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Short Title: Bill Lee Act Changes-AB.

(Public)

Sponsors:

Referred to:

April 2, 2001

A BILL TO BE ENTITLED

AN ACT TO AMEND THE WILLIAM S. LEE QUALITY JOBS AND BUSINESS  
EXPANSION ACT; TO APPLY A GRADUATED TAX RATE TO SALES OF  
ELECTRICITY TO MANUFACTURERS BASED ON ANNUAL VOLUME OF  
ELECTRICITY USED; TO APPLY DEFINITIONS FROM THE STREAMLINED  
SALES TAX PROJECT TO THE SALES TAX HOLIDAY; AND TO PROVIDE A  
FOUR-YEAR EXTENSION ON THE EXEMPTION FROM BIDDING LAW  
REQUIREMENTS FOR THE PIEDMONT TRIAD INTERNATIONAL AIRPORT  
AUTHORITY.

The General Assembly of North Carolina enacts:

**SECTION 1.(a)** G.S. 105-129.2 reads as rewritten:

**"§ 105-129.2. Definitions.**

The following definitions apply in this Article:

- (1) Air courier services. – A ~~person-taxpayer~~ is engaged in the air courier services business if the ~~person's-taxpayer's~~ primary business is furnishing air delivery of individually addressed letters and packages for compensation, except by the United States Postal Service.
- (2) Central office or aircraft facility. – Any of the following:
  - a. A corporate, subsidiary, or regional managing office, as defined by NAICS.
  - b. An auxiliary subdivision of an interstate passenger air carrier engaged primarily in centralized training for the carrier at its hub.

- 1 c. An auxiliary subdivision of an interstate passenger air carrier  
2 engaged primarily in aircraft maintenance and repair services or  
3 aircraft rebuilding as defined by NAICS.
- 4 (3) Cost. – In the case of property owned by the taxpayer, cost is  
5 determined pursuant to regulations adopted under section 1012 of the  
6 Code. In the case of property the taxpayer leases from another, cost is  
7 value as determined pursuant to G.S. 105-130.4(j)(2).
- 8 (3a) Customer service center. – An auxiliary subdivision of a  
9 telecommunications or financial services company, as defined by  
10 NAICS, that is primarily engaged in providing support services to the  
11 company's customers by telephone to support products or services of  
12 the company. For the purpose of this definition, a subdivision is  
13 primarily engaged in providing support services by telephone if at least  
14 sixty percent (60%) of its calls are incoming.
- 15 (4) Data processing. – A taxpayer is engaged in data processing if the  
16 taxpayer's primary business is any ~~Any~~ of the following industries, as  
17 defined by NAICS:
- 18 a. Computer systems design and related services.  
19 b. Software publishers.  
20 c. Software reproducing.  
21 d. Data processing services.  
22 e. On-line information services.
- 23 (5) Development zone. – An area designated as a development zone  
24 pursuant to G.S. 105-129.3A.
- 25 (5a) Electronic mail order house. – A taxpayer is engaged in business as an  
26 electronic mail order house if the taxpayer's primary business is an ~~An~~  
27 electronic shopping and mail order house, as defined by NAICS.
- 28 (6) Enterprise tier. – The classification assigned to an area pursuant to  
29 G.S. 105-129.3.
- 30 (7) Full-time job. – A position that requires at least 1,600 hours of work  
31 per year and is intended to be held by one employee during the entire  
32 year. A full-time employee is an employee who holds a full-time job.
- 33 (8) Hub. – Defined in G.S. 105-164.3.
- 34 (8a) Interstate passenger air carrier. – Defined in G.S. 105-164.3.
- 35 (9) Large investment. – Defined in G.S. 105-129.4(b1).
- 36 (10) Machinery and equipment. – Engines, machinery, equipment, tools,  
37 and implements used or designed to be used in the business for which  
38 the credit is claimed. The term does not include real property as  
39 defined in G.S. 105-273 or rolling stock as defined in G.S. 105-333.
- 40 (11) Manufacturing. – A taxpayer is engaged in manufacturing if the  
41 taxpayer's primary business is an industry ~~Industries~~ in manufacturing

1 sectors 31 through 33, as defined by NAICS, but not including quick  
2 printing or retail bakeries.

3 (11a) NAICS. – The North American Industry Classification System adopted  
4 by the United States Office of Management and Budget.

5 (12) Purchase. – Defined in section 179 of the Code.

6 (13) Warehousing. – A taxpayer is engaged in warehousing if the taxpayer's  
7 primary business is an industry ~~Industries~~ in warehousing and storage  
8 subsector 493 as defined by NAICS.

9 (14) Wholesale trade. – A taxpayer is engaged in wholesale trade if the  
10 taxpayer's primary business is an industry ~~Industries~~ in wholesale trade  
11 sector 42 as defined by NAICS."

12 **SECTION 1.(b)** G.S. 105-129.2, as amended by Section 1(a) of this act,  
13 reads as rewritten:

14 "**§ 105-129.2. Definitions.**

15 The following definitions apply in this Article:

16 (1) Air courier services. – ~~A taxpayer is engaged in the air courier services~~  
17 ~~business if the taxpayer's primary business is~~ The furnishing of air  
18 delivery of individually addressed letters and packages for  
19 compensation, except by the United States Postal Service.

20 (2) Central office or aircraft facility. – Any of the following:

21 a. A corporate, subsidiary, or regional managing office, as defined  
22 by NAICS.

23 b. An auxiliary subdivision of an interstate passenger air carrier  
24 engaged primarily in centralized training for the carrier at its  
25 hub.

26 c. An auxiliary subdivision of an interstate passenger air carrier  
27 engaged primarily in aircraft maintenance and repair services or  
28 aircraft rebuilding as defined by NAICS.

29 (3) Cost. – In the case of property owned by the taxpayer, cost is  
30 determined pursuant to regulations adopted under section 1012 of the  
31 Code. In the case of property the taxpayer leases from another, cost is  
32 value as determined pursuant to G.S. 105-130.4(j)(2).

33 (4) Computer services. – Any of the following industries or industry  
34 groups, as defined by NAICS, if the taxpayer provides the services  
35 primarily to persons who are not related entities with respect to the  
36 taxpayer:

37 a. Computer systems design and related services.

38 b. Software publishing.

39 c. Software reproducing.

40 d. On-line information services.

41 ~~(3a)~~(5) Customer service center. – An auxiliary subdivision establishment of a  
42 telecommunications or financial services company, as defined by

- 1 NAICS, that is primarily engaged in providing support services to the  
2 company's customers by telephone to support products or services of  
3 the company. For the purpose of this definition, a ~~subdivision~~ an  
4 establishment is primarily engaged in providing support services by  
5 telephone if at least sixty percent (60%) of its calls are incoming.
- 6 (4) ~~Data processing. — A taxpayer is engaged in data processing if the~~  
7 ~~taxpayer's primary business is any of the following industries, as~~  
8 ~~defined by NAICS:~~
- 9 a. ~~Computer systems design and related services.~~  
10 b. ~~Software publishers.~~  
11 e. ~~Software reproducing.~~  
12 d. ~~Data processing services.~~  
13 e. ~~On-line information services.~~
- 14 (6) Data processing. — Any combination of the services listed in this  
15 subdivision, if the taxpayer provides the services primarily to persons  
16 who are not related entities with respect to the taxpayer. The term does  
17 not include payroll services, text processing, desktop publishing, or  
18 financial transaction processing.
- 19 a. Data entry and preparation.  
20 b. Database creation, conversion, and management, including  
21 warehousing, retrieval, and utilization of data in databases.  
22 c. Data capture and imaging, including optical scanning and  
23 microfilm recording and imaging.  
24 d. Computer processing time rental.  
25 e. Data storage media conversion.  
26 f. Data file format conversion.
- 27 (5)(7) Development zone. — An area designated as a development zone  
28 pursuant to G.S. 105-129.3A.
- 29 (5a)(8) Electronic mail order house. — ~~A taxpayer is engaged in business as an~~  
30 ~~electronic mail order house if the taxpayer's primary business is an~~ An  
31 electronic shopping and mail order house, as defined by NAICS.
- 32 (6)(9) Enterprise tier. — The classification assigned to an area pursuant to  
33 G.S. 105-129.3.
- 34 (10) Establishment. — Defined by NAICS.
- 35 (7)(11) Full-time job. — A position that requires at least 1,600 hours of work  
36 per year and is intended to be held by one employee during the entire  
37 year. A full-time employee is an employee who holds a full-time job.
- 38 (8)(12) Hub. — Defined in G.S. 105-164.3.
- 39 (8a)(13) Interstate passenger air carrier. — Defined in G.S. 105-164.3.
- 40 (9)(14) Large investment. — Defined in G.S. 105-129.4(b1).
- 41 (10)(15) Machinery and equipment. — Engines, machinery, equipment, tools,  
42 and implements used or designed to be used in the business for which

1 the credit is claimed. The term does not include real property as  
2 defined in G.S. 105-273 or rolling stock as defined in G.S. 105-333.

3 ~~(11)(16)~~ Manufacturing. – ~~A taxpayer is engaged in manufacturing if the~~  
4 ~~taxpayer's primary business is an~~ An industry in manufacturing sectors  
5 31 through 33, as defined by NAICS, but not including quick printing  
6 or retail bakeries.

7 ~~(11a)(17)~~ NAICS. – The North American Industry Classification System adopted  
8 by the United States Office of Management and ~~Budget.~~ Budget as of  
9 December 31, 1997.

10 ~~(12)(18)~~ Purchase. – Defined in section 179 of the Code.

11 ~~(19)~~ Related entity. – Defined in G.S. 105-130.7A.

12 ~~(13)(20)~~ Warehousing. – ~~A taxpayer is engaged in warehousing if the taxpayer's~~  
13 ~~primary business is an~~ An industry in warehousing and storage  
14 subsector 493 as defined by NAICS.

15 ~~(14)(21)~~ Wholesale trade. – ~~A taxpayer is engaged in wholesale trade if the~~  
16 ~~taxpayer's primary business is an~~ An industry in wholesale trade sector  
17 42 as defined by NAICS."

18 **SECTION 1.(c)** Subsection (a) of this section is effective when it becomes  
19 law. The General Assembly finds that the amendments to G.S. 105-129.2 made by  
20 subsection (a) of this section clarify the intent of the existing law and do not represent a  
21 change in the law. Subsection (b) of this section is effective for taxable years beginning  
22 on or after January 1, 2001.

23 **SECTION 2.(a)** G.S. 105-129.2A reads as rewritten:

24 "**§ 105-129.2A. Sunset; studies.**

25 (a) Sunset. – This Article is repealed effective for ~~applications for credits filed~~  
26 ~~under G.S. 105-129.6~~ business activities that occur on or after January 1, 2006.

27 (b) Equity Study. – The Department of Commerce shall study the effect of the  
28 tax incentives provided in this Article on tax equity. This study shall include the  
29 following:

30 (1) Reexamining the formula in G.S. 105-129.3(b) used to define  
31 enterprise tiers, to include consideration of alternative measures for  
32 more equitable treatment of counties in similar economic  
33 circumstances.

34 (2) Considering whether the assignment of tiers and the applicable  
35 thresholds are equitable for smaller counties, for example those under  
36 50,000 in population.

37 (3) Compiling any available data on whether expanding North Carolina  
38 businesses receive fewer benefits than out-of-State businesses that  
39 locate to North Carolina.

40 (c) Impact Study. – The Department of Commerce shall study the effectiveness  
41 of the tax incentives provided in this Article. This study shall include:

- 1 (1) Study of the distribution of tax incentives across new and expanding  
2 industries.
- 3 (2) Examination of data on economic recruitment for the period from 1994  
4 through 2000—the most recent year for which data are available by  
5 county, by industry type, by size of investment, and by number of jobs,  
6 and other relevant information to determine the pattern of business  
7 locations and expansions before and after the enactment of the William  
8 S. Lee Act incentives.
- 9 (3) Measuring the direct costs and benefits of the tax incentives.
- 10 (4) Compiling available information on the current use of incentives by  
11 other states and whether that use is increasing or declining.

12 (d) Report. – The Department of Commerce shall report the results of these  
13 studies and its recommendations to the ~~2001~~ General Assembly biennially with the first  
14 report due by April 1, 2001."

15 **SECTION 2.(b)** This section is effective when it becomes law.

16 **SECTION 3.(a)** G.S. 105-129.3(b) and (e) read as rewritten:

17 "(b) Annual Designation. – Each year, on or before December 31, the Secretary of  
18 Commerce shall assign to each county in the State an enterprise factor that is the sum of  
19 the following:

- 20 (1) The county's rank in a ranking of counties by average rate of  
21 unemployment from lowest to highest, for the preceding three years.
- 22 (2) The county's rank in a ranking of counties by average per capita  
23 income from highest to lowest, for the preceding three years.
- 24 (3) The county's rank in a ranking of counties by percentage growth in  
25 population from highest to lowest.

26 The Secretary of Commerce shall then rank all the counties within the State  
27 according to their enterprise factor from highest to lowest, identify all the areas of the  
28 State by enterprise tier, and publish this information. ~~provide this information to the~~  
29 ~~Secretary of Revenue.~~ An enterprise tier designation is effective only for the calendar  
30 year following the designation.

31 ...

32 (e) Exceptions for Certain Small Counties. – The following exceptions to the  
33 provisions of this section apply to small counties:

- 34 (1) A county that meets both of the conditions set out below is designated  
35 an enterprise tier one area:
- 36 a. Its population is less than ~~40,000~~ 12,000.
- 37 b. More than sixteen percent (16%) of its population is below the  
38 federal poverty level according to the most recent federal  
39 decennial census.
- 40 (2) A county that meets both of the conditions set out below has an  
41 enterprise tier designation one level below the designation it would  
42 otherwise have under subsection (a) of this section:

- 1 a. Its population is less than 50,000.  
2 b. More than eighteen percent (18%) of its population is below the  
3 federal poverty level according to the most recent federal  
4 decennial census.

- 5 (3) A county that has a population of less than ~~25,000~~35,000 and that  
6 would otherwise be designated an enterprise tier four or five area  
7 under this section must be designated an enterprise tier three area."

8 **SECTION 3.(b)** This section is effective when it becomes law and applies to  
9 tier designations made on or after that date.

10 **SECTION 4.(a)** G.S. 105-129.3A(b) reads as rewritten:

11 "(b) Designation. – Upon request of a taxpayer or a local government, the  
12 Secretary of Commerce shall designate whether an area is a development zone that  
13 meets the conditions of subsection (a) of this section. If the applicant is a taxpayer, it  
14 must notify each city in which part of the zone is located. A development zone  
15 designation is effective for 24 months following the designation. The Department of  
16 Commerce must publish annually a list of all development zones with a description of  
17 their boundaries."

18 **SECTION 4.(b)** This section is effective when it becomes law.

19 **SECTION 5.(a)** G.S. 105-129.4(b4) reads as rewritten:

20 "(b4) Safety and Health Programs. – A taxpayer is eligible for a credit allowed  
21 under this Article only if the taxpayer certifies that, as of the time the taxpayer applies  
22 for the credit, at the business location with respect to which the credit is claimed, the  
23 taxpayer has no ~~outstanding~~ citations under the Occupational Safety and Health Act ~~and~~  
24 ~~has had no serious violation as defined in G.S. 95-127 within the last three years that~~  
25 have become a final order within the past three years for willful serious violations or for  
26 failing to abate serious violations. For the purposes of this subsection, 'serious violation'  
27 has the same meaning as in G.S. 95-127. The Secretary of Commerce will provide the  
28 Department of Labor a list of all taxpayers making this certification. The Department of  
29 Labor may conduct random audit checks to verify taxpayers' certifications. The  
30 Department of Labor must notify the Department of Revenue of any taxpayer  
31 certifications it determines are not accurate."

32 **SECTION 5.(b)** This section is effective for taxable years beginning on or  
33 after January 1, 2000.

34 **SECTION 6.(a)** G.S. 105-129.4, as amended by this act and by S.L.  
35 2001-414, reads as rewritten:

36 "**§ 105-129.4. Eligibility; forfeiture.**

37 (a) Type of Business. – The following conditions apply in determining a  
38 taxpayer's eligibility for the credits in this Article:

- 39 (1) Central office or aircraft facility. – A taxpayer is eligible for ~~a credit~~  
40 ~~allowed by G.S. 105-129.12~~ the credits allowed by this Article if it  
41 operates ~~if the real property for which the credit is claimed is used for~~  
42 a central office or aircraft facility that creates at least 40 new jobs. jobs

1 and the jobs, investment, and activity with respect to which a credit is  
2 claimed are used in that office or facility.

3 (2) Single business. – A taxpayer is eligible for the ~~other~~ credits allowed  
4 by this Article other than by G.S. 105-129.12 if the primary business  
5 of the taxpayer engages in is one of the following types of businesses  
6 and the ~~jobs with respect to which a credit is claimed are created in~~  
7 ~~that business, the machinery and equipment with respect to which a~~  
8 ~~credit is claimed are used in that business, and the research and~~  
9 ~~development for which a credit is claimed are carried out as part of~~  
10 jobs, investment, and activity with respect to which a credit is claimed  
11 are used in that business:

12 ~~(1)a.~~ Air courier services.

13 ~~(2)~~ Central office or aircraft facility that creates at least 40 new  
14 jobs.

15 ~~(2a)~~ Customer service center located in an enterprise tier one or two  
16 area.

17 ~~(3)b.~~ Data processing.

18 (3) Multiple business. – A taxpayer is eligible for the credits allowed by  
19 this Article other than by G.S. 105-129.12 if the primary business of  
20 the taxpayer is one of the following types of businesses and the jobs,  
21 investment, and activity with respect to which a credit is claimed are  
22 used in any of the following types of businesses:

23 ~~(3a)~~ Electronic mail order house that creates at least 250 new jobs  
24 and is located in an enterprise tier one or two area.

25 ~~(4)a.~~ Manufacturing.

26 ~~(5)b.~~ Warehousing.

27 ~~(6)c.~~ Wholesale trade.

28 (4) Single establishment. – A taxpayer is eligible for the credits allowed  
29 by this Article other than by G.S. 105-129.12 if the primary business  
30 of the taxpayer or the primary activity of an establishment of the  
31 taxpayer is one of the following types of businesses and the jobs,  
32 investment, and activity with respect to which a credit is claimed are  
33 used in that business:

34 a. Computer services.

35 b. An electronic mail order house that creates at least 250 new  
36 jobs and is located in an enterprise tier one, two, or three area.

37 (5) Customer service center. – A taxpayer is eligible for the credits  
38 allowed by this Article other than by G.S. 105-129.12 if all of the  
39 following conditions are met:

40 a. The taxpayer's primary business is as a telecommunications or  
41 financial services company, as defined by NAICS.



1           **b.**     The primary activity of an establishment of the taxpayer is a  
2                    customer service center located in an enterprise tier one, two, or  
3                    three area.

4            **c.**     The jobs, investment, and activity with respect to which a credit  
5                    is claimed are used in that activity.

6           **(6)**    Warehousing. – A taxpayer is eligible for the credits allowed by this  
7                    Article other than by G.S. 105-129.12 if all of the following conditions  
8                    are met:

9            **a.**     The primary activity of an establishment of the taxpayer is in  
10                   warehousing.

11           **b.**     The warehousing establishment is located in an enterprise tier  
12                   one, two, or three area and serves 25 or more establishments of  
13                   the taxpayer in at least five different counties in one or more  
14                   states.

15           **c.**     The jobs, investment, and activity with respect to which a credit  
16                    is claimed are used in the warehousing establishment.

17           **(a1)**    New Jobs Defined. – A central office or aircraft facility creates at least 40  
18            new jobs if the taxpayer hires at least 40 additional full-time employees to fill new  
19            positions at the office either ~~in the year~~(i) within 12 months immediately following the  
20            date the taxpayer first uses the property as a central office or aircraft facility or ~~in~~(ii)  
21            within a 36-month period that includes the preceding 24 months that immediately  
22            precede and the 12 months that immediately follow the first use of the property as a  
23            central office or aircraft facility property when the taxpayer uses ~~while using~~ temporary  
24            space for the central office or aircraft facility functions during completion of the central  
25            office or aircraft facility property. Other property creates at least 200 new jobs if the  
26            taxpayer hires at least 200 additional full-time employees to fill new positions at the  
27            location in a two-year period beginning when the property is first used in an eligible  
28            business. An electronic mail order house creates at least 250 new jobs if the taxpayer  
29            hires at least 250 additional full-time employees to fill new positions at the house in the  
30            two-year period ending on the last day of the taxable year the taxpayer first claims a  
31            credit under this Article. Jobs transferred from one area in the State to another area in  
32            the State are not considered new jobs for purposes of this subsection.

33           **(a2)**    Expiration. – If, during the period that installments of a credit under this  
34            Article accrue, the taxpayer is no longer engaged in one of the types of business  
35            described in subsection (a) of this section, the credit expires. ~~expires and the taxpayer~~  
36            ~~may not take any remaining installments of the credit. The~~ If, during the period that  
37            installments of a credit under this Article accrue, the number of jobs of an eligible  
38            business falls below the minimum number required under subsection (a) of this section,  
39            any credit associated with that business expires. When a credit expires, the taxpayer  
40            may not take any remaining installments of the credit. The taxpayer may, however, take  
41            the portion of an installment that accrued in a previous year and was carried forward to  
42            the extent permitted under G.S. 105-129.5. A change in the enterprise tier designation of

1 the location of an establishment does not result in expiration of a credit under this  
2 Article.

3 (b) Wage Standard. – A taxpayer is eligible for the credit for creating jobs or the  
4 credit for worker training ~~if~~ if, for the calendar year the jobs are created or the worker  
5 training is provided, the average wage of the jobs for which the credit is claimed meet  
6 meets the wage standard at the time the taxpayer applies for the credit, and the average  
7 wage of all jobs at the location with respect to which the credit is claimed meets the  
8 wage standard. No credit is allowed for jobs not included in the wage calculation. A  
9 taxpayer is eligible for the credit for investing in machinery and equipment, the credit  
10 for research and development, ~~or~~ the credit for investing in real property for a central  
11 office or aircraft facility if the facility, or the credit for substantial investment in other  
12 property if, for the calendar year the taxpayer engages in the activity that qualifies for  
13 the credit, the average wage of all jobs at the location with respect to which the credit is  
14 claimed meet-meets the wage standard. standard at the time the taxpayer applies for the  
15 credit. In making the wage calculation, the taxpayer must include any positions that  
16 were filled for at least 1,600 hours during the ~~immediately preceding taxable~~  
17 year calendar year the taxpayer engages in the activity that qualifies for the credit even if  
18 they those positions are not filled at the time the taxpayer ~~applies for~~ claims the credit.

19 Jobs meet the wage standard if they pay an average weekly wage that is at least  
20 equal to the applicable percentage times the applicable average weekly wage for the  
21 county in which the jobs will be located, as computed by the Secretary of Commerce  
22 from data compiled by the Employment Security Commission for the most recent period  
23 for which data are available. The applicable percentage for jobs located in an enterprise  
24 tier one area is one hundred percent (100%). The applicable percentage for all other jobs  
25 is one hundred ten percent (110%). The applicable average weekly wage is the lowest of  
26 the following: (i) the average wage for all insured private employers in the county, (ii)  
27 the average wage for all insured private employers in the State, and (iii) the average  
28 wage for all insured private employers in the county multiplied by the county  
29 income/wage adjustment factor. The county income/wage adjustment factor is the  
30 county income/wage ratio divided by the State income/wage ratio. The county  
31 income/wage ratio is average per capita income in the county divided by the annualized  
32 average wage for all insured private employers in the county. The State income/wage  
33 ratio is the average per capita income in the State divided by the annualized average  
34 wage for all insured private employers in the State. The Department of Commerce must  
35 annually publish the wage standard for each county.

36 (b1) Large Investment. – A taxpayer who is otherwise eligible for a tax credit  
37 under this Article becomes eligible for the large investment enhancements provided for  
38 credits under this Article if the Secretary of Commerce ~~certifies~~ makes a written  
39 determination that the taxpayer ~~will~~ is expected to purchase or lease, and place in  
40 service in connection with the eligible business within a two-year period, at least one  
41 hundred fifty million dollars (\$150,000,000) worth of one or more of the following: real  
42 property, machinery and equipment, or central office or aircraft facility property. If the

1 taxpayer fails to make the required level of investment ~~certified~~ within this two-year  
2 period, the taxpayer forfeits the large investment enhancements as provided in  
3 subsection (d) of this section.

4 (b2) Health Insurance. – A taxpayer is eligible for a credit for creating jobs or for  
5 worker training under this Article if the taxpayer provides health insurance for the  
6 positions for which the credit is claimed ~~at the time the taxpayer applies for~~ each year it  
7 claims an installment or carryforward of the credit. A taxpayer is eligible for the other  
8 credits under this Article if the taxpayer provides health insurance for all of the full-time  
9 positions at the location with respect to which the credit is claimed ~~at the time the~~  
10 ~~taxpayer applies for~~ each year it claims an installment or carryforward of the credit. For  
11 the purposes of this subsection, a taxpayer provides health insurance if it pays at least  
12 fifty percent (50%) of the premiums for health care coverage that equals or exceeds the  
13 minimum provisions of the basic health care plan of coverage recommended by the  
14 Small Employer Carrier Committee pursuant to G.S. 58-50-125.

15 Each year that a taxpayer claims an installment or carryforward of a credit allowed  
16 under this Article, the taxpayer must provide with the tax return the taxpayer's  
17 certification that the taxpayer continues to provide health insurance for the jobs for  
18 which the credit was claimed or the full-time jobs at the location with respect to which  
19 the credit was claimed. If the taxpayer ceases to provide health insurance for the jobs  
20 during a taxable year, the credit expires and the taxpayer may not take any remaining  
21 installment or carryforward of the credit.

22 (b3) Environmental Impact. – A taxpayer is eligible for a credit allowed under this  
23 Article only if the taxpayer certifies that, at the time the taxpayer ~~applies for~~ first claims  
24 the credit, the taxpayer has no pending administrative, civil, or criminal enforcement  
25 action based on alleged significant violations of any program implemented by an agency  
26 of the Department of Environment and Natural Resources, and has had no final  
27 determination of responsibility for any significant administrative, civil, or criminal  
28 violation of any program implemented by an agency of the Department of Environment  
29 and Natural Resources within the last five years. A significant violation is a violation or  
30 alleged violation that does not satisfy any of the conditions of G.S. 143-215.6B(d). The  
31 Secretary of ~~Commerce will provide the Department of Environment and Natural~~  
32 ~~Resources a list of all taxpayers making this certification. The Department of~~  
33 ~~Environment and Natural Resources may conduct random audit checks to verify~~  
34 ~~taxpayers' certifications. The Department of Environment and Natural Resources must~~  
35 notify the Department of Revenue annually of every person that currently has any of  
36 these pending actions and every person that has had any of these final determinations  
37 within this last five years. ~~of any taxpayer certifications it determines are not accurate.~~

38 (b4) Safety and Health Programs. – A taxpayer is eligible for a credit allowed  
39 under this Article only if the taxpayer certifies that, as of the time the taxpayer ~~applies~~  
40 ~~for~~ first claims the credit, at the business location with respect to which the credit is  
41 claimed, the taxpayer has no citations under the Occupational Safety and Health Act  
42 that have become a final order within the past three years for willful serious violations

1 or for failing to abate serious violations. For the purposes of this subsection, 'serious  
2 violation' has the same meaning as in G.S. 95-127. The Secretary of ~~Commerce will~~  
3 ~~provide the Department of Labor a list of all taxpayers making this certification. The~~  
4 ~~Department of Labor may conduct random audit checks to verify taxpayers'~~  
5 ~~certifications. The Department of Labor must notify the Department of Revenue~~  
6 ~~annually of all employers who have had these citations become final orders within the~~  
7 ~~past three years. of any taxpayer certifications it determines are not accurate.~~

8 (b5) Substantial Investment in Other Property. – A taxpayer is eligible for the  
9 credit for substantial investment in other property under G.S. 105-129.12A with respect  
10 to a location only if the Secretary of Commerce makes a written determination that the  
11 taxpayer is expected to purchase or lease and use in an eligible business at that location  
12 within a three-year period at least ten million dollars (\$10,000,000) of real property and  
13 that the location that is the subject of the credit will create at least 200 new jobs within  
14 two years of the time that the property is first used in an eligible business. If the  
15 taxpayer fails to timely make the required level of investment or fails to timely create  
16 the required number of new jobs, the taxpayer forfeits the credit as provided in  
17 subsection (d) of this section.

18 (c) Repealed by Session Laws 1998-55, s. 1, effective for taxable years  
19 beginning on or after January 1, 1999.

20 (d) Forfeiture. – A taxpayer forfeits a credit allowed under this Article if the  
21 taxpayer was not eligible for the credit ~~at the time the taxpayer applied for the credit for~~  
22 the calendar year in which the taxpayer engaged in the activity for which the credit was  
23 claimed. In addition, a taxpayer forfeits a large investment enhancement of a tax credit  
24 if the taxpayer fails to timely make the required level of investment ~~certified by the~~  
25 ~~Secretary of Commerce under subsection (b1) of this section within the required~~  
26 ~~two-year period section. A taxpayer forfeits the credit for substantial investment in other~~  
27 property allowed under G.S. 105-129.12A if the taxpayer fails to timely create the  
28 number of required new jobs or to timely make the required level of investment under  
29 subsection (b5) of this section. A taxpayer forfeits the technology commercialization  
30 credit allowed under G.S. 105-129.9A if the taxpayer fails to make the level of  
31 investment required by subsection (e) of that section within the required period or if the  
32 taxpayer fails to meet the terms of its licensing agreement with a research university. If  
33 a taxpayer claimed a twenty percent (20%) technology commercialization credit under  
34 G.S. 105-129.9A(d) and fails to make the level of investment required under that  
35 subsection within the required period, but does make the level of investment required  
36 under subsection (e) of that section within the required period, the taxpayer forfeits  
37 one-fourth of the twenty percent (20%) credit.

38 A taxpayer that forfeits a credit under this Article is liable for all past taxes avoided  
39 as a result of the credit plus interest at the rate established under G.S. 105-241.1(i),  
40 computed from the date the taxes would have been due if the credit had not been  
41 allowed. The past taxes and interest are due 30 days after the date the credit is forfeited;  
42 a taxpayer that fails to pay the past taxes and interest by the due date is subject to the

1 penalties provided in G.S. 105-236. If a taxpayer forfeits the credit for creating jobs, the  
2 technology commercialization credit, or the credit for investing in machinery and  
3 equipment, the taxpayer also forfeits any credit for worker training claimed for the jobs  
4 for which the credit for creating jobs was claimed or the jobs at the location with respect  
5 to which the technology commercialization credit or the credit for investing in  
6 machinery and equipment was claimed.

7 (e) Change in Ownership of Business. – As used in this subsection, the term  
8 'business' means a taxpayer or an establishment. The sale, merger, consolidation,  
9 conversion, acquisition, or bankruptcy of a business, or any transaction by which an  
10 existing business reformulates itself as another business, does not create new eligibility  
11 in a succeeding business with respect to credits for which the predecessor was not  
12 eligible under this Article. A successor business may, however, take any installment of  
13 or carried-over portion of a credit that its predecessor could have taken if it had a tax  
14 liability. The acquisition of a business is a new investment that creates new eligibility in  
15 the acquiring taxpayer under this Article if any of the following conditions are met:

- 16 (1) The business closed before it was acquired.
- 17 (2) The business was required to file a notice of plant closing or mass  
18 layoff under the federal Worker Adjustment and Retraining  
19 Notification Act, 29 U.S.C. § 2102, before it was acquired.
- 20 (3) The business was acquired by its employees directly or indirectly  
21 through an acquisition company under an employee stock option  
22 transaction or another similar mechanism. For the purpose of this  
23 subdivision, "acquired" means that as part of the initial purchase of a  
24 business by the employees, the purchase included an agreement for the  
25 employees through the employee stock option transaction or another  
26 similar mechanism to obtain one of the following:
  - 27 a. Ownership of more than fifty percent (50%) of the business.
  - 28 b. Ownership of not less than forty percent (40%) of the business  
29 within seven years if the business has tangible assets with a net  
30 book value in excess of one hundred million dollars  
31 (\$100,000,000) and has the majority of its operations located in  
32 an enterprise tier one, two, or three area.

33 (f) Development Zone Project Credit. – Subsections (a) through (b4) of this  
34 section do not apply to the credit for development zone projects provided in G.S.  
35 105-129.13.

36 (g) Advisory Ruling. – A taxpayer may request in writing from the Secretary of  
37 Revenue specific advice regarding eligibility for a credit under this Article. G.S.  
38 105-264 governs the effect of this advice."

39 **SECTION 6.(b)** The amendments to G.S. 105-129.4(a2) in this section and  
40 the enactment of G.S. 105-129.4(g) in this section are effective when this act becomes  
41 law. The amendments to G.S. 105-129.4(a) in this section are effective for taxable

1 years beginning on or after January 1, 2001. The remainder of this section is effective  
2 for taxable years beginning on or after January 1, 2002.

3         **SECTION 7.(a)** The General Assembly finds that the purpose of Article 3A  
4 of Chapter 105 of the General Statutes is to encourage the creation of new quality jobs  
5 and to encourage new investment in machinery and equipment, research and  
6 development, and real property. The General Assembly further finds that allowing  
7 taxpayers to file amended returns and retroactively claim credits under that Article does  
8 not further this purpose of encouraging job creation and new investment.

9         **SECTION 7.(b)** G.S. 105-129.5 reads as rewritten:

10 **"§ 105-129.5. Tax election; cap; ~~carryforwards~~carryforwards; limitations.**

11         (a) Tax Election. – The credits provided in this Article are allowed against the  
12 franchise tax levied in Article 3 of this Chapter, the income taxes levied in Article 4 of  
13 this Chapter, and the gross premiums tax levied in Article 8B of this Chapter. The  
14 taxpayer may divide the technology commercialization credit allowed in G.S.  
15 105-129.9A between the taxes against which it is allowed. The taxpayer shall elect the  
16 percentage of the credit that will be taken against each tax when filing the return on  
17 which the credit is first taken. This election is binding. The percentage of the credit  
18 elected to be taken against each tax may be carried forward only against the same tax.

19         The taxpayer must take any other credit allowed in this Article against only one of  
20 the taxes against which it is allowed. The taxpayer shall elect the tax against which a  
21 credit will be claimed when filing the return on which the first installment of the credit  
22 is claimed. This election is binding. Any carryforwards of the credit must be claimed  
23 against the same tax.

24         (b) Cap. – The credits allowed under this Article may not exceed fifty percent  
25 (50%) of the tax against which they are claimed for the taxable year, reduced by the  
26 sum of all other credits allowed against that tax, except tax payments made by or on  
27 behalf of the taxpayer. This limitation applies to the cumulative amount of credit,  
28 including carryforwards, claimed by the taxpayer under this Article against each tax for  
29 the taxable year.

30         (c) Carryforward. – Any unused portion of a credit with respect to a large  
31 ~~investment or investment~~, with respect to the technology commercialization credit  
32 allowed in G.S. ~~105-129.9A~~ 105-129.9A, or with respect to substantial investment in  
33 other property under G.S. 105-129.12A may be carried forward for the succeeding 20  
34 years. Any unused portion of a credit with respect to research and development  
35 activities under G.S. 105-129.10 may be carried forward for the succeeding 15 years.  
36 Any unused portion of a credit may be carried forward for the succeeding 10 years ~~if~~if,  
37 before the taxpayer claims the credit, the Secretary of Commerce certifies when an  
38 application for the credit is first made makes a written determination that the taxpayer  
39 ~~will~~is expected to purchase or lease, and place in service in connection with the eligible  
40 business within a two-year period, at least fifty million dollars (\$50,000,000) worth of  
41 one or more of the following: real property, machinery and equipment, or central office  
42 or aircraft facility property. If the taxpayer fails to make the required level of investment

1 ~~certified~~ within this two-year period, the taxpayer forfeits this enhanced carryforward  
2 period. Any unused portion of any other credit may be carried forward for the  
3 succeeding five years.

4 (d) Statute of Limitations. – Notwithstanding Article 9 of this Chapter, a taxpayer  
5 must claim a credit under this Article within six months after the date set by statute for  
6 the filing of the return, including any extensions of that date."

7 **SECTION 7.(c)** The amendments to G.S. 105-129.5(c) in this section are  
8 effective for taxable years beginning on or after January 1, 2002, and apply to credits  
9 that are first claimed on or after that date. The remainder of this section is effective for  
10 taxable years beginning on or after January 1, 2001.

11 **SECTION 8.(a)** G.S. 105-129.6 reads as rewritten:

12 "**§ 105-129.6. Application; Fees and reports.**

13 (a) ~~Application.~~ ~~To claim the credits allowed by this Article, the taxpayer must~~  
14 ~~provide with the tax return the certification of the Secretary of Commerce that the~~  
15 ~~taxpayer meets all of the eligibility requirements of G.S. 105-129.4 or G.S. 105-129.13,~~  
16 ~~as applicable, with respect to each credit. A taxpayer shall apply to the Secretary of~~  
17 ~~Commerce for certification of eligibility. The application must be on a form provided by~~  
18 ~~the Secretary of Commerce and must contain any information necessary for the~~  
19 ~~Secretary of Commerce to determine whether the taxpayer meets the eligibility~~  
20 ~~requirements. In addition, the application must state the number of full time jobs to be~~  
21 ~~created that are located within a development zone, the number of full time jobs to be~~  
22 ~~created that are expected to be filled by employees residing within the development~~  
23 ~~zone, and the number of full time jobs to be created that are expected to be filled by~~  
24 ~~employees residing within a census tract or census block group that has more than~~  
25 ~~twenty percent (20%) of its population below the poverty level according to the most~~  
26 ~~recent federal decennial census.~~

27 ~~If the Secretary of Commerce determines that the taxpayer meets all of the eligibility~~  
28 ~~requirements of G.S. 105-129.4 or G.S. 105-129.13, as applicable, with respect to a~~  
29 ~~credit, the Secretary shall issue a certificate describing the location with respect to~~  
30 ~~which the credit is claimed, outlining the eligibility requirements for the credit, and~~  
31 ~~stating that the taxpayer meets the eligibility requirements. If the Secretary of~~  
32 ~~Commerce determines that the taxpayer does not meet all of the eligibility requirements~~  
33 ~~of G.S. 105-129.4 or G.S. 105-129.13, as applicable, with respect to a credit, the~~  
34 ~~Secretary must advise the taxpayer in writing of the eligibility requirements the taxpayer~~  
35 ~~fails to meet. The Secretary of Commerce may adopt rules in accordance with Chapter~~  
36 ~~150B of the General Statutes that are needed to carry out the Secretary of Commerce's~~  
37 ~~responsibilities under this section.~~

38 (a1) Fee. – When filing an application for certification a return for a taxable year  
39 in which the taxpayer engaged in activity for which the taxpayer is eligible for a credit  
40 under this section, Article, the taxpayer must pay the Department of Commerce  
41 Revenue a fee of five hundred dollars (\$500.00) for each credit the taxpayer claims or  
42 intends to claim with respect to a location that is in an enterprise tier three, four, or five

1 area, subject to a maximum fee of one thousand five hundred dollars (\$1,500) per  
2 taxpayer per taxable year. This fee does not apply to any credit the taxpayer claims or  
3 intends to claim with respect to a location that is in a development zone as defined in  
4 G.S. 105-129.3A. If the taxpayer ~~applies for certification for~~ claims or intends to claim  
5 a credit that relates to locations in more than one enterprise tier area, the fee is based on  
6 the highest-numbered enterprise tier area.

7 The fee is due at the time the return is due for the taxable year in which the taxpayer  
8 engaged in the activity for which the taxpayer is eligible for a credit. No credit is  
9 allowed under this Article for a taxable year until all outstanding fees have been paid.

10 The Secretary of ~~Commerce Revenue~~ shall retain ~~one-fourth~~ three-fourths of the  
11 proceeds of the fee imposed in this section for the costs of ~~administering this section.~~  
12 ~~The Secretary of Commerce shall credit the remaining proceeds of the fee imposed in~~  
13 ~~this section to the Department of Revenue for the costs of administering and auditing~~  
14 ~~the credits allowed in this Article. The Secretary of Revenue shall credit the remaining~~  
15 proceeds of the fee imposed in this section to the Department of Commerce for the costs  
16 of administering this Article. The proceeds of the fee are receipts of the Department to  
17 which they are credited.

18 (b) Reports. – The Department of ~~Commerce Revenue~~ shall ~~report to the~~  
19 ~~Department of Revenue and to the Fiscal Research Division of the General Assembly~~  
20 publish by ~~May~~ March 1 of each year the following information itemized by credit and  
21 by taxpayer for the 12-month period ending the preceding ~~April 1~~ December 31:

- 22 (1) The number of ~~applications~~ claims for each credit allowed in this  
23 Article.
- 24 (2) The number and enterprise tier area of new jobs with respect to which  
25 credits were ~~applied for~~ generated and to which credits were claimed.
- 26 (3) The cost and enterprise tier area of machinery and equipment with  
27 respect to which credits were ~~applied for~~ generated and to which  
28 credits were claimed.
- 29 (4) The number of new jobs created by businesses located in within  
30 development zones, and the percentage of those jobs at those locations  
31 that were filled by residents of the zones.
- 32 (5) The amount and enterprise tier area of worker training expenditures  
33 with respect to which credits were generated and to which credits were  
34 claimed.
- 35 (6) The amount and enterprise tier area of new research and development  
36 expenditures with respect to which credits were generated and to  
37 which credits were claimed.
- 38 (7) The cost and enterprise tier area of real property investment with  
39 respect to which credits were generated and to which credits were  
40 claimed."

41 **SECTION 8.(b)** G.S. 105-259(b) is amended by adding a new subdivision to

42 read:



1       "(b) Disclosure Prohibited. – An officer, an employee, or an agent of the State  
2 who has access to tax information in the course of service to or employment by the State  
3 may not disclose the information to any other person unless the disclosure is made for  
4 one of the following purposes:

5             ...

6             (27) To publish the information required under G.S. 105-129.6."

7       **SECTION 8.(c)** This section is effective for taxable years beginning on or  
8 after January 1, 2002.

9       **SECTION 9.(a)** G.S. 105-129.7 reads as rewritten:

10    "**§ 105-129.7. Substantiation.**

11       (a) To claim a credit allowed by this Article, the taxpayer must provide any  
12 information required by the Secretary of Revenue. Every taxpayer claiming a credit  
13 under this Article shall maintain and make available for inspection by the Secretary of  
14 Revenue any records the Secretary considers necessary to determine and verify the  
15 amount of the credit to which the taxpayer is entitled. The burden of proving eligibility  
16 for the credit and the amount of the credit shall rest upon the taxpayer, and no credit  
17 shall be allowed to a taxpayer that fails to maintain adequate records or to make them  
18 available for inspection.

19       (b) Each taxpayer must provide with the tax return qualifying information for  
20 each credit claimed under this Article for the first taxable year the credit is claimed and  
21 for every year in which a subsequent installment or a carryforward of that credit is  
22 claimed. The qualifying information must be in the form prescribed by the Secretary,  
23 must cover each taxable year beginning with the first taxable year the credit is claimed,  
24 and must be signed and affirmed by the individual who signs the taxpayer's tax return.  
25 The information required by this subsection is information demonstrating that the  
26 taxpayer has met the conditions for qualifying for an initial credit and any installments  
27 and carryforwards, and includes the following:

28           (1) The physical location of the jobs and investment with respect to which  
29 the credit is claimed, including the enterprise tier designation of the  
30 location and whether it is in a development zone. In addition, for each  
31 individual who fills a job at a location with respect to which a credit is  
32 claimed, the place where the individual resided before taking the job,  
33 including any enterprise tier ~~or development zone~~ designation of that  
34 place. In addition, for jobs that are located in a development zone, the  
35 number of those jobs that are filled by residents of the development  
36 zone.

37           (2) The type of business with respect to which the credit is claimed, as  
38 required by G.S. 105-129.4(a), and wage information described in G.S.  
39 105-129.4(b).

40           (3) If the credit is claimed with respect to a large investment ~~certified~~  
41 ~~under G.S. 105-129.4(b1) or~~ 105-129.4(b1), is a credit with a  
42 carryforward period of 10 years under G.S. 105-129.5(c), or is a credit

1           claimed under G.S. 105-129.12A, the amount of the investment  
2           requirement under those subsections that has been met to date.

- 3           (4)   Qualifying information required for the credit for creating jobs allowed  
4           under G.S. 105-129.8, the credit for investing in machinery and  
5           equipment allowed under G.S. 105-129.9, the credit for worker  
6           training allowed under G.S. 105-129.11, the credit for investing in  
7           central office or aircraft facility property allowed in G.S. 105-129.12,  
8           the credit for substantial investment in other property under G.S.  
9           105-129.12A, and any other credits allowed under this Article."

10           **SECTION 9.(b)** This section is effective for taxable years beginning on or  
11 after January 1, 2002.

12           **SECTION 10.(a)** G.S. 105-129.9 reads as rewritten:

13   "**§ 105-129.9. Credit for investing in machinery and equipment.**

14           (a)   General Credit. – If a taxpayer that has purchased or leased eligible  
15 machinery and equipment places them in service in this State during the taxable year,  
16 the taxpayer is allowed a credit equal to seven percent (7%) of the excess of the eligible  
17 investment amount over the applicable threshold. Machinery and equipment are eligible  
18 if they are capitalized by the taxpayer for tax purposes under the Code and not leased to  
19 another party. In addition, in the case of a large investment, machinery and equipment  
20 that are not capitalized by the taxpayer are eligible if the taxpayer leases them from  
21 another party. The credit may not be taken for the taxable year in which the machinery  
22 and equipment are placed in service but shall be taken in equal installments over the  
23 seven years following the taxable year in which they are placed in service.

24           (a1)   Technology Commercialization Credit. – If a taxpayer is eligible for the  
25 credit allowed in this section with respect to eligible machinery and equipment and  
26 qualifies for one of the credits allowed in G.S. 105-129.9A with respect to the same  
27 machinery and equipment, the taxpayer may choose to take one of those credits instead  
28 of the credit allowed in this section. A taxpayer may take the credit allowed in this  
29 section or one of the credits allowed in G.S. 105-129.9A during a taxable year with  
30 respect to eligible machinery and equipment, but may not take more than one of these  
31 credits with respect to the same machinery and equipment.

32           (b)   Eligible Investment Amount. – The eligible investment amount is the lesser  
33 of (i) the cost of the eligible machinery and equipment and (ii) the amount by which the  
34 cost of all of the taxpayer's eligible machinery and equipment that are in service in this  
35 State on the last day of the taxable year exceeds the cost of all of the taxpayer's eligible  
36 machinery and equipment that were in service in this State on the last day of the base  
37 year. The base year is that year, of the three immediately preceding taxable years, in  
38 which the taxpayer had the most eligible machinery and equipment in service in this  
39 State. ~~A taxpayer that claims a credit under this section must include with the~~  
40 ~~application for certification required under G.S. 105-129.6(a) specific documentation~~  
41 ~~supporting the taxpayer's calculation of the eligible investment amount under this~~  
42 ~~subsection.~~

1 (c) Threshold. – The applicable threshold is the appropriate amount set out in the  
 2 following table based on the enterprise tier ~~of the area~~ where the eligible machinery and  
 3 equipment are placed in service during the taxable year. If the taxpayer places eligible  
 4 machinery and equipment in service ~~in~~ at more than one area-establishment in an  
 5 enterprise tier during the taxable year, the threshold applies separately to the eligible  
 6 machinery and equipment placed in service ~~in~~ at each area-establishment. If the taxpayer  
 7 places eligible machinery and equipment in service ~~in an area~~ at an establishment over  
 8 the course of a two-year period, the applicable threshold for the second taxable year is  
 9 reduced by the eligible investment amount for the previous taxable year.

10	Area Enterprise Tier	Threshold
11	Tier One	\$ -0-
12	Tier Two	100,000
13	Tier Three	200,000
14	Tier Four	500,000
15	Tier Five	1,000,000

16 (d) Expiration. – If, in one of the seven years in which the installment of a credit  
 17 accrues, the machinery and equipment with respect to which the credit was claimed are  
 18 disposed of, taken out of service, or moved out of State, the credit expires and the  
 19 taxpayer may not take any remaining installment of the credit for that machinery and  
 20 equipment unless the cost of that machinery and equipment is offset in the same taxable  
 21 year by the taxpayer's new investment in eligible machinery and equipment placed in  
 22 service in the same enterprise tier, as provided in this subsection. If, during the taxable  
 23 year the taxpayer disposed of the machinery and equipment for which installments  
 24 remain, there has been a net reduction in the cost of all the taxpayer's eligible machinery  
 25 and equipment that are in service in the same enterprise tier as the machinery and  
 26 equipment that were disposed of, and the amount of this reduction is greater than twenty  
 27 percent (20%) of the cost of the machinery and equipment that were disposed of, then  
 28 the taxpayer forfeits the remaining installments of the credit for the machinery and  
 29 equipment that were disposed of. If the amount of the net reduction is equal to twenty  
 30 percent (20%) or less of the cost of the machinery and equipment that were disposed of,  
 31 or if there is no net reduction, then the taxpayer does not forfeit the remaining  
 32 installments of the expired credit. In determining the amount of any net reduction during  
 33 the taxable year, the cost of machinery and equipment the taxpayer placed in service  
 34 during the taxable year and for which the taxpayer claims a credit under Article 3B of  
 35 this Chapter may not be included in the cost of all the taxpayer's eligible machinery and  
 36 equipment that are in service. If in a single taxable year machinery and equipment with  
 37 respect to two or more credits in the same tier are disposed of, the net reduction in the  
 38 cost of all the taxpayer's eligible machinery and equipment that are in service in the  
 39 same tier is compared to the total cost of all the machinery and equipment for which  
 40 credits expired in order to determine whether the remaining installments of the credits  
 41 are forfeited.

1 The expiration of a credit does not prevent the taxpayer from taking the portion of an  
2 installment that accrued in a previous year and was carried forward to the extent  
3 permitted under G.S. 105-129.5.

4 If, in one of the seven years in which the installment of a credit accrues, the  
5 machinery and equipment with respect to which the credit was claimed are moved to an  
6 area in a higher-numbered enterprise tier, or are moved from a development zone to an  
7 area that is not a development zone, the remaining installments of the credit are allowed  
8 only to the extent they would have been allowed if the machinery and equipment had  
9 been placed in service initially in the area to which they were moved.

10 (e) Planned Expansion. – A taxpayer that signs a letter of commitment with the  
11 Department of Commerce to place specific eligible machinery and equipment in service  
12 in an area within two years after the date the letter is signed may, in the year the eligible  
13 machinery and equipment are placed in service in that area, calculate the credit for  
14 which the taxpayer qualifies based on the area's enterprise tier and development zone  
15 designation for the year the letter was signed. All other conditions apply to the credit,  
16 but if the area has been redesignated to a higher-numbered enterprise tier or has lost its  
17 development zone designation after the year the letter of commitment was signed, the  
18 credit is allowed based on the area's enterprise tier and development zone designation  
19 for the year the letter was signed. If the taxpayer does not place part or all of the  
20 specified eligible machinery and equipment in service within the two-year period, the  
21 taxpayer does not qualify for the benefit of this subsection with respect to the machinery  
22 and equipment not placed in service within the two-year period. However, if the  
23 taxpayer qualifies for a credit in the year the eligible machinery and equipment are  
24 placed in service, the taxpayer may take the credit for that year as if no letter of  
25 commitment had been signed pursuant to this subsection."

26 **SECTION 10.(b)** This section is effective for taxable years beginning on or  
27 after January 1, 2002, and applies to machinery and equipment first placed into service  
28 on or after that date.

29 **SECTION 11.(a)** G.S. 105-129.9A(c), (d), and (e) read as rewritten:

30 "(c) Documentation. – If the taxpayer claims the exception provided in  
31 subdivision (b)(2) of this section, ~~the Secretary of Commerce must obtain an opinion of~~  
32 ~~the Attorney General that the taxpayer meets all of the conditions of subdivision (b)(2)~~  
33 ~~before the Secretary certifies the application under G.S. 105-129.6(a); the taxpayer must~~  
34 first request a ruling by the Department of Revenue as to whether the taxpayer meets all  
35 of the conditions of subdivision (b)(2) of this section.

36 (d) Twenty Percent Credit. – A taxpayer qualifies for a twenty percent (20%)  
37 credit under this section if it meets all of the following conditions:

- 38 (1) The eligible machinery and equipment are directly related to  
39 production based on technology developed by and licensed from a  
40 research university or are used to produce resources essential to the  
41 taxpayer's production based on technology developed by and licensed  
42 from a research university.

- 1           (2) The eligible machinery and equipment are placed in service in a tier  
2           one, two, or three enterprise area.
- 3           (3) The eligible investment amount is at least ten million dollars  
4           (\$10,000,000) for the taxable year.
- 5           (4) The Secretary of Commerce has ~~certified~~ made a written determination  
6           that the taxpayer ~~will~~ is expected to invest at least one hundred fifty  
7           million dollars (\$150,000,000) in eligible machinery and equipment in  
8           a tier one, two, or three enterprise area by the end of the fourth year  
9           after the year in which the taxpayer first places eligible machinery and  
10          equipment in service in the enterprise area.
- 11          (5) No more than nine years have passed since the first taxable year the  
12          taxpayer claimed a credit under this section with respect to the same  
13          location.
- 14          (e) Fifteen Percent Credit. – A taxpayer qualifies for a fifteen percent (15%)  
15          credit under this section if it meets all of the following conditions:
- 16               (1) The eligible machinery and equipment are directly related to  
17               production based on technology developed by and licensed from a  
18               research university, or are used to produce resources essential to the  
19               taxpayer's production based on technology developed by and licensed  
20               from a research university.
- 21               (2) The eligible machinery and equipment are placed in service in a tier  
22               one, two, or three enterprise area.
- 23               (3) The eligible investment amount is at least ten million dollars  
24               (\$10,000,000) for the taxable year.
- 25               (4) The Secretary of Commerce has ~~certified~~ made a written determination  
26               that the taxpayer ~~will~~ is expected to invest at least one hundred million  
27               dollars (\$100,000,000) in eligible machinery and equipment in a tier  
28               one, two, or three enterprise area by the end of the fourth year after the  
29               year in which the taxpayer first places eligible machinery and  
30               equipment in service in the enterprise area.
- 31               (5) No more than nine years have passed since the first taxable year the  
32               taxpayer claimed a credit under this section with respect to the same  
33               location."

34          **SECTION 11.(b)** This section is effective for taxable years beginning on or  
35          after January 1, 2002.

36          **SECTION 12.(a)** G.S. 105-129.12(c) reads as rewritten:

37          "(c) Expiration. – If, in one of the seven years in which the installment of a credit  
38          accrues, the property with respect to which the credit was claimed is no longer used as a  
39          central office or aircraft facility, the credit expires and the taxpayer may not take any  
40          remaining installment of the credit. If, in one of the seven years in which the installment  
41          of a credit accrues, part of the property with respect to which the credit was claimed is  
42          no longer used as a central office or aircraft facility, the remaining installments of the

1 credit shall be reduced by multiplying it by the fraction described in subsection (b) of  
2 this section. ~~If, in one of the seven years in which the installment of a credit accrues, the~~  
3 ~~total number of employees the taxpayer employs at all of its central office or aircraft~~  
4 ~~facilities in this State drops by 40 or more, the credit expires and the taxpayer may not~~  
5 ~~take any remaining installment of the credit.~~

6 In each of these cases, the taxpayer may nonetheless take the portion of an  
7 installment that accrued in a previous year and was carried forward to the extent  
8 permitted under G.S. 105-129.5."

9 **SECTION 12.(b)** This section is effective for taxable years beginning on or  
10 after January 1, 2001.

11 **SECTION 13.(a)** Article 3A of Chapter 105 of the General Statutes is  
12 amended by adding a new section to read:

13 "**§ 105-129.12A. Credit for substantial investment in other property.**

14 (a) Credit. – If a taxpayer that has purchased or leased real property in an  
15 enterprise tier one or two area begins to use the property in an eligible business during  
16 the taxable year, the taxpayer is allowed a credit equal to thirty percent (30%) of the  
17 eligible investment amount if all of the eligibility requirements of G.S. 105-129.4 are  
18 met. For the purposes of this section, property is located in an enterprise tier one or two  
19 area if the area the property is located in was an enterprise tier one or two area at the  
20 time the taxpayer applied for the certification required under G.S. 105-129.4(b5). The  
21 eligible investment amount is the lesser of (i) the cost of the property and (ii) the  
22 amount by which the cost of all of the real property the taxpayer is using in this State in  
23 an eligible business on the last day of the taxable year exceeds the cost of all of the real  
24 property the taxpayer was using in this State in an eligible business on the last day of  
25 the base year. The base year is that year, of the three immediately preceding taxable  
26 years, in which the taxpayer was using the most real property in this State in an eligible  
27 business. In the case of property that is leased, the cost of the property is not determined  
28 as provided in G.S. 105-129.2 but is considered to be the taxpayer's lease payments over  
29 a seven-year period, plus any expenditures made by the taxpayer to improve the  
30 property before it is used by the taxpayer if the expenditures are not reimbursed or  
31 credited by the lessor. The entire credit may not be taken for the taxable year in which  
32 the property is first used in an eligible business but shall be taken in equal installments  
33 over the seven years following the taxable year in which the property is first used in an  
34 eligible business. When part of the property is first used in an eligible business in one  
35 year and part is first used in an eligible business in a later year, separate credits may be  
36 claimed for the amount of property first used in an eligible business in each year. The  
37 basis in any real property for which a credit is allowed under this section shall be  
38 reduced by the amount of credit allowable.

39 (b) Mixed Use Property. – If the taxpayer uses only part of the property in an  
40 eligible business, the amount of the credit allowed under this section is reduced by  
41 multiplying it by a fraction, the numerator of which is the square footage of the property

1 used in an eligible business and the denominator of which is the total square footage of  
2 the property.

3 (c) Expiration. – If, in one of the seven years in which the installment of a credit  
4 accrues, the property with respect to which the credit was claimed is no longer used in  
5 an eligible business, the credit expires and the taxpayer may not take any remaining  
6 installment of the credit. If, in one of the seven years in which the installment of a credit  
7 accrues, part of the property with respect to which the credit was claimed is no longer  
8 used in an eligible business, the remaining installments of the credit shall be reduced by  
9 multiplying it by the fraction described in subsection (b) of this section. If, in one of the  
10 years in which the installment of a credit accrues and by which the taxpayer is required  
11 to have created 200 new jobs at the property, the total number of employees the  
12 taxpayer employs at the property with respect to which the credit is claimed is less than  
13 200, the credit expires and the taxpayer may not take any remaining installment of the  
14 credit.

15 In each of these cases, the taxpayer may nonetheless take the portion of an  
16 installment that accrued in a previous year and was carried forward to the extent  
17 permitted under G.S. 105-129.5.

18 (d) No Double Credit. – A taxpayer may not claim a credit under this section  
19 with respect to real property for which a credit is claimed under G.S. 105-129.12."

20 **SECTION 13.(b)** This section is effective for taxable years beginning on or  
21 after January 1, 2002, and applies to property that is first used in an eligible business on  
22 or after that date.

23 **SECTION 14.(a)** G.S. 105-129.13(e) reads as rewritten:

24 "(e) Application. – To be eligible for the tax credit provided in this section, ~~in~~  
25 ~~addition to the application required under G.S. 105-129.6,~~ the taxpayer must file an  
26 application for the credit with the Secretary of Revenue on or before April 15 of the  
27 year following the calendar year in which the contribution was made. The Secretary  
28 may grant extensions of this deadline, as the Secretary finds appropriate, upon the  
29 request of the taxpayer, except that the application may not be filed after September 15  
30 of the year following the calendar year in which the contribution was made. An  
31 application is effective for the year in which it is timely filed. The application must be  
32 on a form prescribed by the Secretary and must include any supporting documentation  
33 that the Secretary may require. If a contribution for which a credit is applied for was of  
34 property rather than cash, the taxpayer must include with the application a certified  
35 appraisal of the value of the property contributed. There is no fee for an application  
36 under this section."

37 **SECTION 14.(b)** This section is effective for taxable years beginning on or  
38 after January 1, 2002.

39 **SECTION 15.(a)** Section 22 of S.L. 1998-55 reads as rewritten:

40 "Section 22. Section 10 of this act is effective for taxes imposed for taxable years  
41 beginning on or after July 1, 2001. Section 11 of this act becomes effective January 1,

1 1999, and expires January 1, ~~2004~~2008. The remainder of Part III of this act becomes  
 2 effective January 1, 2001, and applies to sales made on or after that date."

3 **SECTION 15.(b)** This section is effective when it becomes law.

4 **SECTION 16.(a)** Reserved.

5 **SECTION 16.(b)** G.S. 105-164.4(a)(1f)b. is repealed.

6 **SECTION 16.(c)** G.S. 105-164.4(a) is amended by adding a new  
 7 subdivision to read:

8 "(1g) Electricity Sold to Manufacturers.

9 a. General. – Qualified electricity is taxable as provided in this  
 10 subdivision. Qualified electricity is electricity that is measured  
 11 by a separate meter or another separate measuring device and is  
 12 sold to a manufacturing industry or manufacturing plant for use  
 13 in connection with the operation of the industry or plant.

14 b. Rates. – A single tax rate applies to all of the qualified  
 15 electricity received by an industry or a plant in each fiscal year  
 16 beginning July 1. That tax rate is determined based on the  
 17 megawatt-hour volume of qualified electricity received by the  
 18 industry or plant during the previous calendar year, in  
 19 accordance with the following table. The rates set based on the  
 20 table are subject to adjustment as provided in sub-subdivision f.  
 21 of this subdivision.

<u>Previous Year's</u> <u>Megawatt-Hours</u> <u>Received</u>	<u>Rate</u> <u>for Fiscal</u> <u>Year</u>
<u>5,000 or Less</u>	<u>2.83%</u>
<u>Over 5,000 up to 250,000</u>	<u>2.25%</u>
<u>Over 250,000 up to 1,200,000</u>	<u>2%</u>
<u>Over 1,200,000</u>	<u>0.17%</u>

22 c. Multiple Meters. – If the industry or plant receives qualified  
 23 electricity that is metered through two or more separate  
 24 measuring devices, the tax is calculated separately on the  
 25 volume metered through each device rather than on the total  
 26 volume metered through all measuring devices, unless the  
 27 devices are located on the same premises and are part of the  
 28 same billing account. In that circumstance, the tax is calculated  
 29 on the total volume metered through the two or more separate  
 30 measuring devices.

31 d. Procedure. – During the first five months of each calendar year,  
 32 each retailer of qualified electricity must determine the annual  
 33 volume of electricity it sold during the previous calendar year to  
 34 each manufacturing industry and manufacturing plant. Based on  
 35 this volume, the retailer must determine the tax rate that will  
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1 apply to each industry and plant. If the applicable rate is  
2 different from the rate in effect for the previous fiscal year, the  
3 retailer must notify the taxpayer of the new rate on or before  
4 June 1 before it goes into effect.

5 e. New Manufacturers. – If a manufacturer begins business using  
6 qualified electricity, the retailer must establish a rate at the time  
7 the manufacturer first purchases qualified electricity. In this  
8 case, and in the case of a manufacturer that was not in business  
9 for the entire calendar year preceding the rate determination, the  
10 retailer must estimate the expected annual volume of qualified  
11 electricity it will sell to the plant or industry during its first  
12 twelve months of business and determine the applicable tax rate  
13 based on this estimate.

14 f. Adjustment. – If the actual volume of qualified electricity  
15 received by an industry or a plant during a fiscal year dictates a  
16 different tax rate from the rate charged for that fiscal year, the  
17 manufacturer is eligible for a refund of any excess or is liable  
18 for payment of any deficiency. A manufacturer who is eligible  
19 for a refund may apply to the Department and a manufacturer  
20 who is liable for a deficiency must report the liability to the  
21 Department."

22 **SECTION 16.(d)** G.S. 105-164.4(a)(1d) reads as rewritten:

23 "(1d) The rate of one percent (1%) applies to the sales price of the articles  
24 listed in G.S. 105-164.4A. The maximum tax is eighty dollars (\$80.00)  
25 per article. As used in G.S. 105-164.4A and G.S. 105-187.51, the term  
26 'accessories' does not include electricity."

27 **SECTION 16.(e)** G.S. 105-164.13(8) reads as rewritten:

28 **"§ 105-164.13. Retail sales and use tax.**

29 The sale at retail, the use, storage or consumption in this State of the following  
30 tangible personal property is specifically exempted from the tax imposed by this Article:

31 ...

32 (8) Sales to a manufacturer of tangible personal property to—a  
33 manufacturer which that enters into or becomes an ingredient or  
34 component part of tangible personal property ~~which—that~~ is  
35 manufactured. This exemption does not apply to sales of electricity."

36 **SECTION 16.(f)** Subsections (b) and (c) of this section become effective  
37 July 1, 2002, and apply to sales made on or after that date. The remainder of this section  
38 is effective when it becomes law.

39 **SECTION 17.(a)** G.S. 105-164.3, as amended by S.L. 2001-347, S.L.  
40 2001-414, S.L. 2001-424, and S.L. 2001-420, is amended by adding the following new  
41 subdivisions in the correct alphabetical order:

42 **"§ 105-164.3. Definitions.**

43 The following definitions apply in this Article:

- 1 ...
- 2 (2b) Clothing. – All human wearing apparel suitable for general use
- 3 including coats, jackets, hats, hosiery, scarves, and shoes.
- 4 (2c) Clothing accessories or equipment. – Incidental items worn on the
- 5 person or in conjunction with clothing including jewelry, cosmetics,
- 6 eyewear, wallets, and watches.
- 7 ...
- 8 (11d) Protective equipment. – Items for human wear and designed as
- 9 protection of the wearer against injury or disease or as protection
- 10 against damage or injury of other persons or property but not suitable
- 11 for general use including breathing masks, face shields, hard hats, and
- 12 tool belts.
- 13 ...
- 14 (16e) Sport or recreational equipment. – Items designed for human use and
- 15 worn in conjunction with an athletic or recreational activity that are not
- 16 suitable for general use including ballet shoes, cleated athletic shoes,
- 17 shin guards, and ski boots."

18 **SECTION 17.(b)** G.S. 105-164.13C, as enacted by S.L. 2001-424, reads as

19 rewritten:

20 **"§ 105-164.13C. Sales and use tax holiday.**

21 (a) The taxes imposed by this Article do not apply to the following items of

22 tangible personal property if sold between 12:01A.M. on the first Friday of August and

23 11:59 P.M. the following Sunday:

- 24 (1) Clothing with a sales price of one hundred dollars (\$100.00) or less per
- 25 item.
- 26 ~~(2) Clothing accessories, such as hats, scarves, hosiery, and handbags,~~
- 27 ~~with a sales price of one hundred dollars (\$100.00) or less per item.~~
- 28 ~~(3) Footwear with a sales price of one hundred dollars (\$100.00) or less~~
- 29 ~~per item.~~
- 30 ~~(4)~~(2) School supplies, such as pens, pencils, paper, binders, notebooks,
- 31 textbooks, reference books, book bags, lunchboxes, and calculators,
- 32 with a sales price of one hundred dollars (\$100.00) or less per item.
- 33 ~~(5)~~(3) Computers, printers and printer supplies, and educational computer
- 34 software, with a sales price of three thousand five hundred dollars
- 35 (\$3,500) or less per item.
- 36 (4) Sport or recreational equipment with a sales price of fifty dollars
- 37 (\$50.00) or less per item.

38 (b) The exemption allowed by this section does not apply to the following:

- 39 ~~(1) Sales of jewelry, cosmetics, eyewear, wallets, or watches.~~Sales of
- 40 clothing accessories or equipment.
- 41 (2) Sales of protective equipment.
- 42 ~~(2)~~(3) Sales of furniture.

1           ~~(3)~~(4) Sales involving a layaway contract or a similar deferred payment and  
2           delivery plan.

3           ~~(4)~~(5) Sales of an item for use in a trade or business.

4           ~~(5)~~(6) Rentals.

5           (c) For the purpose of this section, 'computer' means a central processing unit for  
6           personal use and any peripherals sold with it and any computer software installed at the  
7           time of purchase."

8           **SECTION 17.(c)** This section becomes effective January 1, 2002, and  
9           applies to sales made on or after that date. The Codifier is authorized to modify G.S.  
10          105-164.3 to change the format of the existing definitions to match the format of the  
11          new definitions enacted during 2001, but not to change the format of the new definitions  
12          enacted in 2001 to match the format of the existing definitions. The Codifier is  
13          authorized to renumber these definitions as necessary to maintain their alphabetical  
14          order.

15          **SECTION 18.(a)** Section 9 of S.L. 1998-98 reads as rewritten:

16          "Section 9. Sections 1 through 6 of this act are effective for taxable years beginning  
17          on or after January 1, 1999. G.S. 105-129.35(b), as amended by this act, is repealed  
18          effective January 1, ~~2002~~, 2004, for property placed in service on or after that date.  
19          Sections 7 and 8 of this act become effective for taxable years beginning on or after  
20          January 1, 2000. The remainder of this act is effective when it becomes law."

21          **SECTION 18.(b)** This section is effective when it becomes law.

22          **SECTION 19.** Except as otherwise provided in this act, this act is effective  
23          when it becomes law.