{G.S. 20-85.1 \(a\) & \(b\)}](#) Annual registration can be made by mail for a postage and handling fee of \$1.00. There is a \$75.00 charge for one-day title and registration service.

DISTRIBUTION

One dollar of the fees collected from transactions (1), (2), (3), (7), (8) and (9) are credited to the Highway Fund for technology improvements. An additional one dollar of the fees collected under [G.S. 20-85\(a\)\(1\)](#) is earmarked to the Mercury Pollution Prevention Account in the Department of Revenue. This fund is used to off-set the cost of removing mercury switches from end-of-life vehicles. Recipients of the fund are the Department of Environment and Natural Resources, automobile recyclers, and scrap metal recyclers for the inspection and removal of mercury switches. All other revenue collected from registration and title fees is deposited in the Highway Trust Fund for highway purposes.

TAX CALENDAR

Taxes are paid at the time of title and registration purchase.

COMPARISON WITH OTHER STATES

All 50 states require motor vehicle registration, but a comparison has not been taken.

PART V

LOCAL GOVERNMENT TAXES

LOCAL GOVERNMENT TAX REVENUES

Local government tax revenues are used to finance local government administered programs such as education, public health, public safety, and the general services of county and municipal government.

The revenue sources listed in Part V are the tax schedules which the state has authorized local governments to levy and collect. In some cases, such as beer, wine, and liquor taxes, the state levies the tax, collects the revenue, and shares a portion with both county and municipal governments. The tax revenue collected from real estate transactions, such as the excise tax on conveyances and the land transfer tax, are administered by the county in which the tax is collected. A portion of the excise tax on conveyances is shared with the state. The land transfer tax is levied in several counties and some of the authorized counties share a portion of the collections with municipalities located within the county's jurisdiction.

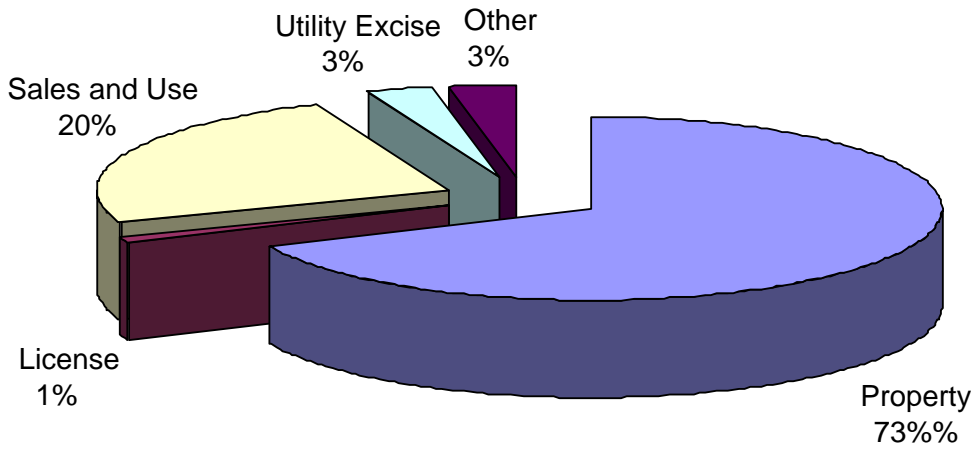
The utility excise tax is a state administered tax that is only shared with municipalities. Privilege license taxes on businesses can be levied by both counties and municipalities. However, there are statewide restrictions as to the types of businesses counties and municipalities can tax, and in some cases to the amounts imposed. The room occupancy tax and the prepared meals tax are administered and collected by both counties and municipalities for which the state has authorized the levy. It is up to the taxing jurisdiction to decide how the revenue will be used. In many cases the revenue is used to promote tourism.

The scrap tire and white goods disposal taxes are collected in the same manner as the local option sales and use taxes. The revenue is shared between the state and county units of government for the disposal of scrap tires and white goods.

The property tax is supervised by the state and the assessment and collection is administered by the counties and municipalities. The local option sales and use tax is levied by the counties and shared with most municipalities within the taxing county.

Each summary outlines the subject being taxed, the tax rate or rates, any distributions made from the collections, and any exemptions. A comparison with similar taxes from other states is made for some schedules and is updated as often as national data is available.

Chart 6
North Carolina Local Tax Collections
Received by Local Government
2009-10



Property	\$ 8,191,991,988
License	110,861,710
Sales and Use	2,252,224,366
Utility Excise	361,543,662
Other	288,286,759
Total	<u>\$ 11,204,908,485</u>

EXCISE TAX ON BEER AND WINE - LOCAL SHARE

Counties and municipalities can sell beer and wine within their jurisdictions only when approved by its citizens through an election. If approved, the eligible local government receives a share of the state excise tax.

ADMINISTERED BY
[Department of Revenue](#)

Table 42
Local Government Excise Tax Collections
Beer and Wine

Fiscal Year	Local Government Tax Receipts	Annual Percent Change	Percent of Local Government Tax Receipts
2000-01	26,003,945	3.0	0.4
2001-02	26,778,672	3.0	0.4
2002-03	27,408,926	2.4	0.4
2003-04	28,475,073	4.0	0.3
2004-05	29,778,545	4.6	0.3
2005-06	30,229,766	1.6	0.3
2006-07	31,616,836	5.0	0.3
2007-08	33,073,333	5.0	0.3
2008-09	33,379,600	0.93	0.3
2009-10*	10,860,329	-68.0	.10

Note: Prior to fiscal year 1989-90, local government received an earmarked portion of the state excise tax on beer and wine. From 1989-90 through 1994-95, the earmarked provision was replaced by a fixed annual General Fund appropriation. Effective July 1, 1995, the earmark provision was reinstated.

Temporary reduction in local distributions

* Effective for fiscal year 2009-10 the local distributions are reduced to 7.24% of beer tax collections, 18% of unfortified wine tax collections, and 6.49% of fortified wine tax collections.

BASE AND RATE

{G.S. 105-113.80} The state levies an excise tax of 21 cents per liter on unfortified wine, 24 cents per liter on fortified wine, and 53.177 cents per gallon on beer. (The tax rate is equivalent to 5 cents per 12 ounce can.). Wholesalers and importers remit the excise taxes on beer and wine.

{G.S.105-113.82} The state earmarks 23.75% of the excise tax on malt beverages, 62% of the excise tax on unfortified wine, and 22% of the excise tax on fortified wine to local jurisdictions in which such sales are allowed.

DISTRIBUTION

The amount of the local share distributed to each county and municipality is determined on the basis of population in the areas where such sales are permitted. The revenue allocated to local government can be used for general purposes. The General Fund retains the remaining revenue.

TAX CALENDAR

Wholesalers and importers of beer and wine must file returns including monthly tax payments by the fifteenth day of the month for the previous month's activity. The local share of the wine and beer excise tax is allocated from collections received during the fiscal year ending March 31. The portion going to each county and municipality is computed and distributed to localities by May 30.

COMPARISON WITH OTHER STATES

See "[Alcoholic Beverage Taxes](#)" in the General Fund section.

EXCISE TAX ON CONVEYANCES

When the ownership in real property is transferred the transaction is taxed.

ADMINISTERED BY

[County Governments](#) (see also [UNC Institute of Government](#))

Table 43
Local Government Revenue Collections
Real Property Conveyance

Fiscal Year	Local Government Tax Receipts	Annual Percent Change	Percent of Local Government Tax Receipts
2000-01	35,350,847	-1.7	0.5
2001-02	37,311,800	5.5	0.5
2002-03	41,595,069	11.5	0.5
2003-04	46,120,495	10.9	0.5
2004-05	63,984,129	38.7	0.7
2005-06	79,248,903	24.0	0.8
2006-07	74,903,838	-6.0	0.7
2007-08	60,629,227	-19.0	0.6
2008-09	34,478,256	-43.0	0.3
2009-10*	41,373,907	20.0	0.4

*Estimate

BASE AND RATE

[\[G.S. 105-228.30\]](#) A tax rate of \$1.00 on each \$500, or fraction thereof, is levied on the value of each deed, instrument, or writing by which any interest in real property is conveyed to another person. The tax is payable by the transferor to the register of deeds in the county in which the property is situated.

This tax is imposed on transactions conveying an interest in real estate located in North Carolina. The following conveyances are exempt from the tax:

- 1) operation of law;
- 2) lease for a term of years;
- 3) will, intestacy, or gift;
- 4) merger or consolidation;
- 5) instruments securing indebtedness;
- 6) transfers by a governmental unit; and
- 7) transfers where no consideration in property or money is due or paid by the transferee to the transferor.

DISTRIBUTION

Each county administers the tax. One-half the net proceeds remains with the respective county and is used for general purpose, and one-half of the net proceeds are remitted to the Department of Revenue. Of the non-county portion of the proceeds, a county may retain 2% as compensation for the county's cost in collecting and remitting the state's share of the tax. Of the remainder, 75% is credited to the Parks and Recreation Trust Fund, and 25% to the Natural Heritage Trust Fund.

TAX CALENDAR

The tax is paid at the time of the transfer by the transferor to the county registrar of deeds.

COMPARISON BETWEEN STATES

Information was not found on conveyance taxes.

LAND TRANSFER TAX

Seven counties in North Carolina are authorized to levy a land transfer tax. This tax is in addition to the excise tax on real property when ownership is transferred.

ADMINISTERED BY

[County Governments](#) (see also [UNC Institute of Government](#))

Table 44
Local Government Revenue Collections
Local Land Transfer

Fiscal Year	Local Government Tax Receipts	Annual Percent Change	Percent of Local Government Tax Receipts
2000-01	8,899,408	3.5	0.1
2001-02	13,035,751	46.5	0.2
2002-03	16,625,294	27.5	0.2
2003-04	22,414,624	35.0	0.2
2004-05	26,705,346	36.0	1.0
2005-06	21,345,930	-20.0	0.2
2006-07	14,352,785	-33.0	0.1
2007-08	11,750,936	-18.0	0.1
2008-09	7,699,782	-34.5	0.1
2009-10*	8,469,761	10.0	0.1

*Estimate

BASE AND RATE

A maximum tax rate of 1% is imposed on the sales value of any private real estate transaction or the value of interest conveyed in such a transaction if the lease is at least 10 years long.

DISTRIBUTION

The counties authorized to impose a land transfer tax are: Camden, Chowan, Currituck, Dare, Pasquotank, Perquimans, and Washington. In all cases, tax proceeds are placed in special capital reserve funds. Chowan County shares part of the collections with the town of Edenton and Dare County shares part of the revenues with the towns of Kill Devil Hills, Kitty Hawk, Manteo, Nags Head, Southern Shores, and Duck.

TAX CALENDAR

Taxes are paid at the time of the transaction.

COMPARISON WITH OTHER STATES

Information was not found on local land transfer taxes.

LIQUOR BY-THE-DRINK TAX

Liquor by-the-drink can only be sold in qualified restaurants and clubs in localities where the voters have approved the sale through local elections.

ADMINISTERED BY

[Local Alcoholic Beverage Control Boards](#)

Table 45
Local Government Revenue Collections
Liquor By-the-Drink

Fiscal Year	Local Government Tax Receipts	Annual Percent Change	Percent of Local Government Tax Receipts
2000-01	7,816,809	3.7	0.1
2001-02	7,932,319	1.5	0.1
2002-03	8,305,995	4.7	0.1
2003-04	9,233,481	11.2	0.1
2004-05	10,101,367	9.4	0.1
2005-06	11,098,864	9.9	0.1
2006-07	11,838,780	7.0	0.1
2007-08	12,254,815	4.0	0.1
2008-09	12,066,588	-2.0	0.1
2009-10	11,758,138	-2.6	0.1

BASE AND RATE

With voter approval or special legislation, localities are permitted to sell liquor by-the-drink in qualifying restaurants, hotels, convention centers, community theaters, sports clubs, tour boats, and private clubs. A tax of \$20 per four liters (of which \$9 is allocated to local government) is levied on liquor purchased for sale by the drink. The liquor must be purchased at ABC stores. As of June 2007, 76 cities and 44 counties approved liquor by-the-drink sales.

DISTRIBUTION

[{G.S. 18B-805\(2\)&\(3\)}](#) Of the \$20 liquor by-the-drink levy, \$1 is earmarked for the Department of Human Resources for alcoholic rehabilitation, \$10 goes to the state General Fund, and \$9 remains with local government. The local proceeds remain with the county or municipal ABC board, and are distributed to counties and municipalities as ordinary profits of the ABC stores. Only the local share is shown above.

TAX CALENDAR

Profits are distributed quarterly to the respective counties and municipalities.

COMPARISON WITH OTHER STATES

See [ABC Taxes](#) in the General Fund section.

PREPARED MEALS TAX

Prepared meals sold at retail are taxed, and the tax is collected in the same manner as the local option sales and use tax. A limited number of local units of government are authorized to levy the tax.

ADMINISTERED BY

County Governments (see also UNC Institute of Government)

Table 46
Local Government Revenue Collections
Prepared Meals

Fiscal Year	General Fund Tax Receipts	Annual Percent Change	Percent of Local Government Tax Receipts
2000-01	27,273,472	4.0	0.4
2001-02	27,842,390	2.1	0.4
2002-03	29,197,877	4.9	0.4
2003-04	31,376,923	7.5	0.4
2004-05	34,421,433	9.7	0.4
2005-06	37,884,081	10.0	0.4
2006-07	41,089,898	8.0	0.4
2007-08	43,787,232	7.0	0.4
2008-09	43,959,262	0.4	0.4
2009-10*	45,497,836	3.5	0.4

*Estimate

BASE AND RATE

A maximum tax rate of 1% may be imposed by a county or a municipality on the sales price of prepared foods and beverages sold at retail for consumption on or off the premises by any retailer within a county that is subject to the general sales and use tax. The tax does not apply to boarding houses, certain items exempt under the local sales and use tax, sales through vending machines, meals that are bundled with transient rooms, meals provided to an employee by an employer without charge, and some sales by grocery stores. As of fiscal year 2006-07, five counties and one municipality were authorized to levy the prepared meals tax. The tax is collected in Cumberland, Dare, Mecklenburg, Orange, and Wake counties. Hillsborough, a municipality within Orange County is authorized to collect the meals tax.

DISTRIBUTION

Counties and municipalities place various restrictions on the use of the tax proceeds. However, a portion of the proceeds is usually dedicated for programs encouraging visitor services and facilities.

TAX CALENDAR

Taxes are paid at the time of the transaction.

COMPARISON WITH OTHER STATES

Information is not available on meals taxes.

PRIVILEGE LICENSE TAX

Certain business activities that do business within the local government jurisdiction must be licensed.

ADMINISTERED BY

[Counties](#) and [Municipalities](#) (see also [UNC Institute of Government](#))

Table 47
Local Government Revenue Collections
Privilege License Tax

Fiscal Year	Local Government Tax Receipts	Annual Percent Change	Percent of Local Government Tax Receipts
2000-01	84,835,843	-0.1	1.2
2001-02	101,469,222	19.6	1.4
2002-03	115,844,770	14.2	1.5
2003-04	117,585,426	1.5	1.4
2004-05	131,907,013	12.2	1.4
2005-06	144,095,542	9.2	1.5
2006-07	90,160,368	-37.0	0.8
2007-08	100,945,449	12.0	0.9
2008-09	104,586,519	3.6	0.9
2009-10*	110,861,710	6.0	1.0

* Estimate

BASE AND RATE

[{G.S. 153A-152}](#) A county may levy privilege licenses taxes on trades, occupations, professions, businesses, and franchises to the extent authorized under Schedule B (state privilege license tax) of the Revenue Act, and by other acts of the General Assembly. The type of business a county may tax and the amount of the tax or tax rate is typically stated under Schedule B of the Revenue Laws of North Carolina.

[{G.S. 160A-211}](#) A city may levy privilege license taxes on all trades, occupations, professions, businesses, and franchises operating within the city except where prohibited by statute. Municipalities that tax businesses are listed under Schedule B of the Revenue Laws of North Carolina in a similar manner to counties.

DISTRIBUTION

Revenue is used for general purposes.

TAX CALENDAR

Licenses are for a 12-month period and due by July 1 of each year.

COMPARISON WITH OTHER STATES

A comparison with other states was not undertaken.

PROPERTY TAX

All real and personal property in the state, except by statutory exemption, is subject to the property tax.

ADMINISTERED BY

The [Department of Revenue](#), [County](#) and [Municipal](#) Governments (see also [UNC Institute of Government](#))

Table 48
Local Government Property Tax Collections

Fiscal Year	General Fund Tax Receipts	Annual Percent Change	Percent of Local Government Tax Receipts
2000-01	4,877,350,974	7.5	69.5
2001-02	5,358,322,611	9.9	72.0
2002-03	5,641,247,054	5.3	72.0
2003-04	5,865,046,478	4.0	68.0
2004-05	6,241,977,711	6.4	68.5
2005-06	6,694,615,011	7.3	68.5
2006-07	6,912,462,562	3.3	67.0
2007-08	7,473,172,996	8.1	69.0
2008-09	8,026,107,101	7.4	71.0
2009-10	8,191,991,988	2.1	73.0

BASE AND RATE

Real estate is required to be reappraised at least every eight years. However, many counties have more frequent appraisals. Other property including machinery, equipment, and vehicles is appraised annually. Railroads and public utility companies are appraised annually by the Department of Revenue. The Machinery Act imposes uniform assessment and collection procedures throughout the state. All property, except registered motor vehicles (registration date is the listing date), is assessed annually as of January 1 at 100% of appraised value. Effective July 1, 2011, the collection system for property taxes and registration of motor vehicles will change. Under the new system, the property tax will be due with the vehicle registration.

Unless specifically exempted, all real and personal property located in the state is subject to the tax. The following property is exempt from taxation:

1. property of the United States, North Carolina, and its political subdivisions;
2. personal property used for personal purposes except motor vehicles, mobile homes, boats, and airplanes;
3. business inventories;
4. dogs owned as pets;

5. real and personal property of religious, nonprofit charitable hospitals, educational, scientific, or literary organizations used for such purposes;
6. real and personal property used for air or water pollution abatement facilities;
7. real and personal property used exclusively for the prevention or reduction of cotton dust within a textile plant;
8. property held for export for a period of four years;
9. imported personal property awaiting further shipment;
10. personal property of nonresident servicemen;
11. either \$20,000 of appraised value of real and personal property, or an exclusion of 50% of the tax value if the property is valued at greater than \$20,000, of elderly or permanently disabled persons with a maximum gross income of \$18,800. Effective July 1, 2003, the limit is increased annually by the Social Security Insurance cost of living adjustments;
12. special nuclear material held for processing or in the process of delivery;
13. tangible personal property imported from outside the United States or produced within the United States and held in a Foreign Trade Zone for approved purposes;
14. cargo containers and container chassis used for the transportation of cargo by ocean-going vessels;
15. short term leases of motor vehicles (less than 365 days, instead subject to a 1.5% gross receipts tax);
16. motor vehicles owned by a disabled veteran and altered to accommodate a service connected disability;
17. Continuing Care Retirement Communities; and
18. intangible property.

In addition, there is a decreasing annual schedule of exemptions for the first five taxable years on Brownfield sites.

DISTRIBUTION

In fiscal year 2006-07, 69% of property taxes were collected by counties, 27% by municipalities, and 4% by special jurisdictions. Localities are free to spend the revenue as they see fit.

TAX CALENDAR

Property is listed with the county assessor during the month of January. Taxes are based on the assessed value as of January 1 for the year in question. Property taxes are due on September 1 for the current fiscal year, and interest is added if taxes are not paid by January 5.

COMPARISON WITH OTHER STATES

Property taxes are levied by localities in all states, with a wide dispersion of appraisal and assessment rates. North Carolina relies less heavily on the property tax and has a lower property tax burden than most states. Property taxes make up 21% of state and local tax levies in the United States, 18% in the southeastern states ⁽¹⁾, and 23% in the eleven most populated states ⁽²⁾.

In North Carolina property taxes make up 16% of state and local tax collections. As of fiscal year 2007-08, the average local property tax paid per capita in the United States was \$1,349

while the per capita property tax burden for the southeast was \$970, and \$1,506 for the eleven largest states. North Carolina's per capita property tax burden was \$853. In fiscal year 2007-08, North Carolina ranked 38th nationally in per capita property tax burden. Of the six southeastern states, North Carolina ranked 4th. Of the eleven most populated states, North Carolina ranked 11th. As a percent of personal income, the average citizen devoted 3% of their personal income to property tax payments nationally, 3% in the Southeast, 4% in the eleven most populated states, and 2% for North Carolina. North Carolina ranked 39th in the nation, 4th in the southeast, and 11th as a percent of personal income.

Source: U.S. Department of Commerce; Bureau of Census, State and Local Government Finances by Level of Government and by State, 2007-08, Washington, D.C., September 2010

- (1) Georgia, Kentucky, North Carolina, South Carolina, Tennessee, Virginia
- (2) California, Florida, Georgia, Illinois, Michigan, New Jersey, New York, North Carolina, Ohio, Pennsylvania, Texas

ROOM OCCUPANCY TAX

The gross receipt from the lease or rental of hotel and motel rooms, resort rooms, and vacation homes held for short term rental are taxed. The tax is collected in the same manner as the local option sales and use tax.

ADMINISTERED BY

[County](#) and [Municipal](#) Governments (see also [UNC Institute of Government](#))

Table 49
Local Government Revenue Collections
Room Occupancy Tax

Fiscal Year	General Fund Tax Receipts	Annual Percent Change	Percent of Local Government Tax Receipts
2000-01	88,778,039	2.9	1.3
2001-02	89,032,624	.3	1.2
2002-03	98,926,713	1.1	1.3
2003-04	106,457,455	7.6	1.2
2004-05	114,342,063	7.4	1.3
2005-06	131,140,737	15.0	1.3
2006-07	153,477,116	9.0	1.5
2007-08	165,660,724	8.0	1.5
2008-09	152,765,026	-8.00	1.4
2009-10*	158,111,802	3.5	1.4

* Estimate

BASE AND RATE

A maximum tax rate of 6% may be imposed by a county, municipality, or combination of both on the rental of any room, lodging, or similar accommodation subject to the state sales tax. The tax does not apply to accommodations furnished by charitable, educational, or religious organizations when furnished for nonprofit purposes. As of August 2003, 83 counties and 56 municipalities levied an occupancy tax.

DISTRIBUTION

Counties and municipalities place various restrictions on the use of the tax proceeds; however, a portion of the proceeds is usually dedicated for programs encouraging tourism.

TAX CALENDAR

Taxes are paid at the time of the transaction.

COMPARISON WITH OTHER STATES

Information is not available on room occupancy taxes.

SALES AND USE TAX

All retail transactions are subject to the local sales and use tax unless exempt by statute.

ADMINISTERED BY
[Department of Revenue](#)

Table 50
Local Government Revenue Collections
Sales and Use Taxes

Fiscal Year	General Fund Tax Receipts	Annual Percent Change	Percent of Local Government Tax Receipts
2000-01	1,668,957,994	5.9	23.8
2001-02	1,622,070,199	-2.8	21.7
2002-03	1,717,835,130	5.9	21.8
2003-04	2,245,040,171	30.7	26.0
2004-05	2,276,331,341	1.4	25.0
2005-06	2,413,430,054	6.0	25.0
2006-07	2,618,051,586	8.5	25.5
2007-08	2,705,882,090	3.4	25.0
2008-09	2,457,313,848	-9.2	22.0
2009-10	2,252,224,366	-8.4	20.0

BASE AND RATE

Temporary sales and use tax increase

Due to the increase in the 1% state sales and use tax rate the combined state and local sales and use tax rate will increase to 8.25% in Mecklenburg County and 8% in Alexander, Catawba, Cumberland, Haywood, Martin, Pitt, Sampson, and Surry counties. The combined sales and use tax rate in the remaining 91 counties will increase to 7.75%.

{Articles [39](#), [40](#), [42](#), [44](#), and [46](#) of the Revenue Laws of North Carolina} Counties may levy the local government sales and use tax on those items included under the state's 5.75% levy. All 100 counties levy the full 2.5% in local government sales taxes. Mecklenburg County levies an additional one half percentage sales and use tax that is dedicated for public transportation (See Article 43). In 2007 the North Carolina General Assembly enacted legislation that provided all counties with the authority to levy an additional .25% local sale and use tax. As of January 1, 2011 seventeen counties, by favorable vote of the people, have enacted an additional .25% local sales and use tax. The combined rate in these counties is 8%; when including the temporary rate increases under the state sales and use tax rate.)

All counties receive a distribution from a 2% levy that is imposed on food. More information on the sales and use tax can be found in the General Fund section.

DISTRIBUTION

The proceeds of the local government sales tax, less the cost of administration, are returned quarterly to the counties. The revenue from the first 1% ([Article 39](#)) and from the first 0.5% ([Article 40](#)) of the local government sales tax is returned to the counties from which the tax was collected. The revenue from the second 0.5% ([Article 42](#)) of local government sales taxes is allocated to the counties on a per capita basis. The additional 0.25% ([Article 46](#)) is distributed to the counties bases on a point of origin and is not shared with municipalities. Under Article 46, the sales price of food is exempt from the tax. The local governments hold harmless act is found in [Article 44](#).

In April of each year, each county board of commissioners elects one of two methods to determine the distribution of revenue between the county and its municipalities. The two methods are:

- 1) the net proceeds of the county are divided by the sum of population of the county and its municipalities to determine a per capita amount. This amount is multiplied by the county's total population and each municipality's population to determine the allocation to each area;
- 2) the net proceeds may be distributed between the county and its municipalities in proportion to the total amount of ad valorem taxes levied by each during the fiscal year preceding the year of distribution.

TAX CALENDAR

Monthly collections of the local government sales and use tax are distributed within forty-five days after the last day of each calendar month. For further information see "[Sales and Use Tax](#)" in the General Fund section.

COMPARISON BETWEEN STATES

As of April 2008, localities in thirty-seven states levy sales taxes. In most states, some discretion is allowed as to the level of the local levy. The maximum local sales tax in each state ranges from 0.25% to 8%. The average maximum local sales tax for the nation was 3.08%. For more information see "[Sales and Use Taxes](#)" under the General Fund section.

Source: Federation of Tax Administrators. "Comparison of State and Local Retail Sales Taxes", Washington, DC, February 2010.

SCRAP TIRE DISPOSAL TAX

An excise tax is levied on the sale of every new vehicle tire sold at retail. The proceeds are used to clean-up existing abandoned tire disposal sites and to off-set local government cost of dealing with scrap tires in the waste stream.

ADMINISTERED BY

[County Governments](#) (see also [UNC Institute of Government](#))

Table 51
Local Government Revenue Collections
Scrap Tire

Fiscal Year	Local Government Tax Receipts	Annual Percent Change	Percentage of Local Government Tax Receipts
2000-01	7,311,345	0.3	0.1
2001-02	7,291,213	-0.3	0.1
2002-03	7,491,900	2.6	0.1
2003-04	7,749,884	3.0	0.1
2004-05	8,140,943	5.0	0.1
2005-06	8,563,891	5.0	0.1
2006-07	9,120,876	6.5	0.1
2007-08	9,686,747	6.2	0.1
2008-09	9,767,090	.83	0.1
2009-10	10,014,453	2.5	0.1

BASE AND RATE

[{G.S. 105-187.16 & G.S. 105-187.17}](#) The excise tax on scrap tires is 2% of each new tire sold at retail or wholesale for which the diameter is 20 inches or less and the vehicle is to be used or sold in the state. The tax is 1% on tires for which the diameter is at least 20 inches. The scrap tire disposal tax is in addition to the state and local sales and use tax. (Only the county distribution is recorded in the table.)

DISTRIBUTION

[{G.S. 105-187.19}](#) Each quarter, the Secretary of Revenue credits 8% of the proceeds to the solid Waste Management Trust Fund and 22% to the Scrap Tire Disposal Account. The remaining 70% of the proceeds are distributed to the counties on a per capita basis. Counties may use the proceeds from this tax to abate scrap tire disposal sites.

EXEMPTIONS

[{G.S. 105-187.18}](#) Tires sold for placement on newly manufactured vehicles, tires sold for vehicles propelled by human power and recapped tires are exempt from the tax.

COMPARISON WITH OTHER STATES

A comparison has not been taken.

UTILITY EXCISE TAX

Municipalities and counties receive a share of the gross receipts from the sale of electric power generation, telecommunication services, and video programming.

ADMINISTERED BY
[Department of Revenue](#)

Table 52
Local Government Revenue Collections
Utility Excise Tax

Fiscal Year	Local Government Tax Receipts	Annual Percent Change	Percent of Local Government Tax Receipts
2000-01	194,039,708	8.8	2.8
2001-02	187,770,728	-3.2	2.5
2002-03	205,166,302	9.3	2.6
2003-04	205,971,700	0.4	2.4
2004-05	212,707,109	3.3	2.3
2005-06	217,030,907	1.6	2.2
2006-07	249,536,827	15.0	2.4
2007-08	326,664,150	31.0	3.0
2008-09	352,817,248	8.0	3.0
2009-10	361,543,662	2.5	3.2

Note: Revenue includes county and city distribution from video programming.

BASE AND RATE

{G.S. 105-116 & G.S. 105-116.1} The state franchise tax on the gross receipts of power and light companies is 3.22%. This is in addition to a 3% state sales tax rate levied under [G.S. 105-164.4\(4a\)](#). Municipalities receive a quarterly distribution equal to 3.09% or 96% of the 3.22% state franchise tax levied on electricity sales within municipal jurisdictions.

{G.S.105-164.4(a)(4c)} Telecommunication services, including ancillary services, are taxed at the combined general sales and use tax rate of 6.75%. Under [G.S. 105-164.44F\(a\)](#), cities receive a distribution from the tax on telecommunication services. This quarterly distribution, made by the Secretary of Revenue, is 19.42% of the sales tax less \$2.6 million dollars. Counties and cities share in an additional 8% that is distributed in the same manner as distributions made under video programming.

{G.S. 105-164.44I} Video programming services are taxed under the combined general sales and use tax rate of 6.75%. Counties and cities receive 25% of the tax on video programming and 37.5% of the tax collected on direct-to-home satellite services.

DISTRIBUTION

Municipalities and counties can use this revenue for general purposes.

TAX CALENDAR

Gas, power and light, and telephone companies file quarterly returns within 30 days after the first of July, October, January, and April, for the prior quarter's economic activity. The municipal share is determined and distributed shortly after, and is received by September 15, December 15, March 15, and June 15.

Video programming companies file quarterly returns and the distributions are 75 days after the end of each calendar quarter.

COMPARISON WITH OTHER STATES

See "[Franchise Taxes](#)," in the General Fund Section.

WHITE GOODS DISPOSAL TAX

An excise tax is placed on the sale of all white goods sold at retail. The proceeds are use to clean-up existing abandoned white goods disposal sites and to off-set local government cost of dealing with white goods in the waste stream.

ADMINISTERED BY

[County Governments](#) (see also [UNC Institute of Government](#))

Table 53
Local Government Revenue Collections
White Goods

Fiscal Year	Local Government Tax Receipts	Annual Percent Change	Percentage of Local Government Tax Receipts
2000-01	1,452,851	0.02	0.02
2001-02	2,204,790	52.0	0.03
2002-03	2,120,673	-4.0	0.03
2003-04	2,379,120	12.0	0.03
2004-05	3,023,674	27.0	0.03
2005-06	2,969,528	-2.0	0.03
2006-07	3,403,876	15.0	0.03
2007-08	3,192,414	-6.2	0.03
2008-09	2,495,654	-22.0	0.02
2009-10	2,200,533	-12.0	0.02

BASE AND RATE

[{G.S. 105-187.21}](#) The privilege tax on white goods is \$3.00 on each new white good sold at retail. The privilege tax on white goods is in addition to the state and local sales and use tax. (Only the county distribution is recorded in the table.)

DISTRIBUTION

[{G.S. 105-187.24 and G.S. 130A-309.82}](#) Each quarter, the Secretary of Revenue credits 8% of the proceeds to the Solid Waste Management Trust Fund and 20% to the White Goods Management Account. The remaining 72% of the proceeds are distributed to the counties on a per capita basis. Counties may use the proceeds to provide for infrastructure and the cost associated with managing and discarding white goods, and to clean-up illegal disposal sites.

EXEMPTIONS AND REFUNDS

[{G.S. 105-187.20 & G.S. 105-187.23}](#) White goods used for lease or rental are exempt from the tax. Individuals that buy at least 50 white goods of any kind in the same sale may obtain a refund of 60% of the amount of tax if the white goods are to be placed in new or remodeled dwellings.

COMPARISON WITH OTHER STATES

A comparison has not been taken.

PART VI

COMPARISON OF NORTH

CAROLINA TAX COLLECTIONS

WITH THOSE OF OTHER STATES

Source: Governmental Finances, 2007-08 Bureau of Census, U.S. Department of Commerce Web Page,
September 2010

TABLE 1

**Percentage Distribution of State and Local Tax Collections
By Source, 2007-08**

(\$Millions)

States	Total	State	Local	State	Local
Alabama	24,395,667	14,261,387	10,134,280	58%	42%
Alaska	15,908,248	13,684,079	2,224,169	86%	14%
Arizona	33,207,195	18,200,136	15,007,059	55%	45%
Arkansas	13,939,188	10,227,364	3,411,824	75%	25%
California	270,097,354	142,381,414	127,715,940	53%	47%
Colorado	31,589,183	14,653,905	16,935,278	46%	54%
Connecticut	27,704,547	17,723,007	9,981,540	64%	36%
Delaware	6,550,507	5,229,417	1,321,090	80%	20%
Florida	112,799,967	47,841,034	64,958,933	42%	58%
Georgia	49,853,144	23,581,356	26,271,788	47%	53%
Hawaii	9,372,283	7,209,313	2,162,970	77%	23%
Idaho	7,870,467	4,758,847	3,111,620	60%	40%
Illinois	78,143,916	40,516,164	37,627,752	52%	48%
Indiana	35,680,116	20,894,584	14,785,532	59%	41%
Iowa	18,332,931	10,383,161	7,949,770	57%	43%
Kansas	17,644,389	10,009,264	7,635,125	57%	43%
Kentucky	21,217,215	14,219,911	6,997,304	67%	33%
Louisiana	27,215,401	15,688,281	11,527,120	58%	42%
Maine	8,074,450	5,228,231	2,846,219	65%	35%
Maryland	36,943,345	21,290,385	15,652,960	58%	42%
Massachusetts	47,700,177	31,559,803	16,140,374	66%	34%
Michigan	58,241,481	35,791,807	22,449,674	61%	39%
Minnesota	35,546,341	22,426,447	13,119,894	63%	37%
Mississippi	14,896,463	8,811,304	6,085,159	59%	41%
Missouri	29,916,182	15,711,301	14,204,881	53%	47%
Montana	5,392,845	3,571,495	1,821,350	66%	34%
Nebraska	11,333,713	5,796,920	5,536,793	51%	49%
Nevada	15,754,722	7,540,647	8,214,075	48%	52%
New Hampshire	7,185,224	3,876,855	3,308,369	54%	46%
New Jersey	69,827,902	40,178,127	29,649,775	58%	42%
New Mexico	12,704,767	9,390,964	3,313,803	74%	26%
New York	184,106,296	86,386,295	97,720,001	47%	53%
North Carolina	49,376,808	29,446,981	19,929,827	60%	40%
North Dakota	4,816,286	3,421,614	1,394,672	71%	29%
Ohio	68,534,445	37,342,750	31,191,695	54%	46%
Oklahoma	18,990,993	12,120,666	6,870,327	64%	36%
Oregon	21,326,109	11,812,834	9,513,275	55%	45%
Pennsylvania	76,931,147	44,629,889	32,301,258	58%	42%
Rhode Island	6,901,490	4,299,256	2,602,234	62%	38%

South Carolina	24,264,961	13,500,454	10,764,507	56%	44%
South Dakota	3,956,479	2,169,713	1,789,766	55%	45%
Tennessee	30,353,770	16,870,016	13,483,754	56%	44%
Texas	131,112,634	65,371,486	66,741,148	50%	50%
Utah	15,121,826	9,740,937	5,380,889	64%	36%
Vermont	4,086,565	3,436,373	650,192	84%	16%
Virginia	48,595,065	28,737,821	19,857,244	59%	41%
Washington	43,369,497	23,969,151	19,400,346	55%	45%
West Virginia	10,136,882	7,479,873	2,657,009	74%	26%
Wisconsin	34,623,422	20,962,378	13,661,044	61%	39%
Wyoming	6,039,749	3,459,698	2,580,051	57%	43%
DC	7,011,708	0	7,011,708	0%	100%
United States	1,944,398,462	1,067,795,095	876,603,367	55%	45%

TABLE 2

**State Ranking of State and Local Tax Burden
Per Capita and Percent of Personal Income
FY 2007-08**

States	Per Capita			Percent of Personal Income		
	Total	State	Local	Total	State	Local
Alabama	40	438	36	28	27	25
Alaska	1	1	7	1	1	10
Arizona	44	44	32	36	38	20
Arkansas	50	23	49	39	10	49
California	9	17	4	11	32	4
Colorado	18	41	5	37	47	5
Connecticut	5	8	12	45	33	43
Delaware	8	3	47	5	2	48
Florida	24	49	3	31	50	3
Georgia	43	50	16	38	45	8
Hawaii	11	4	45	8	5	47
Idaho	42	36	41	27	20	28
Illinois	29	35	11	42	42	17
Indiana	33	31	31	20	21	22
Iowa	27	28	18	19	25	12
Kansas	20	25	14	24	31	14
Kentucky	47	29	46	30	13	42
Louisiana	23	27	19	18	22	15
Maine	26	16	38	12	11	33
Maryland	16	18	13	48	40	36
Massachusetts	10	9	26	40	19	45
Michigan	31	24	33	14	14	27
Minnesota	12	13	24	23	15	34
Mississippi	45	40	40	13	18	19
Missouri	46	48	29	46	44	23
Montana	6	7	20	22	12	39
Nebraska	19	32	9	21	39	7
Nevada	28	43	8	34	43	6
New Hampshire	36	42	23	50	49	35
New Jersey	4	11	6	26	28	21
New Mexico	17	10	44	4	4	44
New York	3	12	1	3	23	1
North Carolina	39	34	39	35	30	30
North Dakota	7	6	35	6	7	40
Ohio	30	33	15	15	29	9
Oklahoma	41	30	43	41	26	41

Oregon	32	37	25	29	35	13
Pennsylvania	22	22	21	32	34	26
Rhode Island	15	15	27	25	17	32
South Carolina	37	39	30	16	24	11
South Dakota	48	46	34	49	46	38
Tennessee	49	45	37	44	41	29
Texas	38	47	17	47	48	16
Utah	35	26	42	9	9	31
Vermont	14	5	50	10	3	50
Virginia	21	20	22	43	37	37
Washington	13	21	10	33	36	18
West Virginia	34	14	48	7	6	46
Wisconsin	25	19	28	17	16	24
Wyoming	2	2	2	2	8	2

TABLE 3

North Carolina's per capita state and local tax burden was \$5,354 in 2007-08, while the per capita tax burden for the nation stood at \$6,401. The average for the 11 most populated states registered \$6,429, and the average for the southeast was \$5,314. North Carolina's per capita state and local tax burden ranked 39th in the nation, 3rd for the Southeast, and 10th for the eleven most populated states. North Carolina has a relatively high per capita state tax burden and a very low per capita local tax burden. In terms of per capita state tax burden, North Carolina ranked 34th in the nation, 7th among the largest states, and 3rd in the southeast. In terms of per capita local tax burden, North Carolina ranked 39th in the nation, 11th among the largest states, and 5th in the southeast.

North Carolina's state and local tax burden as a percent of personal income was 15% in 2007-08, while the tax burden for the nation stood at 15.7%. North Carolina's state and local tax burden as a percent of personal income ranked 35th in the nation, 8th among the eleven most populated states, and 3rd in the southeast. North Carolina has a relatively high state tax burden, and a very low local tax burden. In terms of state taxes, North Carolina ranked 30th in the nation, 5th among the largest states, and 3rd in the southeast. In terms of local tax burden, North Carolina ranked 30th in the nation, last among the eleven largest states, and 4th in the southeast.

Table 3
State and Local Tax Collections
Per Capita and as a Percent of Personal Income
Select Groupings by State
FY 2007-08

States	Per Capita			Percent of Personal Income		
	Total	State	Local	Total	State	Local
UNITED STATES	6,401	3,515	2,886	15.71%	8.63%	7.08%
MOST POPULATED	6,629	3,424	3,205	15.96%	8.24%	7.71%
California	7,348	3,874	3,475	16.77%	8.84%	7.93%
Florida	6,155	2,610	3,354	15.29%	6.48%	8.80%
Georgia	5,147	2,435	2,712	14.60%	6.90%	7.69%
Illinois	6,057	3,140	2,916	14.10%	7.31%	6.79%
Michigan	5,822	3,578	2,244	16.49%	10.13%	6.35%
New Jersey	8,043	4,628	3,415	15.63%	8.99%	6.63%
New York	9,446	4,432	5,014	19.66%	9.22%	10.43%
North Carolina	5,354	3,193	2,161	15.03%	8.96%	6.07%
Ohio	5,967	3,251	2,716	16.46%	8.97%	7.49%
Pennsylvania	6,180	3,585	2,595	15.15%	8.79%	6.36%
Texas	5,390	2,687	2,703	13.55%	6.76%	6.80%
MID-SOUTHEASTERN	5,371	3,034	2,337	14.66%	8.28%	6.38%
Georgia	5,147	2,435	2,712	14.60%	6.90%	7.69%
Kentucky	4,970	3,331	1,639	15.29%	10.25%	5.04%
North Carolina	5,354	3,193	2,161	15.03%	8.96%	6.07%
South Carolina	5,416	3,013	2,403	16.35%	9.10%	7.26%
Tennessee	4,884	2,714	2,170	13.86%	7.70%	6.16%
Virginia	6,255	3,699	2,556	13.93%	8.24%	5.69%

TABLES 4, 5, and 6

North Carolina relies more heavily on the individual income tax as a revenue source than is typical in other states. The individual income tax makes up 22% of state and local taxes in North Carolina, compared to 16% for the nation, 16% for the most populated states, and 17% for the Southeast. North Carolina relies less heavily on most other taxes. This is especially true in comparing property taxes. Property taxes comprise 16% of North Carolina state and local taxes, as compared to 21% for the nation, 23% for the most populated states, and 18% for the Southeast.

Table 4
Percentage Distribution of State and Local Taxes
By Type of Tax
FY 2007-08

Revenue Source	Percentage Distribution			
	United States	Most Pop	South	North Carolina
Individual Income	16%	16%	17%	22%
Sales and Use	23%	23%	24%	23%
Property	21%	23%	18%	16%
Corporate Income	3%	3%	2%	2%
Motor Fuels	2%	2%	2%	3%
Motor Vehicle Licenses	1%	1%	1%	1%
Other	34%	33%	36%	32%
Total Tax	100.0%	100.0%	100.0%	100.0%

Table 5
Per Capita State and Local Tax Collections
By Type of Tax
For the United States, Eleven Most Populated States,
the Southeast, and North Carolina
FY 2007-08

Revenue Sources	Per Capita			
	United States	Most Pop	South	North Carolina
Individual Income	\$1,003	\$1,044	\$904	\$1,192
Sales and Use	\$1,474	\$1,505	\$1,278	\$1,209
Property	\$1,349	\$1,506	\$970	\$853
Corporate Income	\$190	\$221	\$118	\$131
Motor Fuels	\$125	\$115	\$133	\$172
Motor Vehicle Licenses	\$70	\$70	\$55	\$70
Other	\$2,190	\$2,168	\$1,913	\$1,727
Total Tax	\$6,401	\$6,629	\$5,371	\$5,354

Table 6
State and Local Tax Collections as a Percent of Personal Income
By Type of Tax
For the United States, Eleven Most Populated States,
the Southeast, and North Carolina
FY 2007-08

Revenue Source	Percentage Distribution			
	United States	Most Pop	South	North Carolina
Individual Income	2.4%	2.5%	2.5%	3.3%
Sales and Use	3.6%	3.6%	3.5%	3.4%
Property	3.3%	3.6%	2.6%	2.4%
Corporate Income	0.5%	0.5%	0.3%	0.4%
Motor Fuels	0.3%	0.3%	0.4%	0.5%
Motor Vehicle Licenses	0.2%	0.2%	0.1%	0.2%
Other	5.4%	5.2%	5.2%	4.8%
Total Tax	15.7%	16.0%	14.7%	15.0 %