

# **North Carolina Tax Guide 2006**

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## **PREFACE**

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The Office of State Budget and Management presents the *North Carolina Tax Guide*. 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.



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# **Introduction**



The *Tax Guide* is designed to give the reader an overview of the tax structure of both state and local governments of North Carolina. In the *Guide* the reader will find a concise summary of North Carolina tax laws and pertinent statistics, and the growth and distribution of tax collections. Further, whenever possible, comparisons of tax laws governing specific taxes in North Carolina with those of other states are presented.

The *Tax Guide* consists of seven sections. Part I is the Introduction. The overall scope of the *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. Also included in these sections is a brief history of individual tax collections, statement of the tax calendar, and whenever possible, compare the rate and base of each tax with those of other states.

In the last section, Part VI, an analysis is given of the total state and local tax burden in North Carolina in comparison to those 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.

### **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:

$$\text{Per Capita Tax Payments (State A)} = \frac{\text{Total State and Local Taxes Paid}}{\text{Total State Population}} = \frac{\$50,000}{100} = \$5,000$$

$$\text{Per Capita Tax Payments (State B)} = \frac{\text{Total State and Local Taxes Paid}}{\text{Total State Population}} = \frac{\$30,000}{75} = \$4,000$$

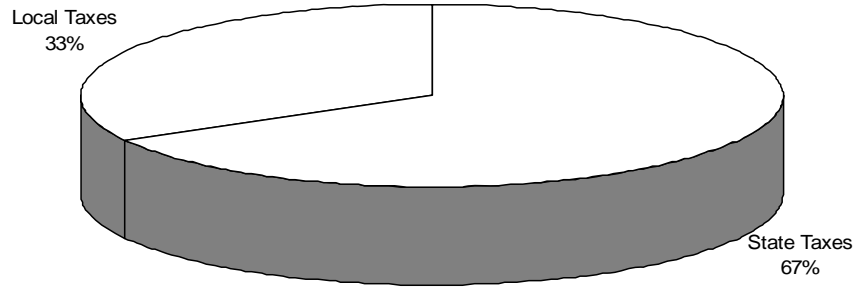
Taxes paid as a percentage of personal income are found by dividing the total amount of state and local taxes paid by the total state personal income. For instance, suppose the citizens of State A have a total income of \$1,000,000 while the citizens of State B have a total income of \$400,000. Taxes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

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

$$\text{Taxes Paid as a Percentage of Personal Income (State B)} = \frac{\text{Total State and Local Taxes Paid}}{\text{Gross State Personal Income}} = \frac{\$40,000}{\$400,000} = 10\%$$

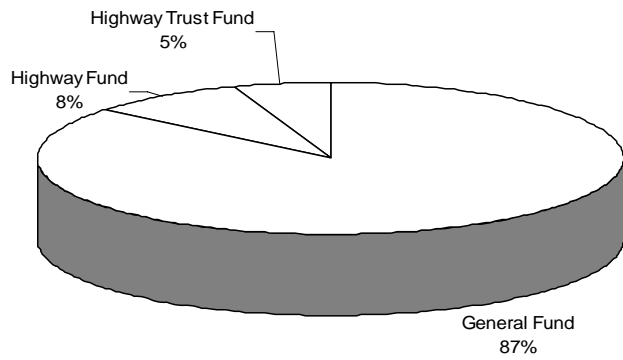
Taxes paid as a percentage of personal income are a better measure of tax burden than per capita tax payments. In the above example, the average citizen in State A paid more taxes than the average citizen in State B. Citizens in State A had a higher per capita tax burden. However, since the average income 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  
TAX COLLECTIONS RECEIVED BY NORTH CAROLINA  
GOVERNMENTS  
(2005-06)



State Taxes	\$19,742,036,404
Local Taxes	9,772,855,863
	-----
Total State and Local Taxes	\$29,514,892,267

CHART 2  
NORTH CAROLINA STATE TAX COLLECTIONS  
(2005-06)

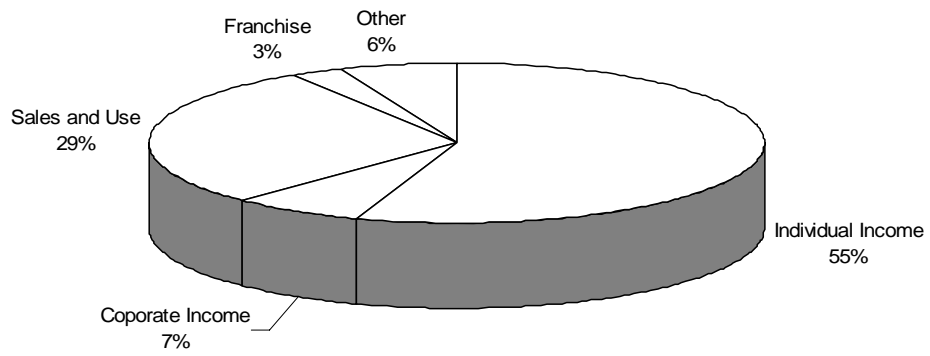


General Fund	\$17,021,556,408
Highway Fund	1,670,598,479
Highway Trust Fund	1,049,881,517
Total State Tax Revenue	<hr/> \$19,742,036,404

# **General Fund Taxes**



CHART 3  
 NORTH CAROLINA GENERAL FUND TAX COLLECTIONS  
 (2005-06)



Individual Income	\$9,400,167,970
Corporate Income	1,204,102,940
Sales and Use	4,893,911,220
Franchise	477,055,108
Other	1,046,319,170
	<hr/>
Total	\$17,021,556,408

## ALCOHOLIC BEVERAGE TAX

### **NORTH CAROLINA GENERAL STATUTES**

{G.S. 105-113.68 to G.S.105-113.89; G.S.18B-902, G.S.18B-804, & G.S.18B-805}

### **ADMINISTERED BY**

Department of Revenue and the Alcoholic Beverage Control Commission

<b>Fiscal Year</b>	<b>General Fund Collections</b>	<b>Annual Percent Change</b>	<b>Percent of General Fund Tax Collections</b>
1999-00	166,372,353	5.3	1.3
2000-01	172,698,910	3.8	1.4
2001-02	174,644,725	1.1	1.4
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

**NOTE:** Effective October 1, 2005, In addition to the excise tax of 25% levied on the sale of liquor sold in ABC stores the sale of spirituous liquor is subject to the 7% general sales tax.

### **BASE AND RATE**

Residents, wholesalers, and importers pay excise taxes on beer and wine, and local alcoholic beverage control boards pay excise taxes on liquor.

**{G.S. 105-113.80}** The following excise taxes are imposed on the sale of beer, wine, and spirituous liquors. 1) beer is taxed at a rate of 53.177 cents per gallon (this is equivalent to 5 cents per can); 2) unfortified wine is taxed at 21 cents per liter; 3) fortified wine is taxed at 24 cents per liter; and 4) spirituous liquor is taxed at 25% of case cost plus mark-up.

**{G.S.18B-804}** 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 or 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. An additional tax of \$20 per 4 liters is levied on liquor purchased by restaurants or clubs for sale by the drink. Liquor sold through a guest room cabinet is also taxed at \$20 per 4 liters rate.

**{G.S.18B-902}** An applicant for a permit issued by the North Carolina Alcoholic Beverage Control Board must pay the following fees: 1) \$400 to sell either malt beverages, fortified wine, or unfortified wine on premises; 2) \$400 to sell either malt beverages, fortified wine, or unfortified wine off premises; 3) \$400 brown bagging permit

for an establishment seating 50 or more, and \$200 for an establishment seating less than 50; 4) \$400 for a special occasion permit, and \$50 for a limited special occasion permit; 5) \$1,000 for a mixed beverage, or guest room cabinet permit; 6) \$200 for a culinary, winery special event, or mixed beverage catering permit; 7) \$300 for a unfortified winery, fortified winery, limited winery, brewery, distillery, wine importer, wine wholesaler, malt beverage importer, malt beverage wholesaler, or bottler permit; 8) \$100 for a fuel alcohol permit; 9) \$100 for a salesman; 10) \$50 for a vendor representative permit, or certain special one-time permits; 11) \$100 for a nonresident malt beverage vendor or nonresident wine vendor permit; 12) \$500 for a liquor importer/bottler permit; and 13) \$300 for a special wine tasting permit for wineries, and \$100 for retail establishments.

### **DISTRIBUTION**

**{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. The remaining revenue is deposited in the General Fund. Revenue deposited in the General Fund is used for general purposes except for \$500,000 in collections of the excise tax on unfortified wines and fortified wine bottled in North Carolina. **{G.S. 105-113.81A}** 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 any alcohol sold in Alcoholic Beverage Control (ABC) stores goes to county commissioners for rehabilitation of alcoholics.

### **LOCAL GOVERNMENT DISTRIBUTION**

**{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 or less, and 5 cents on each bottle greater than 50 milliliter.

### **TAX CALENDAR**

**{105-113.83}** Wholesalers and importers of beer, fortified and unfortified 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, with 18 states, including North Carolina, having 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 2004 and consists of the combined revenue per wine gallon from all state and local taxes, fees, and levies on alcoholic beverages.

Taxes on beer ranged from \$0.11 per gallon to \$1.85 per gallon. The average overall tax rate for the nation was \$0.97 per gallon, while the average rate for the six southeastern states (1) stood at \$1.24 and \$1.06 for the eleven most populated states (2). North Carolina's rate is \$1.25 per gallon. North Carolina ranked twelfth in the nation, fourth among the controlled states, third among the six southeastern states, and third among the eleven most populated states.

Taxes on wine ranged from \$0.69 per gallon to \$7.72 per gallon. The average overall tax rate for the nation was \$2.56 per gallon, while the average rate for the six southeastern states stood at \$3.39 and \$3.10 for the eleven most populated states. North Carolina's rate is \$4.03 per gallon. North Carolina had the eighth highest tax rate in the nation, while first among the six southeastern states, third highest among the eleven most populated states and fifth among the control states.

Taxes on distilled spirits ranged from \$3.85 per gallon to \$31.67 per gallon. The average overall tax rate for the nation was \$14.05 per gallon, while the average rate for the six southeastern states stood at \$17.21 and \$16.69 for the eleven largest states. North Carolina's rate is \$23.14 per gallon. North Carolina had the seventh 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, Florida, Georgia, Illinois, Michigan, New Jersey, New York, North Carolina, Ohio, Pennsylvania, Texas.

**REVENUE PER GALLON FROM COMBINED STATE AND LOCAL  
COLLECTIONS,  
ON BEER, WINE, AND DISTILLED SPIRITS, FOR NORTH CAROLINA  
AND SURROUNDING STATES IN 2004**

<b>STATES</b>	<b>BEER</b>	<b>WINE</b>	<b>SPIRITS</b>
United States	\$ 0.96	\$ 2.56	\$ 14.05
Six Southeastern States	1.24	3.39	17.21
Eleven Largest States	1.06	3.10	16.69
Surrounding States			
Georgia	1.68	3.44	10.75
Kentucky	0.85	4.50	12.56
<b>North Carolina</b>	<b>1.25</b>	<b>4.03</b>	<b>23.14</b>
South Carolina	1.21	2.44	15.23
Tennessee	1.57	3.79	14.56
Virginia	0.93	3.25	27.04

Source: Distilled Spirits Council of the United States, Inc. "Public Revenues from Alcohol Beverages, 2004," Washington, D.C., January, 2006.

**CIGARETTE/TOBACCO TAX**

**NORTH CAROLINA STATUTES**

{G.S.105-113.2 to G.S.105-113.40}

**ADMINISTERED BY**

Department of Revenue

<b>Fiscal Year</b>	<b>General Fund Collections</b>	<b>Annual Percent Change</b>	<b>Percent of General Fund Tax Collections</b>
1998-99	44,852,542	-4.9	0.4
1999-00	43,663,205	-2.7	0.4
2000-01	42,025,877	-3.8	0.3
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(1)	171,636,758	300.0	1.0

(1) Prior to the legislative change in July 1, 2006, the tax rate was 5 cents per pack.

**BASE AND RATE**

{G.S. 105-113.5} A tax rate of 35 cents per pack of 20 cigarettes is levied on distributors effective July 1, 2006.

{G.S. 105-113.35} The excise tax levied on tobacco products other than cigarettes is 3%.

{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**

{105-113.37} Cigarette distributors as well as other tobacco product wholesaler and retail 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 and excise tax on cigarettes. Tax rates, per pack of 20 cigarettes, ranges from 7 cents to \$2.58 per pack. Municipalities in six states can levy additional cigarette taxes. The median tax for the nation was 80 cents per pack. North Carolina's excise tax rate of 35 cents per pack ranks the state at 33<sup>rd</sup> in the nation.

### **DISTRIBUTION OF STATE CIGARETTE TAX RATES, AS OF JANUARY 1, 2007**

<b>Cents Per Pack</b>	<b>Number of States</b>
Below 9 cents	1
10 cents to 49 cents	10
50 cents to 99 cents	19
100 cents to 149 cents	2
150 cents to 199 cents	12
Above 200 cents	6

Source: Federation of Tax Administrators. "State Excise Tax Rates on Cigarettes". Washington, DC. January 2007

## CORPORATE INCOME TAX

### **NORTH CAROLINA STATUTES**

{G.S.105-130 to 150-131.8}

### **ADMINISTERED BY**

Department of Revenue

<b>Fiscal Year</b>	<b>General Fund Collections</b>	<b>Annual Percent Change</b>	<b>Percent of General Fund Tax Collections</b>
1998-99	848,509,669	21.9	7.1
1999-00(1)	903,241,974	6.5	7.3
2000-01(2)	406,315,086	-49.0	3.7
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(3)	1,193,529,164	53.6	7.7
2005-06	1,204,102,940	.9	7.1

- (1) A change in an accounting procedure resulted in \$92 million in corporate franchise tax collections to be recorded under the corporate income tax schedule.
- (2) The \$92 million was transferred back from the corporate income tax schedule to the corporate franchise tax schedule. In addition, collections fell as a result of the recession.
- (3) Legislation ratified in 2001 and clarified in a recent court case, upheld that out-of-state taxpayers who hold trademarks used in North Carolina, are doing business in the state and must pay corporate income and franchise tax. (G.S. 105-130.4(a)(4)).

Note: North Carolina's definition of income follows the federal statutes.

### **BASE AND RATE**

**{G.S.105-130.3}** A 6.9% corporation income tax is levied on C-corporate profits derived from all business conducted in the state. Multi-state corporations are required to use a specific formula to determine taxable income to North Carolina. The basic formula used in North Carolina 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.

**{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-corporate are subject to North Carolina's individual income tax rates. 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.

**{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) cooperative banks without capital stock organized for mutual purposes and without profits; 2) credit unions; 3) insurance companies subject to the tax on gross premiums; 4) telephone membership and electric membership corporations; 5) business development corporations; and 6) nonprofit corporations except for income in excess of \$100,000 annually that is not substantially related to the functions for which the nonprofit organization was formed.

**{G.S.105-130.22–G.S. 105-130.47}** North Carolina provides many corporate income tax credits. Several credits are designed to encourage economic development especially in economically depressed counties. The credits may vary between counties and companies must meet various criteria to qualify for the certain credits. The credits often apply to a portion of expenditures, and are subject to maximum allowable amounts. If the criteria is met the credits can span: 1) hiring additional full time employees for the following industries: manufacturing, warehousing, data processing, central office or aircraft facility property that creates at least 40 new jobs, air courier services, computer services, customer service centers located in select areas, electronic mail order houses that creates at least 250 new jobs and are located in selected areas, and wholesale trade; 2) certain expenditures incurred for providing training of five or more eligible employees for the following industries manufacturing, warehousing, data processing, central office or aircraft facility property that creates at least 40 new jobs, air courier services, computer services, customer service centers located in select areas, electronic mail order houses that creates at least 250 new jobs and are located in selected areas, and wholesale trade; 3) amount spent to purchase or lease and place in service in this State depreciable machinery and equipment for the following industries: manufacturing, warehousing, data processing, central offices; central office or aircraft facility property that creates at least 40 new jobs, air courier services, computer services, customer service centers located in select areas, electronic mail order houses that creates at least 250 new jobs and are located in selected areas, and wholesale trade. (These credits sometimes extend to leased machinery and equipment that is depreciable for federal tax purposes.); 4) taxpayers in a qualified industry who claim the federal income tax credit for increased research activities; 5) cost of machinery and equipment of major recycling facilities; 6) manufacturers who export cigarettes to foreign nations; 7) machinery and equipment used in production based on technology licensed from a state research institution; 8) corporations using the ports of Wilmington and Morehead City; 9) 25% of contributions or investments a development zone agency in a development zone; 10) enhanced incentives for establishments located in development zones; 11) cost of renewable energy property used in residential and nonresidential structures; 12) electric cogenerator plants; 13) qualified rehabilitation expenditures with respect to a certified historic structures; 14) construction of dwellings for the handicapped; 15) construction and rehabilitation of low income housing (in addition an enhanced credit is allowed in counties designated as

having sustained moderate to severe damage from a hurricane; 16) market value of donated property to the government used for recreational access or conservation purposes; 17) property taxes paid on farm machinery by S-Corporations; 24) peat products manufacturing facilities; 18) corporations that provide telephone service to low income subscribers at reduced rates; 19) corporate farms for gleaning crops; 20) credit of 20% the cost of purchasing or leasing non-hazardous dry cleaning equipment; and 21) construction of a renewable energy facility.

**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} C 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 are required to file a return 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-four states levy corporate income taxes. Most states followed the federal definition of income. Of the 44 states levying corporate income taxes, 27 states had a higher marginal rate than North Carolina, while 16 states had a lower marginal rate.

**DISTRIBUTION OF STATE CORPORATE INCOME TAXES  
AS OF JANUARY 1, 2007**

<b>HIGHEST MARGINAL RATE</b>	<b>NUMBER OF STATES</b>
Below 5.0%	8
5.0% to 5.9%	4
6.0% to 6.9%	12
7.0% to 7.9%	10
8.0% to 8.9%	8
9.0% to 9.9%	7
10.0% and above	1

Source: Federation of Tax Administrators. "State Corporate Tax Rates". Washington, DC. January 2007

**ESTATE TAX**

**NORTH CAROLINA STATUTES**

{G.S.105-32.1 to G.S.105-32.8 & G.S.105-160}

**ADMINISTERED BY**

Department of Revenue

<b>Fiscal Year</b>	<b>General Fund Collections</b>	<b>Annual Percent Change</b>	<b>Percent of General Fund Tax Collections</b>
2000-01	123,165,443(1)	NA	1.0
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

(1) The inheritance tax was repealed January 1, 1999. Only collections from the estate tax are shown above.

**BASE AND RATE**

**{G.S. 105-32.1}** For decedents dying on or after January 1, 2005, North Carolina estate tax is imposed on the estate when a federal estate tax would be payable if the federal estate tax was determined without regard to the deduction for state death taxes. The North Carolina estate tax is equal to the state death tax credit that was allowed under section 2011 of the Internal Revenue Code as it existed prior to 2002. The amount of the North Carolina estate tax is limited to the federal estate tax that would be payable if the federal estate tax was computed without regard to the deduction for state death taxes.

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

**DISTRIBUTION**

Revenue was deposited in the General Fund for general purposes.

**TAX CALENDAR**

A North Carolina estate tax return and payment are due on the date the federal estate tax return and payment are due. 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 and 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 is \$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:**

- (1) Commerce Clearing House, Inc. "State Tax Handbook". Chicago, Illinois, 2007.
- (2) Joel Michael, Legislative Analyst, "State Response to the 2001 Federal Estate Tax Credit". Minnesota House of Representatives, February 2004.
- (3) 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

### NORTH CAROLINA STATUTES

{105-114 to 105-129}

### ADMINISTERED BY

Department of Revenue

<b>Fiscal Year</b>	<b>General Fund Collections</b>	<b>Annual Percent Change</b>	<b>Percent of General Fund Tax Collections</b>
1998-99	409,558,340	0.6	3.4
1999-00	306,979,197(1)	-25.1	2.5
2000-01	580,431,850(2)	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

- (1) A change in an accounting procedure resulted in \$92 million in corporate franchise tax collections to be recorded under the corporate income tax schedule.
- (2) The \$92 million was transferred back from the corporate income tax schedule to the corporate franchise tax schedule.

### 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:

- (1) Capital stock, surplus, and undivided profits
- (2) The net accounting value of real and tangible property in the state
- (3) 55% of the appraised value of real and tangible property in the state

Corporations doing business in North Carolina and in other states calculate the share of capital stock due 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.

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

**Limited Liability Companies, {105-114.1}**

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.

**Power and Light, Water, and Sewerage Companies, {G.S. 105-116}** A 3.22% tax rate is applied to the total gross receipts resulting from the sale of power and light in the state, minus authorized exemptions and deductions of receipts derived from the sale of power and light to a vendee subject to the tax levied by G.S. 105-116 or a joint agency established under Chapter 159B of the General Statutes or a city having an ownership share in a project established under that Chapter. 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.)

**Mutual Burial Associations, {G.S. 105-121.1}** A \$15 levy is applied to associations with memberships of less than 3,000; \$20 for 3,001 to 5,000; \$25 for 5,001 to 10,000; \$30 for 10,001 to 15,000; \$35 for 15,001 to 20,000; \$40 for 20,001 to 25,000; \$45 for 25,001 to 30,000; and \$50 for 30,001 or more.

**Holding Companies, {G.S.105-120.2}** A tax rate of \$1.50 per \$1,000 of value of the capital stock, surplus, and undivided profits apportioned to North Carolina. There is a maximum tax liability for corporations subject to the franchise tax, of \$75,000 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 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.

**Telephone Companies.** Effective January 1, 2002, all telecommunication services are taxed under the state sales and use tax at a 6% rate. There will be no local sale and use taxes on these services.

Effective January 1, 2002, a prepaid calling card or another prepaid calling arrangement is tax under the state sales and use tax at the point of sale as tangible property at the general rate of tax.

**DISTRIBUTION**

**{G.S. 105-116.1(b)}** 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 quarterly 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)}** The franchise tax is due, unless otherwise stated, on the 15<sup>th</sup> 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 corporations and foreign corporations. Generally, the tax rate, 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.

Source:

- (1) Commerce Clearing House, Inc. “State Tax Handbook”. Chicago, Illinois, 2007
- (2) Matthew N. Murray, Franchise/Privilege Tax, State. University of Tennessee, 1996

## **FREIGHT CAR TAX**

### **NORTH CAROLINA STATUTES**

{G.S. 105-228.1 to 105-228.2}

### **ADMINISTERED BY**

Department of Revenue

<b>Fiscal Year</b>	<b>General Fund Collections</b>	<b>Annual Percent Change</b>	<b>Percent of General Fund Tax Collections</b>
1998-99	469,302	-1.8	<.01
1999-00	444,094	-5.4	<.01
2000-01	497,560	12.0	<.01
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

### **BASE AND RATE**

{G.S. 105-228.1} A 3% levy is placed on the gross earnings of freight line companies, derived from operating or leasing freight cars, for transporting freight over any railroad lines in the state. This tax is in lieu of ad valorem taxes.

### **DISTRIBUTION**

Revenue is deposited in the General Fund for general purposes.

### **TAX CALENDAR**

Taxes are due by April 30 for gross earnings of the previous calendar year.

### **COMPARISON WITH OTHER STATES**

The last time a survey was prepared on the number of states that imposed a tax on the gross earnings of railroad freight line companies was in 2002. At that time, fifteen states levied 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, 2007.

**NORTH CAROLINA STATUTES**

{G.S. 105-188 to G.S.105-197.1}

**ADMINISTERED BY**

Department of Revenue

<b>Fiscal Year</b>	<b>General Fund Collections</b>	<b>Annual Percent Change</b>	<b>Percent of General Fund Tax Collections</b>
1998-99	19,334,909	-6.3	0.2
1999-00	25,085,473	29.7	0.2
2000-01	20,254,465	-19.3	0.2
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

**BASE AND RATE**

**{G.S. 105-188}** 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 tax on gifts made to nonresidents applies only if the property is within the jurisdiction of the state.

Gifts to a spouse are exempt from taxation. For calendar years beginning on or after January 1, 1985, but before January 1, 2002, the first \$10,000 in gifts per year given to each donee other than gifts of future interest in property is exempt from taxes. For calendar years beginning on or after January 1, 2003, the annual exclusion amount is equal to the federal inflation-adjusted amount provided in section 2503(b) of the Code. For tax year 2006, the annual exclusion amount is \$12,000. 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 donee. Gifts to state or political subdivisions or nonprofit charitable, religious, or educational corporations within the state are exempt. There are four classifications of donees: 1) Spouse; 2) Class A, which includes lineal issues or ancestors, stepchildren, or adopted children; 3) Class B, which includes brothers, sisters, issues of either, or blood aunts, or uncles; and 4) Class C, which includes other relatives or unrelated persons.

**RATE/BRACKET SCHEDULE  
(APPLIES TO PORTIONS IN EXCESS OF EXEMPTION)**

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, on the amount of a gift that exceeds the annual exclusion, by April 15 of the calendar year.

**COMPARISON WITH OTHER STATES**

Four states including North Carolina levy a gift tax. The additional three are Connecticut, Louisiana, and Tennessee. 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, 2007.

**INDIVIDUAL INCOME TAX**

**NORTH CAROLINA STATUTES**

{G.S. 105-133 to G.S. 163-163.44}

**ADMINISTERED BY**

Department of Revenue

<b>Fiscal Year</b>	<b>General Fund Collections</b>	<b>Annual Percent Change</b>	<b>Percent of General Fund Tax Collections</b>
1998-99	6,606,500,278	9.6	55.2
1999-00	7,080,106,177	7.2	57.1
2000-01	7,391,342,524	4.4	58.8
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

**BASE AND RATE**

{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, are 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 A.

<b>Table A</b>	<b>Filing Status</b>	<b>Federal Adjusted Gross Income</b>
	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(er) w/dependent	\$8,500
	Widow(er) age 65 ≥	\$9,100

**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 A) is require to file a return, if income was derived from any of the following activities:

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

**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 instruction 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 sees, 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

{G.S. 105-134.2} Effective to tax years ending before January 1, 2006:

### RATE/BRACKET STRUCTURE

Rate	Married Filing Joint	Married Filing Separate	Head of Household	Single
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 - 200,000	50,001 - 100,000	80,001 - 160,000	60,001 - 120,000
8.25%(1)	200,001 and above	100,001 and above	160,001 and above	120,001 and above

(1) By actions of the 2005 North Carolina General Assembly, the 8.00% rate is maintained through the 2007 tax year.

### 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, except amounts withheld in December which 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 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, 2007, forty states levy individual income taxes with two taxing only dividend and interest income and one whose state individual income tax rate is 25% of

the federal tax liability. Most states follow the Federal definition of gross or taxable income. However, tax rates, deductions, and exemptions varying widely by state.

North Carolina relies more heavily on the individual income tax than most other states, obtaining 30% of its state and local taxes from the individual income tax in tax year 2004 as compared to 21% for the nation, 25% for the six southeastern states (1), and 21% for the eleven most populated states (2). In terms of reliance on the individual income tax, North Carolina ranked seventh in the nation, second place in the Southeast, and third among the eleven most populous states.

At 8.00%, North Carolina has the ninth highest marginal tax rate in the nation. North Carolina has the highest marginal tax rate among the six southeastern states, and the third highest among the eleven most populous states. The current 8.00% rate is scheduled to expire on January 1, 2008, when the highest tax bracket will revert to 7.75%. Based on current rates this would be the twelfth highest marginal tax rate.

On a national basis, 2.24% of state personal income was devoted to state individual income tax payments, while North Carolina citizens allocated 3.02% of their income to individual income tax payments. North Carolina ranked eighth in the nation, second among the southeastern states, and third among the ten most populated states.

In terms of per capita income the average taxpayer in the nation paid \$733.00 in individual income tax payments, while North Carolina taxpayers paid \$880.00. North Carolina ranked fourteenth in the nation, second in the Southeast, and fourth among the eleven largest states.

(3) Georgia, Kentucky, North Carolina, South Carolina, Tennessee, Virginia.

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

Source: Federation of Tax Administrators. "State Corporate Tax Rates". Washington, DC. January 2007

## INSURANCE TAX

### **NORTH CAROLINA STATUTES**

{G.S.105-228.3 to 105-228.10, 58-21-85, and 58-33-125}

### **ADMINISTERED BY**

Department of Revenue and Department of Insurance

<b>Fiscal Year</b>	<b>General Fund Collections</b>	<b>Annual Percent Change</b>	<b>Percent of General Fund Tax Collections</b>
1998-99	291,230,879	2.6	2.4
1999-00	273,367,118	-6.1	2.2
2000-01	305,791,331	11.9	2.4
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

### **BASE AND RATE**

**{G.S. 105-228.5}** Insurance companies subject to the gross premiums tax are not subject to the franchise tax or the income tax. The tax is imposed on contracts covering persons, property, or risk resident located in the state. The tax is measured on the gross premiums of these types of contracts agreed to during the preceding year.

There are three levies against insurance companies--a gross premium tax, a regulatory charge, and license fees. The gross premium tax makes up over 98% of collections. There are two gross premium tax rates that are applied to both domestic and foreign insurance companies: 1) a 2.5% tax on the gross premiums of worker's compensation policies; and 2) a 1.9% tax on the gross premiums of all other insurance policies. An additional 1.33% is applied to the gross premiums of fire and lightning policies (except on marine and automobiles) of which 75% remains with the General Fund and 25% is dedicated for special purposes. Further, an additional 0.5% is applied to the gross premiums of fire and lightning policies that are dedicated for special purposes. The tax rate applied to the gross collections of Article 65 corporations (hospital, medical, and dental service companies) is 0.5% through December 31, 2002. Effective until January 1, 2004, a 1.1% gross premium tax is applied to gross premiums of HMOs, and medical and dental service corporations. Effective January 1, 2004, the rate is lowered to 1.0%. The 1.0% gross premiums tax on HMO's is repealed effective January 1, 2007.

### **{105-228.5A} Insurance Guaranty Association**

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.

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. Various registrations, examination, and license fees apply to insurance companies, insurance agents, and insurance adjusters.

### **DISTRIBUTION**

Revenue is deposited in the General Fund for general purposes, except revenue collected from the regulatory fees, and 25% of the additional 1.33% tax, and 100% of the additional 0.5% tax which are deposited in a special fund in the State Treasury. 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, except for insurance companies with a premium tax liability of \$10,000 or more for business done in North Carolina during the immediate preceding year. Such companies must pay 33 1/3% of the premium tax liability for the previous taxable year in three installments 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 2003 only, Article 65 corporations and 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 2003 taxable year. Effective for tax years 2004 and 2005, under Article 65 corporations are to make estimated payments following the same schedule as for tax year 2003. The estimated payments are due by April 15, 2003, and June 15, 2003. Effective tax year 2004, HMOs are to make estimated payments following the same schedule as other insurance companies. Annual company registration fees are due by March 1 and are effective July 1. Annual registration fees for brokers, agents, and adjusters are due annually by April 1.

### **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, 2007.

**PIPED NATURAL GAS TAX**

**NORTH CAROLINA STATUTES**  
{G.S. 105-187.40 to G.S. 105-187.46}

**ADMINISTERED BY**  
Department of Revenue

<b>Fiscal Year</b>	<b>General Fund Collections</b>	<b>Annual Percent Change</b>	<b>Percent of General Fund Tax Collections</b>
1999-00	27,715,136	(1)	0.02
2000-01	37,212,997	34.3	0.03
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

(1) The tax became effective July 1, 1999, and collections do not reflect a full fiscal year.

**BASE AND RATE**

**{105-187.41}** A tax is imposed on the consumption of piped natural gas. This tax is in lieu of the sales and use tax and the tax on gross receipts. The piped natural gas tax is based on the monthly volume of natural gas received by the final user. The tax per therm is as follows: 1) first 200, \$0.047; 2) 201 to 15,000, \$0.035; 3) 15,001 to 60,000, \$0.024; 4) 60,001 to 500,000, \$0.015; and 5) over 500,000, \$0.03.

**DISTRIBUTION**

**{105-187.44}** 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**

**{105-187.43}** Tax returns are due quarterly by the last day of the month that follows the quarter cover by the return. Payments are due semimonthly in accordance with the schedule set out in G.S. 105-164.16 for semimonthly payments of sales and use taxes. Payment is due on natural gas delivered to a sales or transportation customer when the tax is delivered. Person(s) with direct access to an interstate pipeline, for consumption by that person, accrues when the gas is received.

**TAX COMPARISON**

A tax comparison was not undertaken.

**PRIVILEGE LICENSE TAX**

**NORTH CAROLINA STATUTES**

{G.S. 105-33 to G.S. 105-109; G.S.105-187.30 to G.S.105-187.34}

**ADMINISTERED BY**

Department of Revenue

<b>Fiscal Year</b>	<b>General Fund Collections</b>	<b>Annual Percent Change</b>	<b>Percent of General Fund Tax Collections</b>
1998-99	27,588,260	-24.7	0.2
1999-00	43,828,822	58.9	0.4
2000-01(1)	2,953,653	-93.3	.02
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

(1) A Court settlement resulted in large refunds to two large corporations.

**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.

**{G.S. 105-38.1}** Motion Picture Shows  
A 1% gross receipts tax is levied on the operation of motion picture shows.

**{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. In lieu of the tax, attorneys may make a \$50.00 donation to the North Carolina Public Campaign Financing Fund. Accounting firms pay an additional privilege tax of \$12.50 for each employee engaged in accounting practices.

**{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 (et. al.), 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 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 is 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, 2007.

**SALES AND USE TAX**

**NORTH CAROLINA STATUTES**

{G.S. 105-164.1 to 105-164.44H}

**ADMINISTERED BY**

Department of Revenue

<b>Fiscal Year</b>	<b>General Fund Collections</b>	<b>Annual Percent Change</b>	<b>Percent of General Fund Tax Collections</b>
1998-99	3,376,206,664(2)	3.7	28.2
1999-00	3,354,897,708(3)	-0.7	27.1
2000-01	3,435,558,577	2.4	27.3
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

- (1) The state sales tax on food consumed at home was reduced from 4% to 3%. The local tax rate remains.
- (2) The state sales tax on food consumed at home was reduced from 3% to 2%. The local tax rate remains.
- (3) The state sales tax on food consumed at home was eliminated. The local tax rate remains.

**BASE AND RATE**

{G.S. 105-164.4} The general state sales and use tax rate is 4.5%. For sales made on or after July 2007 the rate becomes 4%. The 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. All items that are subject to the sales tax rate of 4.5% are also subject to the Local Government Sales and Use Tax which is presently at a 2.5% rate. The “combined rate” is 7%. (The state rate is only recorded in this section.)

The Local Government Sales and Use Tax is made up of three separate rates defined in Article 39, Article 40, and Article 44 of Chapter 105 of the North Carolina General Statutes. Mecklenburg County collects an additional .5 cent on the local option sales and use tax. The revenue from this tax is used for public transportation. For additional information please 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. (The gross receipts from the long-term rental or leases of motor vehicles are subject to the 3% highway use tax.)

Short-term leases of motor vehicles (less than 365 continuous days) are subject to the 8% alternate highway use tax and accounted for under the General Fund.

Manufactured housing is taxed at a 2% state rate with a maximum tax or cap of \$300.00. The tax rate on modular homes is 2.5%.

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. Funeral expenses that exceed \$1,500 are subject to the state sales tax.

The sale of electricity to farmers, manufacturers, and commercial laundries is taxed at 2.83%.

**{G.S.105-164.4C}** Telecommunication services, cable services, and satellite services including satellite radio services and voice mail are subject to the state rate.

**{G.S. 105-164.44F}** The Secretary of Revenue distributes 18.03% of the sales tax on telecommunication to cities quarterly. {Under G.S. 105-164.21B, a cable service provider is allowed a credit against the sales tax imposed for the amount of local franchise tax payable to local governments on its gross receipts for cable service.}

Spirituos liquor is subject to the state sales tax.

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 of tax imposed under the franchise tax schedule. 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

This is a three-day sales tax holiday beginning on the first Friday in August and extending through Sunday. It was enacted in the 2002. 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 will be exempt from sales or use tax if the state agency furnishes an exemption number to the seller. Certain governmental entities, as defined by statute, may obtain refunds as may 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 dedication to the Wildlife Resource Fund, and 60% of the state sales tax on dry cleaning and laundry services which is dedicated to the Dry Cleaning Solvent Cleanup Fund.

In addition to the state sales tax, county governments levy a 2.5% tax on items, which the state taxes at the 4 1/2% rate, except Mecklenburg County, which has a 3% levy. The tax collected on qualified food items is distributed to local governments. (See "Sales and Use Tax: Local Government" in the local government section for more information.) Only General Fund revenue is shown above.

**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 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**

Forty-five states levy sales and use taxes. As of January 2007, state sales tax rates ranged from 2.9% to 7.25%, with a median rate of 5.3%. The base state sale tax rate for North Carolina is 4.5%. There are thirty four states with a higher state sales tax rate and ten states with a lower rate than North Carolina.

Additional local sales and use taxes are levied in 35 states including North Carolina. The maximum local tax rates ranged from 0.25% to 7%, with a median rate of 3.0%. North Carolina has a 2.5% local sales tax except for Mecklenburg County that has a 3% rate. North Carolina ranked fifth in state sales tax rate among the southeastern states (1), and eighth among the eleven most populated states (2). The combined state and maximum local sales and use taxes ranged from 4.0% to 11%, with a median rate of 7.0%. North Carolina has a 7.5% combined rate. Nineteen states have a higher combined state and

local rate than North Carolina. Among the southeastern states North Carolina ranked second, (1) and seventh among the eleven most populated.

Thirty states that levy a sales and use tax exempt food. Prescription medicine is exempt in all states except Illinois which levies a 1% tax. Certain nonprescription drugs are exempt in eleven states, while Illinois levies a 1% tax. Nonprescription drugs are subject to the state and local sales tax in North Carolina.

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

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

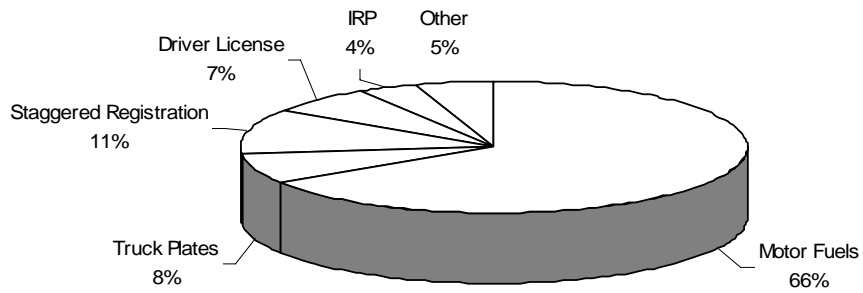
Source: Federation of Tax Administrators. "Comparison of State and Local Retail Sales Taxes", Washington, DC, January 2007



# **Highway Fund Taxes**



CHART 4  
 NORTH CAROLINA HIGHWAY FUND TAX COLLECTIONS  
 (2005-06)



Motor Fuels	\$1,099,066,377
Truck Plate	126,061,965
Staggered Registration	187,563,245
Driver License	110,492,674
International Registration Plan (IRP)	66,013,231
Other Licenses and Fees	81,400,987
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<b>Total</b>	<b>\$1,670,598,479</b>

## DEALER AND MANUFACTURER LICENSE FEES

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### NORTH CAROLINA STATUTES

{G.S. 20-289, G.S. 20-287 and G.S. 20-288}

### ADMINISTERED BY

Department of Transportation Division of Motor Vehicles

Fiscal Year	Highway Fund Collections	Annual Percent Change	Percent of Highway Fund Tax Collections
1999-00	1,448,912	20.3	0.1
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

### 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} The following license holders may operate as a motor vehicle dealer without obtaining a motor vehicle dealer's license or paying an additional fee: manufacturer, factory branch, distributor, and distributor branch. Any of these license holders who operate as a motor vehicle dealer may sell motor vehicles at retail only at an established salesroom.

### DISTRIBUTION

Revenue is deposited in the Highway Fund for highway purposes.

### TAX CALENDAR

{G.S. 20-288} Licenses expire on June 30, and applications and fees must be received prior to that date.

### COMPARISON WITH OTHER STATE

A comparison with other states was not taken.

## DRIVER'S LICENSE FEES

### NORTH CAROLINA STATUTES

{G.S. 20-7, G.S. 20-7(i1), G.S. 20-37.13, G.S.20-14, G.S. 20-37.15, G.S. 20-37.16, G.S. 20-26 & G.S. 20-37}

### ADMINISTERED BY

Department of Transportation Division of Motor Vehicles

<b>Fiscal Year</b>	<b>Highway Fund Collections</b>	<b>Annual Percent Change</b>	<b>Percent of Highway Fund Tax Collections</b>
1999-00	58,944,575	-5.4	5.1
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

### BASE AND RATES

#### Classes of Driver's Licenses A, B, & C

{G.S. 20-7(i)} 1) The basic operator's license, Class C, is issued for a fee of \$4.00 per year; and 2) Chauffeurs licenses, Classes A and B, for large vehicles restricted to intrastate usage are issued for a fee of \$4.00 per year. The renewal period is five years. A limited learner's permit and a limited provisional license for persons less than 18 years old are issued for a fee of \$15.00. 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. Five cents of each fee collected for the issuance of a driver's license is used to offset the costs of the online "Organ Donor Program" and "License to Give Trust Fund".

See {G.S. 20-11}, for additional clarification on the issuance of the limited learners permit and provisional driver's licenses.

#### Commercial Driver Licenses (CDL)

{G.S. 20-37.13} The fee for a commercial drivers 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 per year.
- 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, \$11.00 per year.
- 4) {G.S. 20-37.7(d)} Special ID card for non-drivers aged 16 and over is \$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.
- 5a.) The charge is \$50 when a licensee fails to surrender a driver's license that is revoked.
- 6) {G.S. 20-16(e)} Driver improvement clinic is \$50.

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.

**DISTRIBUTION**

All revenue collected from licenses and fees is deposited in the Highway Fund for highway purposes, except \$25 of the \$75 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 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. Some of the revenue collected under the Special Id Cards is used to off-set DMV operating expenses.

**TAX CALENDAR**

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

**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 levied 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, it was found that rates ranged from \$1.46 to \$13.65. The average fee in the nation is \$6.10. North Carolina's levy converts to an annual fee of \$3.69. Thirty six states had a higher levy than North Carolina. North Carolina has the fourth lowest rate of the southeastern states (1). Of the most populated states North Carolina ranked tenth.

### DISTRIBUTION OF DRIVERS' LICENSE FEES: 2005

<b>Fees</b>	<b>Number of States</b>
\$1.00 - \$1.99	4
2.00 - 2.99	6
3.00 - 3.99	3
4.00 - 4.99	7
5.00 and Above	30

(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, U.S. Federal Highway Administration, Washington, D.C., 2005.

## FINANCIAL SECURITY RESTORATION FEES

### NORTH CAROLINA STATUTES

{G.S. 20-309}

### ADMINISTERED BY

Department of Transportation Division of Motor Vehicles

<b>Fiscal Year</b>	<b>Highway Fund Collections</b>	<b>Annual Percent Change</b>	<b>Percent of Highway Fund Tax Collections</b>
1999-00	8,445,869	20.6	0.7
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

### BASE AND RATE

{G.S. 20-309} A \$50 civil penalty fee is charged to maintain a license plate when there has been a lapse of insurance coverage, provided action is taken within 10 days. If no action is taken and the plate is revoked, a \$50 restoration fee is charged when the vehicle is re-licensed after a 30-day plate surrender period.

### DISTRIBUTION

Revenue deposited in the Highway Fund for highway purposes.

### TAX CALENDAR

Payment is made at the time of purchase.

### COMPARISON WITH OTHER STATES

A comparison with other states was not taken.

## GASOLINE INSPECTION TAX

### NORTH CAROLINA STATUTES

{G.S. 119-1 to G.S. 119-65 and Articles 36C and 36D of Chapter 105}

### ADMINISTERED BY

Department of Revenue

Department of Transportation Division of Motor Vehicles

<b>Fiscal Year</b>	<b>Highway Fund Collections</b>	<b>Annual Percent Change</b>	<b>Percent of Highway Fund Tax Collections</b>
1999-00	12,278,488	-1.7	1.1
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

### 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 motor fuels. This includes gasoline, diesel, blended fuels, alternative fuels, kerosene, and exempt fuels under 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

**{G.S. 119-18(b)}** Revenue collected from the gasoline inspection tax is deposited in the Highway Fund and in the General Fund. After deducting funds to administer and enforce the provisions of the inspection laws and the motor fuel tax 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. If the amount of revenue in the Noncommercial Fund at the end of a month is less than this threshold amount, all of the remainder of the proceeds shall be credited to the Noncommercial Fund. Revenue collected under the gasoline inspection tax is credited to funds outside the Highway Fund, for accounting purposes; this revenue is considered Highway Fund Revenue. Inspection taxes levied on fuels not used on the highways are credited to the General 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 per gallon 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 22<sup>nd</sup> of each month and apply to sales during the preceding month.

### **COMPARISON WITH OTHER STATES**

As of January 2001, 18 states levied gasoline inspection taxes with rates ranging from 0.00025 cent per gallon to \$15.00 per gallon. However, in most cases the set of petroleum products taxed is different. Three states have higher fees than North Carolina, one the same, eleven lower, and two unknown.

Source: Department of Transportation, Highway Taxes and Fees, U.S. Federal Highway Administration, Washington, D.C., 2001.

**INTERNATIONAL REGISTRATION PLAN**

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**NORTH CAROLINA STATUTES**

{G.S. 20-86.1, G.S. 20-87.1, G.S. 20-85, G.S. 20-88, AND G.S. 20-385}

**ADMINISTERED BY**

Department of Transportation Division of Motor Vehicles

<b>Fiscal Year</b>	<b>Highway Fund Collections</b>	<b>Annual Percent Change</b>	<b>Percent of Highway Fund Tax Collections</b>
1999-00	54,694,488	7.7	4.8
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

**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 some 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 apportion able vehicles.

The weight and rate schedule under this plan follows:

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

<b>Weight/Rate Bracket</b>	<b>Farm</b>	<b>Non-Farm</b>
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" pound 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-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.

\* Revenues generated by these fees not included in FY 2004-05 totals

**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**

In 2004, 10 Canadian provinces and the 48 contiguous states participated 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.

## MOTOR FUELS EXCISE TAX

### NORTH CAROLINA STATUTES

{G.S.105-430 and G.S. 105-449.37 through G.S. 105-449.139}

### ADMINISTERED BY

Department of Revenue

Department of Transportation Division of Motor Vehicles

<b>Fiscal Year</b>	<b>Highway Trust Fund Tax Collections</b>	<b>Annual Percent Change</b>	<b>Percent of Highway Trust Fund Tax Collections</b>
1999-00	781,017,763	2.4	68.2
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	1,099,066,377	14.5	66.0

### 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 whole sale 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.

Base period: January 1, 2006 base rate is .299 cents

July 1, 2006 base rate is .299 cents

Note: Due to the cap, by actions of the 2006 General Assembly, the rate will remain at 29.9 cents until July 2007.

### BASE PERIOD

The first base period is the six months ending on the 30<sup>th</sup> of September.

The second base period is the six months ending on the 31<sup>st</sup> 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 gallon

### **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), motor fuel removed from a terminal for export for which the supplier collects the excise tax at the rate of the destination state. 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 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**

Annually, one and three fourths cents (1  $\frac{3}{4}$ ) 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. A cash distribution is made in October of each 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**

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 nine states, and separate local motor fuel taxes are applied in selected jurisdictions in nine states.

As of January 2007, state excise taxes on gasoline ranged from 7.5 cents per gallon to 34 cents per gallon. The average state gasoline tax was 24.6 cents per gallon. North Carolina's rate was 29.9 cents per gallon, and was the fifth highest tax in the nation. The average motor fuels tax in the southeastern states was 19.82 cents per gallon, and the average for the eleven most populated states was 20.22 cents per gallon. North Carolina had the highest tax rate among the southeastern states, and ranked second among the eleven most populated states. North Carolina is one of seven states that have a variable motor fuel excise tax rate.

**STATE GASOLINE TAX RATES FOR THE UNITED STATES,  
THE SOUTHEAST, ELEVEN MOST POPULATED STATES,  
NORTH CAROLINA, AND SURROUNDING STATES  
AS OF JANUARY 2007**

<b>State</b>	<b>Tax Rate</b>
United States	24.60
Southeast	19.82
Eleven Largest States	20.22
<b>North Carolina</b>	<b>29.90</b>
 <b>Surrounding States</b>	
Georgia	7.50
Kentucky	18.50
<b>North Carolina</b>	<b>29.90</b>
South Carolina	16.00
Tennessee	20.00
Virginia	27.00

Source: State Department of Revenue Sources, © American Road and Transportation Builders Association, 2007, updated February 2007

**OVERWEIGHT/OVERSIZE PERMITS**

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**NORTH CAROLINA STATUTES**

{G.S. 20-119}

**ADMINISTERED BY**

Department of Transportation Division of Motor Vehicles

<b>Fiscal Year</b>	<b>Highway Fund Collections</b>	<b>Annual Percent Change</b>	<b>Percent of Highway Fund Tax Collections</b>
1999-00	2,488,424	2.0	0.2
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

**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 permit applications that require 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 with other states was not taken.

**PENALTIES**

**NORTH CAROLINA STATUTES**

{G.S. 20-118}

**ADMINISTERED BY**

Department of Transportation Division of Motor Vehicles

<b>Fiscal Year</b>	<b>Highway Fund Collections</b>	<b>Annual Percent Change</b>	<b>Percent of Highway Fund Tax Collections</b>
1999-00	8,453,829	4.8	0.7
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

**BASE AND RATE**

{G.S 20-118(e) (3)} For each violation of the license, permit, or axle grouping weight as established by statute, the owner must pay to the Division of Motor Vehicles, a penalty, per violation, as follows: for the first 2000 pounds or any part thereof, two cents per pound; for the next 3000 pounds or any part thereof, four cents per pound; for each pound in excess of 5000 pounds ten cents per pound.

<b>Amount of Pounds Over Maximum</b>	<b>Penalty Per Pound</b>
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 statute, the owner must pay the Division of Motor Vehicles a civil penalty, per violation as follows: for the first 1000 pounds or any part thereof, four cents per pound; for the next 1000 pounds or any part thereof, six cents per pound; and for each additional pound ten cents per pound.

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

**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 with other states was not taken.

**MISCELLANEOUS REGISTRATION FEES**

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**NORTH CAROLINA STATUTES**

{G.S. 20-37.7, G.S 20-85(b) (1), G.S. 20-73(c), G.S. 20-42(b)}

**ADMINISTERED BY**

Department of Transportation Division of Motor Vehicles

<b>Fiscal Year</b>	<b>Highway Fund Collections</b>	<b>Annual Percent Change</b>	<b>Percent of Highway Fund Tax Collections</b>
1999-00	2,687,772	8.0	0.2
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

**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(a)(10)} \$15.00 salvage title fee when the repair exceeds 75% of market value

{G.S. 20-73(c)} \$15.00 fee for failure to transfer title within 28 days of transfer of ownership

{G.S. 20-42(b)} \$10.00 fee to certify any DMV document for use in court and \$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 Card 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**

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**NORTH CAROLINA STATUTES**

{G.S. 20-183.1 through G.S. 20-183.8, and G.S. 20-128.2, G.S. 20-385}

**ADMINISTERED BY**

Department of Transportation Division of Motor Vehicles

<b>Fiscal Year</b>	<b>Highway Fund Collections</b>	<b>Annual Percent Change</b>	<b>Percent of Highway Fund Tax Collections</b>
1999-00	4,255,866	4.1	0.4
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

**BASE AND RATE**

Inspection stations are licensed by the state. Annual inspections are required for all motor vehicles that are registered in North Carolina and use North Carolina's highways and streets. Once a vehicle has passed the inspection, an inspection sticker is affixed to the windshield.

**{G.S. 20-183.7}** Safety equipment inspection fees total \$9.10 per vehicle inspected. Of that total, \$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. Of that amount, \$23.50 is for the inspection and remains with the inspection station. The remaining \$6.50 is for the inspection sticker; \$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 and \$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 fee amount for the Emissions and Safety Inspection is 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, Wake.

Future Counties that require emissions inspections will be phased in according to the schedule 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**

**NORTH CAROLINA STATUTES**

{G.S. 20-87, G.S. 20-88(b)(1), G.S. 20-50, and G.S. 20-85.1}

**ADMINISTERED BY**

Department of Transportation Division of Motor Vehicles

<b>Fiscal Year</b>	<b>Highway Fund Collections</b>	<b>Annual Percent Change</b>	<b>Percent of Highway Fund Tax Collections</b>
1999-00	145,624,292	4.7	12.7
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

**BASE AND RATE**

**{G.S.20-87}** All private passenger hauling vehicles (automobiles and motorcycles) and all private hauler 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.

**{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 a \$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 \$7.50 to \$209.00. The median tax rate for the nation was \$62.00. Thirty seven 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 \$25.00 and \$61.00 respectively. North Carolina ranked second in the southeastern states and next to last 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, U.S. Federal Highway Administration, Washington, D.C., 2007

**TRUCK LICENSE PLATE FEES**

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**NORTH CAROLINA STATUTES**

{G.S. 20-85 and G.S. 20-88}

**ADMINISTERED BY**

Department of Transportation Division of Motor Vehicles

<b>Fiscal Year</b>	<b>Highway Fund Collections</b>	<b>Annual Percent Change</b>	<b>Percent of Highway Fund Tax Collections</b>
1999-00	59,519,842	4.8	5.2
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

**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:

**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 19,000 lbs.	0.68	1.36
Over 19,000 lbs.	0.77	1.54

An additional \$3 charge per plate is levied.

**{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**

The annual renewal period for the purchase of plates is between January 1 and February 15 for the current calendar year.

**COMPARISON WITH OTHER STATES**

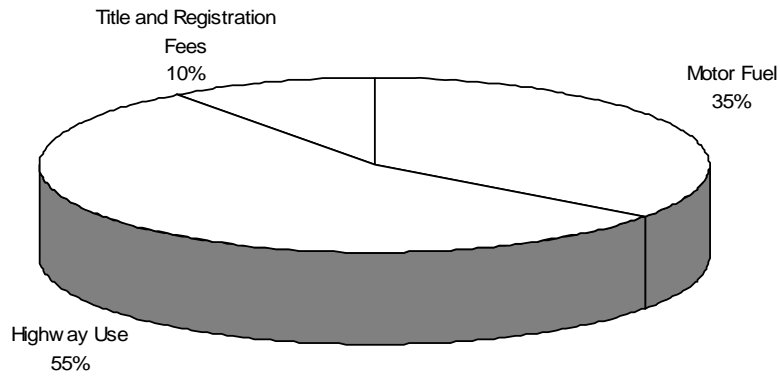
All states levy truck license plate fees. Most states have a fee schedule based on the empty weight of the vehicles. All states grant preferential tax treatment to farm vehicles. The typical registration fee for single-unit non-farm trucks was \$176 for the nation, \$158 among the six southeastern states (1), and \$187 among the eleven most populated states (2). North Carolina's rate was \$183, giving it a ranking of 21st for the nation, 3rd in the southeast, and 5th among the largest states.

Source: Department of Transportation, Highway Taxes and Fees, U.S. Federal Highway Administration, Washington, D.C. 2002

**HIGHWAY  
TRUST FUND  
TAXES**



CHART 5  
 NORTH CAROLINA HIGHWAY TRUST FUND TAX COLLECTIONS  
 (2005-06)



Motor Fuels	\$366,457,976
Highway Use	577,236,704
Title and Registration	106,186,837
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Total	\$1,049,881,517

## HIGHWAY USE TAX

### NORTH CAROLINA STATUTES

{G.S. 105-187.1 to G.S. 105-187.11}

### ADMINISTERED BY

Department of Revenue

<b>Fiscal Year</b>	<b>Highway Trust Fund Tax Collections</b>	<b>Annual Percent Change</b>	<b>Percent of Highway Trust Fund Tax Collections</b>
1999-00	545,268,353	11.4	60.6
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

### BASE AND RATE

**{G.S. 105-187.3}** A 3% tax 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. Recreational vehicles weighing less than 26,000 pounds are subject to a \$1,500 ceiling, while those weighing more than 26,001 are subject to a \$1,000 cap. Motor vehicles purchased in other states and titled in North Carolina are also subject to the tax. 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%.

### **{G.S. 105-187.6}** Exemptions:

- 1) Transfer to the insurer of a vehicle because the vehicle is a salvage vehicle
- 2) Sales to a motor vehicle dealer for resale
- 3) Transfer because of a change in the owner's name
- 4) Transfer by will or intestacy
- 5) Gifts between spouses or parent and child
- 6) Distribution of marital property as a result of divorce
- 7) Transfer of a vehicle to a handicapped person from the Department of Human Resources after the vehicle has been specially equipped
- 8) Transfer of a vehicle to a local board of education for use in drivers' education
- 9) Transfers of a vehicle purchased by volunteer fire and/or rescue departments that is subject to a partial exemption, with 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. 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 will be transferred annually to the General Fund. An additional \$2.4 million will be transferred to the General Fund, and this amount will be adjusted annually based on the increase or decrease of highway use tax collections. The remaining revenue will be deposited in the Highway Trust Fund for highway purposes.

### **TAX CALENDAR**

Taxes are due upon application for a certificate of title. The person leasing the 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-six states levy a state sales or excise taxes on automobiles. (Alaska levies a local tax.) In lieu of a general sales and use tax, North Carolina levies a highway use tax on the retail sale price of motor vehicles. Only two states, North Carolina and South Carolina, have a tax ceiling. The median state tax rate for the nation was 5%. Three states had a lower state tax rate than North Carolina, one the same, while 41 had higher rates. North Carolina had the lowest rate of the six southeastern states (1) and of the 11 most populated states (2).

Source: Commerce Clearing House, Inc. "State Tax Handbook". Chicago, Illinois, 2007

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

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

**LIEN RECORDING FEES**

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**NORTH CAROLINA STATUTES**

{G.S. 20-85}

**ADMINISTERED BY**

Department of Transportation Division of Motor Vehicles

<b>Fiscal Year</b>	<b>Highway Trust Fund Tax Collections</b>	<b>Annual Percent Change</b>	<b>Percent of Highway Trust Fund Tax Collections</b>
1999-00	2,141,461	-8.3	0.2
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

**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 purchase.

**COMPARISON WITH OTHER STATES**

A comparison with other states was not taken.

**MOTOR FUELS EXCISE TAX**

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**NORTH CAROLINA STATUTES**

{G.S.105-430 and G.S. 105-449.37 through G.S. 105-449.139}

**ADMINISTERED BY**

Department of Revenue

<b>Fiscal Year</b>	<b>Highway Trust Fund Tax Collections</b>	<b>Annual Percent Change</b>	<b>Percent of Highway Trust Fund Tax Collections</b>
1999-00	260,744,650	2.4	29.0
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

**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 whole sale 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.

Base period: January 1, 2006 base rate is .299 cents

July 1, 2006 base rate is .299 cents

Note: Due to the cap, by actions of the 2006 General Assembly, the rate will remain at 29.9 cents until July 2007.

**BASE PERIOD**

The first base period is the six months ending on the 30<sup>th</sup> of September.

The second base period is the six months ending on the 31<sup>st</sup> 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 gallon

### **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), motor fuel removed from a terminal for export for which the supplier collects the excise tax at the rate of the destination state. 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. 135-176(b)(3), G.S. 136-41.1}** 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 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.

**TITLE AND REGISTRATION FEES**

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**NORTH CAROLINA STATUTES**

{G.S. 20-85 and G.S. 20-85.1(b)}

**ADMINISTERED BY**

Department of Transportation Division of Motor Vehicles

<b>Fiscal Year</b>	<b>Highway Trust Fund Tax Collections</b>	<b>Annual Percent Change</b>	<b>Percent of Highway Trust Fund Tax Collections</b>
1999-00	91,079,907	3.6	10.1
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

**BASE AND RATE**

{G.S. 20-85 (a)} Charges are rendered for 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) lien removal fee, \$15.00
- 9) manufacturer of dealer title, \$15.00

\*Fees collected under G.S. 20-85(a)(10), salvage titles, are credited to the Highway Fund

\* One Dollar of the fees collected under G.S. 20-85(a)(1), certificate of title, 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 switch 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.

{G.S. 20-85.1(b)} In lieu of the regular \$35.00 charge for certificate of title, there is a \$75.00 charge for one-day service.

**DISTRIBUTION**

Revenue 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**

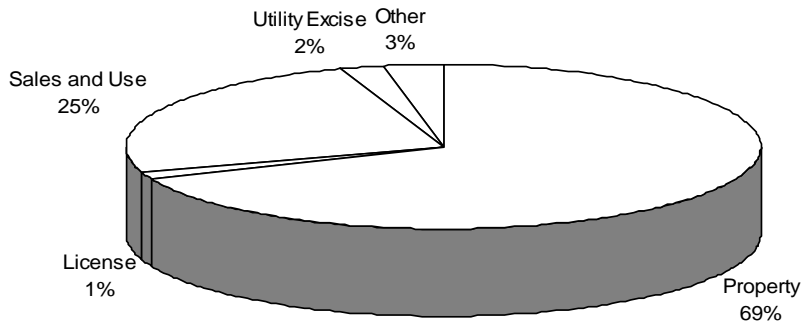
A comparison with other states was not taken.



# **Local Government Taxes**



CHART 6  
 NORTH CAROLINA TAX COLLECTIONS  
 RECEIVED BY LOCAL GOVERNMENT  
 (2005-06)



Property	\$6,694,615,011
License	145,097,715
Sales and Use	2,413,430,054
Utility Excise	217,030,907
Other	302,682,176
	-----
Total	\$9,772,855,863

**EXCISE TAX ON BEER AND WINE--LOCAL SHARE**

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**NORTH CAROLINA STATUTES**  
{G.S. 105-113.68 to G.S. 105-113.89}

**ADMINISTERED BY**  
Department of Revenue

<b>Fiscal Year</b>	<b>Local Government Tax Receipts</b>	<b>Annual Percent Change</b>	<b>Percent of Local Government Tax Receipts</b>
1999-00	25,236,935	3.3	0.4
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

**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 earmarking provisions were replaced by a fixed annual General Fund appropriation. Effective July 1, 1995, the earmarking provisions were reinstated.

**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. (This is equivalent to 5 cents per can.). {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

**NORTH CAROLINA STATUTES**  
{G.S. 105-228.28 to G.S. 105-228.37}

**ADMINISTERED BY**  
County Governments

<b>Fiscal Year</b>	<b>Local Government Tax Receipts</b>	<b>Annual Percent Change</b>	<b>Percent of Local Government Tax Receipts</b>
1998-99	34,787,017	14.8	0.5
1999-00	35,951,673	3.4	0.5
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

### 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 land transfer taxes.

## LAND TRANSFER TAX

### NORTH CAROLINA STATUTES

Not part of General Statutes, Citations in Session Laws.

### ADMINISTERED BY

County Governments

<b>Fiscal Year</b>	<b>Local Government Tax Receipts</b>	<b>Annual Percent Change</b>	<b>Percent of Local Government Tax Receipts</b>
1999-00	8,601,850	16.0	0.1
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	33,915,789	27.0	0.4

### BASE AND RATE

A maximum tax rate of 1% is imposed on the sale 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.

### TAX CALENDAR

Taxes are paid at the time of the transaction.

### COMPARISON WITH OTHER STATES

Information was not found on land transfer taxes.

## **LIQUOR BY-THE-DRINK TAX**

### **NORTH CAROLINA STATUTES**

{G.S. 18B-804 and G.S. 18B-805}

### **ADMINISTERED BY**

Local Alcoholic Beverage Control Boards

<b>Fiscal Year</b>	<b>Local Government Tax Receipts</b>	<b>Annual Percent Change</b>	<b>Percent of Local Government Tax Receipts</b>
1998-99	6,925,829	8.4	0.1
1999-00	7,535,084	8.8	0.1
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

### **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. Liquor must be purchased at ABC stores. As of June 2006, 76 cities and 44 counties approved liquor by-the-drink sales.

### **DISTRIBUTION**

{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 at the county or municipal ABC stores, 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

### NORTH CAROLINA STATUTES

Not part of the General Statutes. The citations are in Session Laws.

### ADMINISTERED BY

County Governments

<b>Fiscal Year</b>	<b>General Fund Tax Receipts</b>	<b>Annual Percent Change</b>	<b>Percent of Local Government Tax Receipts</b>
1999-00	26,234,636	6.9	0.4
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	35,798,290	4.0	0.4

### 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 and employer with out charge, and some sales by grocery stores. As of fiscal year 2005-06, 5 counties and 1 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

### NORTH CAROLINA STATUTES

{G.S. 105-33 to G.S. 105-109, G.S. 153A-152 and G.S. 160A-211}

### ADMINISTERED BY

Counties and Municipalities

<b>Fiscal Year</b>	<b>Local Government Tax Receipts</b>	<b>Annual Percent Change</b>	<b>Percent of Local Government Tax Receipts</b>
1998-99	76,813,950	8.1	1.3
1999-00	84,883,723	10.5	1.3
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*	145,097,715	10.0	1.5

\* 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.

**{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 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.

**NORTH CAROLINA STATUTES**

{G.S. 105-271 to G.S. 105-449.37}

**ADMINISTERED BY**

The Department of Revenue supervises administration. Assessment of locally appraised property and collection of taxes is conducted by counties and municipalities.

<b>Fiscal Year</b>	<b>General Fund Tax Receipts</b>	<b>Annual Percent Change</b>	<b>Percent of Local Government Tax Receipts</b>
1999-00	4,538,764,544	9.5	70.6
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

**DISTRIBUTION**

In fiscal year 2003-04, 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.

**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 no later than July 1, 2009, 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) excludes 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) special nuclear material held for processing; 16) short term leases of motor vehicles (less than 365 days, instead subject to a 1.5% gross receipts tax); 17) motor vehicles owned by a disabled veteran and altered to accommodate a service connected disability; 18) Continuing Care Retirement Communities; and 19) intangible property. In addition, there is a decreasing annual schedule of exemptions for the first five taxable years on Brownfield sites.

Tax rates vary between counties and between municipalities within counties. In 2005-06, the lowest countywide rate was 25 cents per \$100 of appraised value, and the lowest municipality rate was 15 cents per \$100 of appraised value. The average combined municipal and county rate for property located within a municipality was \$1.15 per \$100 of appraised value.

### **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 consisted of 30% of state and local tax levies in the United States, while consisting of 24% in the southeastern states (1), and 32% in the eleven most populated states (2).

In North Carolina property taxes consisted of 24% of state and local tax collections. As of fiscal year 2003-04, the average local property tax paid per capita in the United States was \$1,084 while the per capita property tax burden for the southeast was \$793, and \$1,188 for the eleven largest states. North Carolina's per capita property tax burden was \$713. In fiscal year 2003-04, 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 11<sup>th</sup>. As a percent of personal income, the average citizen devoted 3.2% of their personal income to property tax payments nationally, 2.6% in the Southeast, 3.6% in the eleven most populated states, and 2.5% for North Carolina. Among the eleven largest states, North Carolina ranked 40th in the nation, 4th in the southeast, and 11<sup>th</sup> 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, 2003-04, Washington, D.C., 2006

(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

### NORTH CAROLINA STATUTES

Not part of the General Statutes. Citations in Session Laws.

#### ADMINISTERED BY

County Governments

Municipal Governments

<b>Fiscal Year</b>	<b>General Fund Tax Receipts</b>	<b>Annual Percent Change</b>	<b>Percent of Local Government Tax Receipts</b>
1999-00	86,259,350	7.5	1.3
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*	123,489,428	8.0	1.3

\* 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 accommodations 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

### NORTH CAROLINA STATUTES

{G.S. 105-458 to G.S. 105-515 and G.S. 105-510}

### ADMINISTERED BY

Department of Revenue

<b>Fiscal Year</b>	<b>General Fund Tax Receipts</b>	<b>Annual Percent Change</b>	<b>Percent of Local Government Tax Receipts</b>
1999-00	1,575,410,429	4.7	24.5
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

### BASE AND RATE

**{Articles 38, 39, 40, 41, 42, 43, and 44 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 4 1/2% levy. All 100 counties levy the full 2 1/2% in local government sales taxes. Mecklenburg County levies an additional 1/2% sales and use tax that is dedicated for public transportation. In addition, 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) of the local government sales tax is returned to the counties from which the tax was collected. The revenue from each of the two 1/2% (Articles 40 and 42) local government sales taxes is allocated to the counties on a per capita basis. The third 1/2 % (Article 44) local option sales tax is split; half of the collections are returned to the counties on a per capita basis, and half on the basis of point of sale. The revenue from the food levy is split; half of the collections will be returned to the counties on a per capita basis, and half proportionately based upon the amount of sales tax on food collected in a taxing county in the 1997-1998 fiscal year under Article 39. 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; and 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 July 2004, localities in thirty-four states levy sales taxes. In most states, some discretion is allowed as to the level of the local levy. For example, cities and boroughs in Alaska may levy local sales taxes from 1% to 6%. The maximum local sales tax in each state ranges from 0.25% to 7%. The average maximum local sales tax for the nation was 1.6%. For more information see "Sales and Use Taxes" under the General Fund section.

Source: Comparison of State and Local Retail Sales Taxes, Federation of Tax Administrators, January 2007.

## UTILITY EXCISE TAX

### NORTH CAROLINA STATUTES

105-114 to 105-129.1

### ADMINISTERED BY

Department of Revenue

<b>Fiscal Year</b>	<b>Local Government Tax Receipts</b>	<b>Annual Percent Change</b>	<b>Percent of Local Government Tax Receipts</b>
1999-00	178,360,135	10.7	2.8
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

Note: Prior to fiscal 1989-90, local government received an earmarked portion of the state excise tax on the gross receipts from intrastate services of gas, power and light, and telephone companies. From 1989-90 through 1994-95, the earmarking provisions were replaced by a fixed annual General Fund appropriation. Effective July 1, 1995, the earmarking provisions were reinstated.

### BASE AND RATE

A 3.22% state excise tax is levied on the gross receipts of power and light companies, in addition to a 3% state sales tax. Of the 3.22% state excise tax rate, 3.09 percentage points (or 96% of collections) are distributed to the respective municipalities within which these services take place.

Effective January 1, 2002, all telecommunication services previously taxed under the gross receipts franchise tax, will be taxed under the state Sales and Use tax at a 7% rate. Approximately 75% of collections for services originating in municipalities are distributed to the respective municipality.

### DISTRIBUTION

The respective municipality can use the revenue earmarked to municipalities 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 will be determined and distributed shortly after, and is received by September 15, December 15, March 15, and June 15.

**COMPARISON WITH OTHER STATES**

See “Franchise Taxes,” in the General Fund Section.



**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 2003-04**  
**(\$Thousands)**

<b>STATES</b>	<b>TOTAL</b>	<b>STATE</b>	<b>LOCAL</b>	<b>STATE</b>	<b>LOCAL</b>
Alabama	\$10,535,366	\$7,018,242	\$3,517,124	67%	33%
Alaska	2,375,631	1,343,191	1,032,440	57%	43%
Arizona	16,481,174	9,637,369	6,843,805	58%	42%
Arkansas	6,973,165	5,580,678	1,392,487	80%	20%
California	133,893,624	85,721,483	48,172,141	64%	36%
Colorado	14,581,562	7,051,457	7,530,105	48%	52%
Connecticut	17,220,114	10,291,289	6,928,825	60%	40%
Delaware	2,994,328	2,375,482	618,846	79%	21%
Florida	53,789,454	30,534,283	23,255,171	57%	43%
Georgia	25,654,760	14,570,573	11,084,187	57%	43%
Hawaii	4,812,056	3,849,135	962,921	80%	20%
Idaho	3,805,827	2,647,790	1,158,037	70%	30%
Illinois	45,190,729	23,709,618	21,481,111	52%	48%
Indiana	18,675,024	11,957,470	6,717,554	64%	36%
Iowa	9,018,748	5,214,602	3,804,146	58%	42%
Kansas	9,241,973	5,283,676	3,958,297	57%	43%
Kentucky	11,460,494	8,463,400	2,997,094	74%	26%
Louisiana	13,065,430	7,741,289	5,324,141	59%	41%
Maine	4,982,541	2,870,108	2,112,433	58%	42%
Maryland	22,331,127	12,327,974	10,003,153	55%	45%
Massachusetts	27,015,147	16,839,243	10,175,904	62%	38%
Michigan	33,478,182	22,647,281	10,830,901	68%	32%
Minnesota	19,423,637	14,734,921	4,688,716	76%	24%
Mississippi	7,088,719	5,124,730	1,963,989	72%	28%
Missouri	16,255,378	9,119,664	7,135,714	56%	44%
Montana	2,431,335	1,625,692	805,643	67%	33%
Nebraska	6,307,884	3,639,811	2,668,073	58%	42%
Nevada	7,971,598	4,716,660	3,254,938	59%	41%
New Hampshire	4,069,671	2,005,389	2,064,282	49%	51%
New Jersey	39,558,277	20,986,204	18,572,073	53%	47%
New Mexico	5,444,158	4,001,780	1,442,378	74%	26%
New York	101,426,262	45,826,429	55,599,833	45%	55%
<b>North Carolina</b>	<b>25,012,464</b>	<b>16,836,454</b>	<b>8,176,010</b>	<b>67%</b>	<b>33%</b>
North Dakota	1,901,047	1,228,890	672,157	65%	35%
Ohio	39,151,223	22,475,528	16,675,695	57%	43%
Oklahoma	9,434,943	6,426,713	3,008,230	68%	32%
Oregon	10,474,210	6,103,071	4,371,139	58%	42%
Pennsylvania	42,717,857	25,346,879	17,370,978	59%	41%
Rhode Island	4,202,266	2,408,861	1,793,405	57%	43%
South Carolina	11,176,606	6,803,568	4,373,038	61%	39%
South Dakota	2,015,928	1,062,722	953,206	53%	47%
Tennessee	14,946,638	9,529,171	5,417,467	64%	36%

**TABLE 1**

**LEVEL AND PERCENTAGE DISTRIBUTION OF STATE  
AND LOCAL TAX COLLECTIONS BY SOURCE FOR 2003-04  
(\$Thousands)**

<b>STATES</b>	<b>TOTAL</b>	<b>STATE</b>	<b>LOCAL</b>	<b>STATE</b>	<b>LOCAL</b>
Texas	64,738,772	30,751,860	33,986,912	48%	52%
Utah	6,621,225	4,195,962	2,425,263	63%	37%
Vermont	2,286,183	1,766,719	519,464	77%	23%
Virginia	25,002,305	14,233,065	10,769,240	57%	43%
Washington	21,424,928	13,895,346	7,529,582	65%	35%
West Virginia	4,967,505	3,749,013	1,218,492	75%	25%
Wisconsin	20,440,988	12,638,266	7,802,722	62%	38%
Wyoming	2,245,265	1,504,777	740,488	67%	33%
DC	\$3,963,547	\$0	\$3,963,547	0%	100%
United States	\$1,010,277,275	\$590,413,778	\$419,863,497	58%	42%

## **TABLE 2**

In fiscal 2003-04, North Carolina ranked 31st in the nation in per capita state and local tax burden, 25th in per capita state tax burden, and 36th in per capita local tax burden. In terms of tax burden as a percent of personal income, North Carolina ranked 31st in the nation, while ranking 16th and 36th respectively in state tax burden as a percent of personal income and local tax burden as a percent of personal income.

TABLE 2

**STATE RANKING OF STATE AND LOCAL TAX BURDEN  
PER CAPITA AND PERCENT OF PERSONAL INCOME FOR 2003-04**

STATES	PER CAPITA			PERCENT OF PERSONAL INCOME		
	TOTAL	STATE	LOCAL	TOTAL	STATE	LOCAL
Alabama	50	46	43	50	41	42
Alaska	14	22	11	13	33	8
Arizona	36	41	29	25	34	20
Arkansas	48	23	50	36	8	50
California	11	9	21	16	15	29
Colorado	25	48	7	46	49	12
Connecticut	2	3	3	12	21	14
Delaware	16	5	46	22	4	49
Florida	27	36	22	34	40	17
Georgia	35	42	24	43	43	23
Hawaii	8	1	44	4	1	48
Idaho	42	31	42	27	13	38
Illinois	17	32	5	23	45	6
Indiana	29	29	31	35	24	32
Iowa	28	35	23	30	37	22
Kansas	22	27	16	10	27	9
Kentucky	39	21	47	29	9	44
Louisiana	33	39	30	17	25	16
Maine	10	16	8	3	10	2
Maryland	6	15	4	24	38	11
Massachusetts	5	7	10	28	26	31
Michigan	24	12	32	26	14	35
Minnesota	9	4	37	15	5	47
Mississippi	49	34	48	33	11	43
Missouri	38	45	25	45	46	24
Montana	45	37	39	39	23	37
Nebraska	15	18	12	7	19	7
Nevada	21	24	20	20	32	19
New Hampshire	26	47	9	48	50	15
New Jersey	3	8	2	9	36	3
New Mexico	37	17	45	14	7	41
New York	1	10	1	1	28	1
<b>North Carolina</b>	<b>31</b>	<b>25</b>	<b>36</b>	<b>31</b>	<b>16</b>	<b>36</b>
North Dakota	30	28	33	40	30	34
Ohio	20	26	15	11	29	10
Oklahoma	43	33	40	41	20	40
Oregon	32	40	27	38	39	27
Pennsylvania	19	20	19	21	31	21
Rhode Island	7	14	6	5	17	5
South Carolina	44	43	34	37	35	30
South Dakota	46	49	26	47	47	26

**TABLE 2**

**STATE RANKING OF STATE AND LOCAL TAX BURDEN  
PER CAPITA AND PERCENT OF PERSONAL INCOME FOR 2003-04**

<b>STATES</b>	<b>PER CAPITA</b>			<b>PERCENT OF PERSONAL INCOME</b>		
	<b>TOTAL</b>	<b>STATE</b>	<b>LOCAL</b>	<b>TOTAL</b>	<b>STATE</b>	<b>LOCAL</b>
Tennessee	47	44	38	49	42	39
Texas	34	50	13	42	48	4
Utah	41	38	35	19	18	28
Vermont	13	6	41	8	2	45
Virginia	23	30	17	44	44	25
Washington	18	13	28	32	22	33
West Virginia	40	19	49	18	6	46
Wisconsin	12	11	18	6	12	13
Wyoming	4	2	14	2	3	18

### TABLE 3

North Carolina's per capita state and local tax burden was \$2,929 in 2003-04, while the per capita tax burden for the nation stood at \$3,440. The average for the 11 most populated states registered \$3,604, and the average for the southeast was \$2,891. North Carolina's per capita state and local tax burden ranked 33rd for the nation, 3rd for the Southeast, and 8th 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 31st in the nation, 2nd among the largest states, and 9th in the southeast. In terms of per capita local tax burden, North Carolina ranked 38th in the nation, 10th among the largest states, and 5th in the southeast.

North Carolina's state and local tax burden as a percent of personal income was 10.05% in 2003-04, while the tax burden for the nation stood at 10.53%, and was 10.81% in the eleven most populated states, and 9.59% among the southeastern states. North Carolina's state and local tax burden as a percent of personal income ranked 31st in the nation, 8th among the eleven most populated states, and 2nd 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 16th in the nation, 3rd among the largest states, and 2nd in the southeast. In terms of local tax burden, North Carolina ranked 36th in the nation, last among the largest states, and 4th in the southeast.

**TABLE 3**  
**STATE AND LOCAL TAX COLLECTIONS**  
**PER CAPITA AND AS A PERCENT OF PERSONAL INCOME**  
**FOR THE UNITED STATES, ELEVEN MOST POPULATED STATES,**  
**AND THE SOUTHEAST**  
**FOR 2003-04**

STATES	PER CAPITA			PERCENT OF PERSONAL INCOME		
	TOTAL	STATE	LOCAL	TOTAL	STATE	LOCAL
UNITED STATES	3,440	2,011	1,430	10.53%	6.16%	4.38%
MOST POPULATED	3,604	2,023	1,581	10.81%	6.07%	4.74%
California	3,736	2,392	1,344	10.72%	6.87%	3.86%
Florida	3,094	1,756	1,338	9.99%	5.67%	4.32%
Georgia	2,877	1,634	1,243	9.58%	5.44%	4.14%
Illinois	3,555	1,865	1,690	10.34%	5.42%	4.91%
Michigan	3,313	2,241	1,072	10.29%	6.96%	3.33%
New Jersey	4,555	2,416	2,138	11.04%	5.86%	5.18%
New York	5,260	2,377	2,884	13.95%	6.30%	7.65%
<b>North Carolina</b>	<b>2,929</b>	<b>1,971</b>	<b>957</b>	<b>10.05%</b>	<b>6.77%</b>	<b>3.29%</b>
Ohio	3,419	1,963	1,456	10.97%	6.30%	4.67%
Pennsylvania	3,447	2,045	1,402	10.49%	6.22%	4.27%
Texas	2,881	1,368	1,512	9.60%	4.56%	5.04%
SOUTHEAST	2,891	1,798	1,093	9.59%	5.96%	3.63%
Georgia	2,877	1,634	1,243	9.58%	5.44%	4.14%
Kentucky	2,767	2,043	724	10.10%	7.46%	2.64%
<b>North Carolina</b>	<b>2,929</b>	<b>1,971</b>	<b>957</b>	<b>10.05%</b>	<b>6.77%</b>	<b>3.29%</b>
South Carolina	2,662	1,621	1,042	9.85%	5.99%	3.85%
Tennessee	2,536	1,617	919	8.53%	5.44%	3.09%
Virginia	3,342	1,903	1,440	9.54%	5.43%	4.11%

Source: Governmental Finances, 2003-04, Bureau of Census, U.S. Department of Commerce Web Page, December 31, 2005

### **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 30% of state and local taxes in North Carolina, compared to 21% for the nation, 21% for the most populated states, and 25% for the Southeast. North Carolina also places a greater reliance on the motor fuels tax and motor vehicle license taxes. On the other hand, North Carolina relies less heavily on most other taxes. This is especially true in comparing property taxes. Property taxes consist of 24% of North Carolina state and local taxes, as compared to 32% for the nation, 33% for the most populated states, and 27% for the Southeast.

North Carolina has a higher individual income tax burden and a higher motor fuels tax burden as compared to the nation, the most populated states, and the Southeast. On the other hand, the state has a lower tax burden in most other taxes. This is especially true for the property tax.

**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**  
**2003-04**

<b>Revenue Source</b>	<b>Percentage Distribution</b>			
	<b>United States</b>	<b>Most Populated</b>	<b>Southeast</b>	<b>North Carolina</b>
Individual Income	21%	21%	25%	30%
Sales and Use	24%	24%	26%	24%
Property	32%	33%	27%	24%
Corporate Income	3%	4%	3%	3%
Motor Fuels	3%	3%	4%	5%
Motor Vehicle Licenses	2%	2%	2%	2%
Other	14%	14%	13%	12%
<b>Total Tax</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>

**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**  
**2003-04**

<b>Revenue Source</b>	<b>Per Capita Collections</b>			
	<b>United States</b>	<b>Most Populated</b>	<b>Southeast</b>	<b>North Carolina</b>
Individual Income	\$733	\$745	\$714	\$880
Sales and Use	834	853	747	688
Property	1,084	1,188	793	713
Corporate Income	115	136	77	98
Motor Fuels	119	107	121	149
Motor Vehicle Licenses	64	65	50	55
Other	492	509	389	346
<b>Total Tax</b>	<b>\$3,440</b>	<b>\$3,604</b>	<b>\$2,891</b>	<b>\$2,929</b>

**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 2003-04**

<b>Revenue Source</b>	<b>Percentage Distribution</b>			
	<b>United States</b>	<b>Most Populated</b>	<b>Southeast</b>	<b>North Carolina</b>
Individual Income	2.2%	2.2%	2.4%	3.0%
Sales and Use	2.6%	2.6%	2.5%	2.4%
Property	3.3%	3.6%	2.6%	2.4%
Corporate Income	0.4%	0.4%	0.3%	0.3%
Motor Fuels	0.4%	0.3%	0.4%	0.5%
Motor Vehicle Licenses	0.2%	0.2%	0.2%	0.2%
Other	1.5%	1.5%	1.3%	1.2%
<b>Total Tax</b>	<b>10.5%</b>	<b>10.8%</b>	<b>9.6%</b>	<b>10.1%</b>