

1 to develop a fully consolidated statewide ERP solution. To that end, of the funds appropriated
 2 in this act to the Statewide Reserves, the sum of three million dollars (\$3,000,000) for the
 3 2017-2018 fiscal year, and the sum of ten million dollars (\$10,000,000) for the 2018-2019
 4 fiscal year shall be allocated to the Department of Information Technology for Enterprise
 5 Resource Planning (ERP) projects.

6 **SECTION 37.6.(b)** The Department of Information Technology shall annually
 7 report on the progress of the ERP projects to the Joint Legislative Oversight Committee on
 8 Information Technology and the Fiscal Research Division on or before January 1.

10 PART XXXVIII. FINANCE PROVISIONS

12 LOWER PERSONAL INCOME TAX RATE

13 **SECTION 38.1.(a)** G.S. 105-153.7(a) reads as rewritten:

14 "(a) Tax. – A tax is imposed for each taxable year on the North Carolina taxable income
 15 of every individual. The tax shall be levied, collected, and paid annually. The tax is ~~five and~~
 16 ~~four hundred ninety nine thousandths percent (5.499%)~~ five and thirty-five hundredths percent
 17 (5.35%) of the taxpayer's North Carolina taxable income."

18 **SECTION 38.1.(b)** This section is effective for taxable years beginning on or after
 19 January 1, 2018.

21 INCREASE STANDARD DEDUCTION

22 **SECTION 38.2.(a)** G.S. 105-153.5(a)(1) reads as rewritten:

23 "(a) Deduction Amount. – In calculating North Carolina taxable income, a taxpayer may
 24 deduct from adjusted gross income either the standard deduction amount provided in
 25 subdivision (1) of this subsection or the itemized deduction amount provided in subdivision (2)
 26 of this subsection that the taxpayer claimed under the Code. The deduction amounts are as
 27 follows:

- 28 (1) Standard deduction amount. – The standard deduction amount is zero for a
 29 person who is not eligible for a standard deduction under section 63 of the
 30 Code. For all other taxpayers, the standard deduction amount is equal to the
 31 amount listed in the table below based on the taxpayer's filing status:

32 Filing Status	32 Standard Deduction
33 Married, filing jointly/surviving spouse	\$17,500 <u>\$20,000</u>
34 Head of Household	14,000 <u>15,000</u>
35 Single	8,750 <u>10,000</u>
36 Married, filing separately	8,750 <u>10,000.</u>

37 **SECTION 38.2.(b)** This section is effective for taxable years beginning on or after
 38 January 1, 2018.

40 MODIFY MORTGAGE DEDUCTION

41 **SECTION 38.3.(a)** G.S. 105-153.5(a)(2) reads as rewritten:

42 "(a) Deduction Amount. – In calculating North Carolina taxable income, a taxpayer may
 43 deduct from adjusted gross income either the standard deduction amount provided in
 44 subdivision (1) of this subsection or the itemized deduction amount provided in subdivision (2)
 45 of this subsection that the taxpayer claimed under the Code. The deduction amounts are as
 46 follows:

- 47 ...
- 48 (2) Itemized deduction amount. – An amount equal to the sum of the items listed
 49 in this subdivision. The amounts allowed under this subdivision are not
 50 subject to the overall limitation on itemized deductions under section 68 of
 51 the Code:

1 ...
 2 b. Mortgage Expense and Property Tax. – The amount allowed as a
 3 deduction for interest paid or accrued during the taxable year under
 4 section 163(h) of the Code with respect to any qualified residence
 5 plus the amount allowed as a deduction for property taxes paid or
 6 accrued on real estate under section 164 of the Code for that taxable
 7 year. ~~For taxable years 2014, 2015, and 2016, the amount allowed as~~
 8 ~~a deduction for interest paid or accrued during the taxable year under~~
 9 ~~section 163(h) of the Code with respect to any qualified residence~~
 10 ~~shall not include the amount for mortgage insurance premiums~~
 11 ~~treated as qualified residence interest. The amount allowed under this~~
 12 ~~sub-subdivision may not exceed twenty thousand dollars (\$20,000).~~
 13 ~~For spouses filing as married filing separately or married filing~~
 14 ~~jointly, the total mortgage interest and real estate taxes claimed by~~
 15 ~~both spouses combined may not exceed twenty thousand dollars~~
 16 ~~(\$20,000). For spouses filing as married filing separately with a joint~~
 17 ~~obligation for mortgage interest and real estate taxes, the deduction~~
 18 ~~for these items is allowable to the spouse who actually paid them. If~~
 19 ~~the amount of the mortgage interest and real estate taxes paid by both~~
 20 ~~spouses exceeds twenty thousand dollars (\$20,000), these deductions~~
 21 ~~must be prorated based on the percentage paid by each spouse. For~~
 22 ~~joint obligations paid from joint accounts, the proration is based on~~
 23 ~~the income reported by each spouse for that taxable year.~~the amount
 24 listed in the table below based on the taxpayer's filing status:

<u>Filing Status</u>	<u>Cap Amount</u>
<u>Married, filing jointly/surviving spouse</u>	<u>\$22,000</u>
<u>Head of Household</u>	<u>16,500</u>
<u>Single</u>	<u>11,000</u>
<u>Married, filing separately</u>	<u>11,000.</u>

30"
 31 **SECTION 38.3.(b)** This section is effective for taxable years beginning on or after
 32 January 1, 2018.

33
 34 **CONVERT CHILD TAX CREDIT TO A DEDUCTION**

35 **SECTION 38.4.(a)** G.S. 105-153.5 is amended by adding a new subsection to read:
 36 "**§ 105-153.5. Modifications to adjusted gross income.**

37 ...
 38 (a1) Child Deduction Amount. – A taxpayer who is allowed a federal child tax credit
 39 under section 24 of the Code for the taxable year is allowed a deduction under this subsection
 40 for each dependent child for whom the taxpayer is allowed the federal tax credit. The amount
 41 of the deduction is equal to the amount listed in the table below based on the taxpayer's
 42 adjusted gross income, as calculated under the Code:

<u>Filing Status</u>	<u>AGI</u>	<u>Deduction Amount</u>
<u>Married, filing jointly/ surviving spouse</u>	<u>Up to \$40,000</u>	<u>\$2,500.00</u>
	<u>Over \$40,000</u>	
	<u>Up to \$60,000</u>	<u>2,000.00</u>
	<u>Over \$60,000</u>	
	<u>Up to \$80,000</u>	<u>1,500.00</u>
	<u>Over \$80,000</u>	
	<u>Up to \$100,000</u>	<u>1,000.00</u>
	<u>Over \$100,000</u>	

1		<u>Up to \$120,000</u>	<u>500.00</u>
2		<u>Over \$120,000</u>	<u>0</u>
3			
4	<u>Head of Household</u>	<u>Up to \$30,000</u>	<u>\$2,500.00</u>
5		<u>Over \$30,000</u>	
6		<u>Up to \$45,000</u>	<u>2,000.00</u>
7		<u>Over \$45,000</u>	
8		<u>Up to \$60,000</u>	<u>1,500.00</u>
9		<u>Over \$60,000</u>	
10		<u>Up to \$75,000</u>	<u>1,000.00</u>
11		<u>Over \$75,000</u>	
12		<u>Up to \$90,000</u>	<u>500.00</u>
13		<u>Over \$90,000</u>	<u>0</u>
14			
15	<u>Single</u>	<u>Up to \$20,000</u>	<u>\$2,500.00</u>
16		<u>Over \$20,000</u>	
17		<u>Up to \$30,000</u>	<u>2,000.00</u>
18		<u>Over \$30,000</u>	
19		<u>Up to \$40,000</u>	<u>1,500.00</u>
20		<u>Over \$40,000</u>	
21		<u>Up to \$50,000</u>	<u>1,000.00</u>
22		<u>Over \$50,000</u>	
23		<u>Up to \$60,000</u>	<u>500.00</u>
24		<u>Over \$60,000</u>	<u>0</u>
25			
26	<u>Married, filing separately</u>	<u>Up to \$20,000</u>	<u>\$2,500.00</u>
27		<u>Over \$20,000</u>	
28		<u>Up to \$30,000</u>	<u>2,000.00</u>
29		<u>Over \$30,000</u>	
30		<u>Up to \$40,000</u>	<u>1,500.00</u>
31		<u>Over \$40,000</u>	
32		<u>Up to \$50,000</u>	<u>1,000.00</u>
33		<u>Over \$50,000</u>	
34		<u>Up to \$60,000</u>	<u>500.00</u>
35		<u>Over \$60,000</u>	<u>0."</u>

36 **SECTION 38.4.(b)** G.S. 105-153.10 is repealed.

37 **SECTION 38.4.(c)** This section is effective for taxable years beginning on or after
 38 January 1, 2018.

39
 40 **LOWER CORPORATE INCOME TAX RATE**

41 **SECTION 38.5.(a)** G.S. 105-130.3 reads as rewritten:

42 "**§ 105-130.3. Corporations.**

43 A tax is imposed on the State net income of every C Corporation doing business in this
 44 State at the rate of ~~four percent (4%)~~ three percent (3%). An S Corporation is not subject to the
 45 tax levied in this section."

46 **SECTION 38.5.(b)** G.S. 105-130.3, as amended by subsection (a) of this section,
 47 reads as rewritten:

48 "**§ 105-130.3. Corporations.**

49 A tax is imposed on the State net income of every C Corporation doing business in this
 50 State at the rate of ~~three percent (3%)~~ two and three-quarters percent (2.75%). An S
 51 Corporation is not subject to the tax levied in this section."

1 **SECTION 38.5.(c)** G.S. 105-130.3, as amended by subsection (b) of this section,
2 reads as rewritten:

3 **"§ 105-130.3. Corporations.**

4 A tax is imposed on the State net income of every C Corporation doing business in this
5 State at the rate of ~~two and three quarters percent (2.75%)~~ two and one-half percent (2.5%). An
6 S Corporation is not subject to the tax levied in this section."

7 **SECTION 38.5.(d)** G.S. 105-130.3C is repealed.

8 **SECTION 38.5.(e)** Subsection (a) of this section is effective for taxable years
9 beginning on or after January 1, 2017. Subsection (b) of this section is effective for taxable
10 years beginning on or after January 1, 2018. Subsection (c) of this section is effective for
11 taxable years beginning on or after January 1, 2019. The remainder of this section is effective
12 when this act becomes law.

13
14 **LOWER FRANCHISE TAX FOR S CORPORATIONS**

15 **SECTION 38.6.(a)** G.S. 105-122 reads as rewritten:

16 **"§ 105-122. Franchise or privilege tax on domestic and foreign corporations.**

17 (a) Tax Imposed. – An annual franchise or privilege tax is imposed on a corporation
18 doing business in this ~~State.~~ State for the privilege of doing business in this State and for the
19 continuance of articles of incorporation or domestication of each corporation in this State. The
20 tax is determined on the basis of the books and records of the corporation as of the close of its
21 income year. A corporation subject to the tax must file a return under affirmation with the
22 Secretary at the place and in the manner prescribed by the Secretary. The return must be signed
23 by the president, vice-president, treasurer, or chief financial officer of the corporation. The
24 return is due on or before the fifteenth day of the fourth month following the end of the
25 corporation's income year.

26 ...

27 (d) ~~Tax Base and Tax Rate. – After determining the~~ Base. – A corporation's tax base is
28 the greater of the following:

29 (1) ~~The proportion of its net worth as set out in subsection (c1) of this section,~~
30 ~~which amount shall not be less than fifty five percent (55%)~~ section.

31 (2) Fifty-five percent (55%) of the corporation's appraised value as determined
32 for ad valorem taxation of all the real and tangible personal property in this
33 State of each corporation nor less than its State. For purposes of this
34 subdivision, the appraised value of tangible property including real estate is
35 the ad valorem valuation for the calendar year next preceding the due date of
36 the franchise tax return.

37 (3) The corporation's total actual investment in tangible property in this State,
38 every corporation taxed under this section shall annually pay to the Secretary
39 of Revenue, at the time the return is due, a franchise or privilege tax at the
40 rate of one dollar and fifty cents (\$1.50) per one thousand dollars (\$1,000) of
41 the total amount of net worth as provided in this section. The tax imposed in
42 this section shall not be less than two hundred dollars (\$200.00) and is for
43 the privilege of carrying on, doing business, and/or the continuance of
44 articles of incorporation or domestication of each corporation in this State.
45 Appraised value of tangible property including real estate is the ad valorem
46 valuation for the calendar year next preceding the due date of the franchise
47 tax return. The term "total State. For purposes of this subdivision, the total
48 actual investment in tangible property" as used in this section means
49 property in this State is the total original purchase price or consideration to
50 the reporting taxpayer of its tangible properties, including real estate, in this

1 State plus additions and improvements thereto less reserve for depreciation
2 as permitted for income tax purposes.

3 ...
4 (d2) Tax Rate. – For a C Corporation, as defined in G.S. 105-130.2, the tax rate is one
5 dollar and fifty cents (\$1.50) per one thousand dollars (\$1,000) of the corporation's tax base as
6 determined under subsection (d) of this section. For an S Corporation, as defined in
7 G.S. 105-130.2, the tax rate is two hundred dollars (\$200.00) for the first one million dollars
8 (\$1,000,000) of the corporation's tax base as determined under subsection (d) of this section
9 and one dollar and fifty cents (\$1.50) per one thousand dollars (\$1,000) of its tax base that
10 exceeds one million dollars (\$1,000,000). In no event may the tax imposed by this section be
11 less than two hundred dollars (\$200.00).

12"
13 **SECTION 38.6.(b)** This section is effective for taxable years beginning on or after
14 January 1, 2019, and is applicable to the calculation of franchise tax reported on the 2018 and
15 later corporate income tax returns.

16 MARKET-BASED SOURCING

17 **SECTION 38.7.(a)** G.S. 105-130.4 reads as rewritten:
18 "**§ 105-130.4. Allocation and apportionment of income for corporations.**

19 ...
20 ...
21 (l) ~~(l) The Sales Factor. – The sales factor is a fraction, the numerator of which is the~~
22 total sales of the corporation in this State during the income year, and the denominator of which
23 is the total sales of the corporation everywhere during the income year. Notwithstanding any
24 other provision under this Part, the receipts from any casual sale of property shall be excluded
25 from both the numerator and the denominator of the sales factor. Where a corporation is not
26 taxable in another state on its apportionable income but is taxable in another state only because
27 of nonapportionable income, all sales shall be treated as having been made in this State.

28 Receipts are in this State if the taxpayer's market for the receipts is in this State. If the
29 market for a receipt cannot be determined, the state or states of assignment shall be reasonably
30 approximated. In a case in which a taxpayer cannot ascertain the state or states to which
31 receipts of a sale are to be assigned through the use of a method of reasonable approximation,
32 the receipts must be excluded from the denominator of a taxpayer's sales factor. Except as
33 otherwise provided by this section, a taxpayer's market for receipts is in this State as provided
34 below:

- 35 (1) In the case of sale, rental, lease, or license of real property, if and to the
36 extent the property is located in this State.
37 (2) ~~Sales of tangible personal property are in this State if the property is~~
38 received in this State by the purchaser. In the case of delivery of goods by
39 common carrier or by other means of transportation, including transportation
40 by the purchaser, the place at which the goods are ultimately received after
41 all transportation has been completed shall be considered as the place at
42 which the goods are received by the purchaser. Direct delivery into this State
43 by the taxpayer to a person or firm designated by a purchaser from within or
44 without the State shall constitute delivery to the purchaser in this State. In the
45 case of rental, lease, or license of tangible personal property, if and to the
46 extent the property is located in this State.
47 (3) ~~Other sales are in this State if:~~ In the case of sale of tangible personal
48 property, if and to the extent the property is received in this State by the
49 purchaser. In the case of delivery of goods by common carrier or by other
50 means of transportation, including transportation by the purchaser, the place
51 at which the goods are ultimately received after all transportation has been

1 completed is considered the place at which the goods are received by the
 2 purchaser. Direct delivery into this State by the taxpayer to a person or firm
 3 designated by a purchaser from within or without the State constitutes
 4 delivery to the purchaser in this State.

5 a. ~~The receipts are from real or tangible personal property located in~~
 6 ~~this State; or~~

7 b. ~~The receipts are from intangible property and are received from~~
 8 ~~sources within this State; or~~

9 e. ~~The receipts are from services and the income producing activities~~
 10 ~~are in this State.~~

11 (4) In the case of sale of a service, if and to the extent the service is delivered to
 12 a location in this State.

13 (5) In the case of intangible property that is rented, leased, or licensed, if and to
 14 the extent the property is used in this State. Intangible property utilized in
 15 marketing a good or service to a consumer is "used in this State" if that good
 16 or service is purchased by a consumer who is in this State.

17 (6) In the case of intangible property that is sold, if and to the extent the
 18 property is used in this State. A contract right, government license, or similar
 19 intangible property that authorized the holder to conduct a business activity
 20 in a specific geographic area is "used in this State" if the geographic area
 21 includes all or part of this State. Receipts from a sale of intangible property
 22 that is contingent on the productivity, use, or disposition of the intangible
 23 property shall be treated as receipts from the rental, lease, or licensing of the
 24 intangible property as provided under subdivision (5) of this subsection. All
 25 other receipts from a sale of intangible property shall be excluded from the
 26 numerator and denominator of the sales factor.

27 (1) Banks. – A bank's market for receipts is in this State as provided in
 28 G.S. 105-130.4A. For purposes of this section, the term "bank" has the same meaning as
 29 defined in G.S. 105-130.4A.

30 "...."

31 **SECTION 38.7.(b)** Part 1 of Article 4 of Chapter 105 of the General Statutes is
 32 amended by adding a new section to read:

33 "**§ 105-130.4A. Market-based sourcing for banks.**

34 (a) Definitions. – The definitions in G.S. 105-130.4 apply to this section, and the
 35 following definitions apply to this section:

36 (1) Bank. – Defined in G.S. 105-130.7B.

37 (2) Billing address. – The location indicated in the books and records of the
 38 taxpayer on the first day of the taxable year, or on the date in the taxable
 39 year when the customer relationship began, as the address where any notice,
 40 statement, or billing relating to the customer's account is mailed.

41 (3) Borrower, card holder, or payor is located in this State. – A borrower, credit
 42 card holder, or payor whose billing address is in this State.

43 (4) Card issuer's reimbursement fee. – The fee a taxpayer receives from a
 44 merchant's bank because one of the persons to whom the taxpayer has issued
 45 a credit, debit, or similar type of card has charged merchandise or services to
 46 the card.

47 (5) Credit card. – A card, or other means of providing information, that entitles
 48 the holder to charge the cost of purchases, or a cash advance, against a line
 49 of credit.

- 1 (6) Debit card. – A card, or other means of providing information, that enables
2 the holder to charge the cost of purchases, or a cash withdrawal, against the
3 holder's bank account or a remaining balance on the card.
- 4 (7) Loan. – Any extension of credit resulting from direct negotiations between
5 the taxpayer and its customer, and/or the purchase, in whole or in part, of
6 such an extension of credit from another. The term includes participations,
7 syndications, and leases treated as loans for federal income tax purposes.
- 8 (8) Loan secured by real property. – A loan or other obligation of which fifty
9 percent (50%) or more of the aggregate value of the collateral used to secure
10 the loan or other obligation, when valued at fair market value as of the time
11 the original loan or obligation was incurred, was real property.
- 12 (9) Merchant discount. – The fee, or negotiated discount, charged to a merchant
13 by the taxpayer for the privilege of participating in a program whereby a
14 credit, debit, or similar type of card is accepted in payment for merchandise
15 or services sold to the card holder, net of any cardholder chargeback and
16 unreduced by any interchange transaction or issuer reimbursement fee paid
17 to another for charges or purchases made by its cardholder.
- 18 (10) Participation. – An extension of credit in which an undivided ownership
19 interest is held on a prorated basis in a single loan or pool of loans and
20 related collateral. In a loan participation, the credit originator initially makes
21 the loan and then subsequently resells all or a portion of it to other lenders.
22 The participation may or may not be known to the borrower.
- 23 (11) Payor. – The person who is legally responsible for making payment to the
24 taxpayer.
- 25 (12) Real property owned. – Real property (i) on which the taxpayer may claim
26 depreciation for federal income tax purposes or (ii) to which the taxpayer
27 holds legal title and on which no other person may claim depreciation for
28 federal income tax purposes or could claim depreciation if subject to federal
29 income tax. Real property does not include coin, currency, or property
30 acquired in lieu of or pursuant to a foreclosure.
- 31 (13) Syndication. – An extension of credit in which two or more persons fund and
32 each person is at risk only up to a specified percentage of the total extension
33 of credit or up to a specified dollar amount.
- 34 (14) Tangible personal property owned. – Tangible personal property (i) on
35 which the taxpayer may claim depreciation for federal income tax purposes
36 or (ii) to which the taxpayer holds legal title and on which no other person
37 may claim depreciation for federal income tax purposes could claim
38 depreciation if subject to federal income tax. Tangible personal property
39 does not include coin, currency, or property acquired in lieu of or pursuant to
40 a foreclosure.
- 41 (15) Transportation property. – Vehicles and vessels capable of moving under
42 their own power as well as any equipment or containers attached to such
43 property. Examples of transportation property include aircraft, trains, water
44 vessels, motor vehicles, rolling stock, barges, and trailers.
- 45 (b) General Rule. – The receipts factor of a bank is a fraction, the numerator of which is
46 the total receipts of the taxpayer in this State during the income year, and the denominator of
47 which is the total receipts of the taxpayer everywhere during the income year. The method of
48 calculating receipts for purposes of the denominator is the same as the method used in
49 determining receipts for purposes of the numerator. The receipts factor includes only those
50 receipts described herein that are apportionable income for the taxable year. Notwithstanding

1 any other provision under this Part, the receipts from the following are excluded from both the
2 numerator and the denominator of the receipts factor:

- 3 (1) Receipts from a casual sale of property.
- 4 (2) Receipts exempt from taxation.
- 5 (3) The portion of receipts realized from the sale or maturity of securities or
6 other obligations that represents a return of principal.
- 7 (4) Receipts in the nature of dividends subtracted under G.S. 105-130.5(b)(3a)
8 and (3b) and dividends excluded for federal tax purposes.
- 9 (5) The portion of receipts from financial swaps and other similar financial
10 derivatives that represent the notional principal amount that generates the
11 cash flow traded in the swap agreement.

12 (c) Receipts From the Sale, Lease, or Rental of Real Property. – The numerator of the
13 receipts factor includes receipts from the sale, lease, or rental of real property owned by the
14 taxpayer if the property is located within this State or receipts from the sublease of real
15 property if the property is located within this State.

16 (d) Receipts From the Sale, Lease, or Rental of Tangible Personal Property. – The
17 method for calculating receipts from the sale, lease, or rental of tangible personal property is as
18 follows:

- 19 (1) Tangible personal property. – Except as provided in subdivision (2) of this
20 subsection, the numerator of the receipts factor includes receipts from the
21 sale, lease, or rental of tangible personal property owned by the taxpayer if
22 the property is located within this State when it is first placed in service by
23 the lessee.
- 24 (2) Transportation property. – Receipts from the lease or rental of transportation
25 property owned by the taxpayer are included in the numerator of the receipts
26 factor to the extent that the property is used in this State. The extent an
27 aircraft will be deemed to be used in this State and the amount of receipts
28 that is to be included in the numerator of this State's receipts factor is
29 determined by multiplying all the receipts from the lease or rental of the
30 aircraft by a fraction, the numerator of which is the number of landings of
31 the aircraft in this State, and the denominator of which is the total number of
32 landings of the aircraft. If the extent of the use of any transportation property
33 within this State cannot be determined, then the property will be deemed to
34 be used wholly in the state in which the property has its principal base of
35 operations. A motor vehicle will be deemed to be used wholly in the state in
36 which it is registered.

37 (e) Interest, Fees, and Penalties From Loans Secured by Real Property. – The
38 numerator of the receipts factor includes interest, fees, and penalties from loans secured by real
39 property if the property is located within this State. If the property is located both within this
40 State and one or more other states, the receipts described in this subsection are included in the
41 numerator of the receipts factor if more than fifty percent (50%) of the fair market value of the
42 real property is located within this State. If more than fifty percent (50%) of the fair market
43 value of the real property is not located within any one state, then the receipts described in this
44 subsection are included in the numerator of the receipts factor if the borrower is located in this
45 State. The determination of whether the real property securing a loan is located within this State
46 is made as of the time the original agreement was made, and any and all subsequent
47 substitutions of collateral are disregarded.

48 (f) Interest, Fees, and Penalties From Loans Not Secured by Real Property. – The
49 numerator of the receipts factor includes interest, fees, and penalties from loans not secured by
50 real property if the borrower is located in this State.

1 (g) Net Gains From the Sale of Loans. – The numerator of the receipts factor includes
2 net gains from the sale of loans. Net gains from the sale of loans include income recorded under
3 the coupon stripping rules of section 1286 of the Code. The amount of net gains from the sale
4 of loans that is included in the numerator is determined as follows:

5 (1) Secured by real property. – The amount of net gains, but not less than zero,
6 from the sale of loans secured by real property is determined by multiplying
7 the net gains by a fraction, the numerator of which is the amount included in
8 the numerator of the receipts factor pursuant to subsection (e) of this section,
9 and the denominator of which is the total amount of interest, fees, and
10 penalties from loans secured by real property.

11 (2) Not secured by real property. – The amount of net gains, but not less than
12 zero, from the sale of loans not secured by real property is determined by
13 multiplying the net gains by a fraction, the numerator of which is the amount
14 included in the numerator of the receipts factor pursuant to subsection (f) of
15 this section, and the denominator of which is the total amount of interest,
16 fees, and penalties from loans not secured by real property.

17 (h) Receipts From Interest, Fees, and Penalties From Card Holders. – The numerator of
18 the receipts factor includes interest, fees, and penalties charged to credit, debit, or similar card
19 holders, including annual fees and overdraft fees, if the card holder is located in this State.

20 (i) Receipts From ATM Fees. – The numerator of the receipts factor includes receipts
21 from fees from the use of an ATM owned or rented by the taxpayer, if the ATM is located in
22 this State. The receipts factor includes all ATM fees that are not forwarded directly to another
23 bank. Receipts from ATM fees that are not sourced under this subsection are sourced pursuant
24 to subsection (l) of this section.

25 (j) Net Gains From the Sale of Credit Card Receivables. – The numerator of the
26 receipts factor includes net gains, but not less than zero, from the sale of credit card receivables
27 multiplied by a fraction, the numerator of which is the amount included in the numerator of the
28 receipts factor pursuant to subsection (h) of this section, and the denominator of which is the
29 taxpayer's total amount of interest, fees, and penalties charged to card holders.

30 (k) Miscellaneous Receipts. – The numerator of the receipts factor includes all of the
31 following:

32 (1) Card issuer's reimbursement fees. – Receipts from card issuer's
33 reimbursement fees if the payor is located in this State.

34 (2) Receipts from merchant's discount. – Receipts from a merchant discount if
35 the payor is located in this State.

36 (3) Loan servicing fees. – Receipts from loan servicing fees if the payor is
37 located in this State.

38 (4) Receipts from services. – Receipts from services not otherwise apportioned
39 under this section if the payor is located in this State.

40 (5) Receipts from investment assets and activities and trading assets and
41 activities. – Receipts from one or more of the following:

42 a. Interest and dividends from investment assets and activities and
43 trading assets and activities if the payor is located in this State.

44 b. Net gains and other income, but not less than zero, from investment
45 assets and activities and trading assets and activities multiplied by a
46 fraction, the numerator of which is the amount included in the
47 numerator of the receipts factor pursuant to sub-subdivision a. of this
48 subdivision, and the denominator of which is the taxpayer's total
49 amount of interest and dividends from investment assets and
50 activities and trading assets and activities.

1 (l) All Other Receipts. – All other receipts not specifically enumerated in this section
2 are included in the numerator of the receipts factor if the payor is located in this State."

3 **SECTION 38.7.(c)** As directed by Section 38.4(a) of S.L. 2016-94, the Department
4 of Revenue adopted rules regarding the implementation and administration of market-based
5 sourcing principles as if the statutory changes in that section, as set forth again in this section,
6 were law. The Department adopted rules and submitted the rules to the Rules Review
7 Commission. The Rules Review Commission approved the rules on February 16, 2017. As
8 directed by Section 38.4(b) of S.L. 2016-94, the Codifier of Rules will not enter the rules into
9 the Administrative Code until directed to do so by the General Assembly. The Codifier of
10 Rules is directed to enter the rules approved by the Rules Review Commission at its meeting on
11 February 16, 2017, into the Administrative Code.

12 **SECTION 38.7.(d)** As directed by Section 38.4(d) of S.L. 2016-94, the Utilities
13 Commission shall adjust the rates for public utilities, excluding water public utilities with less
14 than two hundred thousand dollars (\$200,000) in annual operating revenues, for the tax changes
15 in this section. Each utility shall calculate the cumulative net effect of the tax changes and file
16 the calculations with proposed rate changes to reflect the net prospective tax changes in utility
17 customer rates within 60 days of the enactment of this act. Any adjustments required to existing
18 tax assets or liabilities reflected in the utility's books and records required by the tax changes
19 shall be deferred and reflected in customer rates either in the utility's next rate case or earlier if
20 deemed appropriate by the Commission.

21 **SECTION 38.7.(e)** Subsections (a) and (b) of this section are effective for taxable
22 years beginning on or after January 1, 2018. The remainder of this section is effective when this
23 act becomes law.

24 **PART XXXIX. MISCELLANEOUS PROVISIONS**

25 **STATE BUDGET ACT APPLIES**

26
27 **SECTION 39.1.** The provisions of the State Budget Act, Chapter 143C of the
28 General Statutes, are reenacted and shall remain in full force and effect and are incorporated in
29 this act by reference.
30

31 **COMMITTEE REPORT**

32 **SECTION 39.2.(a)** The Senate Committee on Appropriations/Base Budget Report
33 on the Base, Expansion, and Capital Budgets for Senate Bill 257, dated May 10, 2017, which
34 was distributed in the Senate and used to explain this act, shall indicate action by the General
35 Assembly on this act and shall, therefore, be used to construe this act, as provided in the State
36 Budget Act, Chapter 143C of the General Statutes, as appropriate, and for these purposes shall
37 be considered a part of this act and, as such, shall be printed as a part of the Session Laws.
38

39 **SECTION 39.2.(b)** The budget enacted by the General Assembly is for the
40 maintenance of the various departments, institutions, and other spending agencies of the State
41 for the 2017-2019 biennial budget as provided in G.S. 143C-3-5. This budget includes the
42 appropriations of State funds as defined in G.S. 143C-1-1(d)(25).

43 The Director of the Budget submitted a recommended base budget to the General
44 Assembly in the Governor's Recommended Budget for the 2017-2019 fiscal biennium, dated
45 March 2017, and in the Budget Support Document for the various departments, institutions, and
46 other spending agencies of the State. The adjustments to these documents made by the General
47 Assembly are set out in the Committee Report.

48 **SECTION 39.2.(c)** The budget enacted by the General Assembly shall also be
49 interpreted in accordance with G.S. 143C-5-5, the special provisions in this act, and other
50 appropriate legislation. In the event that there is a conflict between the line-item budget

1 certified by the Director of the Budget and the budget enacted by the General Assembly, the
2 budget enacted by the General Assembly shall prevail.
3

4 **REPORT BY FISCAL RESEARCH DIVISION**

5 **SECTION 39.3.** The Fiscal Research Division shall issue a report on budget
6 actions taken by the 2017 Regular Session of the General Assembly. The report shall be in the
7 form of a revision of the Committee Report adopted for Senate Bill 257 pursuant to
8 G.S. 143C-5-5. The Director of the Fiscal Research Division shall send a copy of the report
9 issued pursuant to this section to the Director of the Budget. The report shall be published on
10 the General Assembly's Internet Web site for public access.
11

12 **MOST TEXT APPLIES ONLY TO THE 2017-2019 FISCAL BIENNIUM**

13 **SECTION 39.4.** Except for statutory changes or other provisions that clearly
14 indicate an intention to have effects beyond the 2017-2019 fiscal biennium, the textual
15 provisions of this act apply only to funds appropriated for, and activities occurring during, the
16 2017-2019 fiscal biennium.
17

18 **EFFECT OF HEADINGS**

19 **SECTION 39.5.** The headings to the Parts, subparts, and sections of this act are a
20 convenience to the reader and are for reference only. The headings do not expand, limit, or
21 define the text of this act, except for effective dates referring to a Part or subpart.
22

23 **SEVERABILITY CLAUSE**

24 **SECTION 39.6.** If any section or provision of this act is declared unconstitutional
25 or invalid by the courts, it does not affect the validity of this act as a whole or any part other
26 than the part so declared to be unconstitutional or invalid.
27

28 **EFFECTIVE DATE**

29 **SECTION 39.7.** Except as otherwise provided, this act becomes effective July 1,
30 2017.