

**GENERAL ASSEMBLY OF NORTH CAROLINA
SESSION 2003**

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SENATE BILL 1330

Short Title: Study State Business Taxation. (Public)

Sponsors: Senators Clodfelter; Hartsell and Kerr.

Referred to: Rules and Operations of the Senate.

May 26, 2004

A BILL TO BE ENTITLED

1 AN ACT DIRECTING THE REVENUE LAWS STUDY COMMITTEE TO STUDY A
2 PROPOSAL TO REFORM AND SIMPLIFY STATE TAXATION OF BUSINESS
3 ENTERPRISES AND APPROPRIATING FUNDS TO THE DEPARTMENT OF
4 REVENUE FOR INFORMATION TECHNOLOGY NECESSARY TO ESTIMATE
5 THE REVENUE IMPACT OF PROPOSALS TO IMPROVE STATE BUSINESS
6 TAXATION.
7

8 The General Assembly of North Carolina enacts:

9 **SECTION 1.** Findings. – The General Assembly finds the following:

- 10 (1) In recent years, several legislative study commissions have examined
11 North Carolina's tax system and found that restructuring is needed to
12 achieve fairness, efficiency, and simplicity in light of the changing
13 economics and changing needs of our State.
- 14 (2) The Governor's Commission to Modernize State Finances built on
15 those studies, outlining in its 2002 report the new realities of the State
16 and the ways in which the finance structure should be revised in order
17 to respond to modern conditions so that economic growth can continue
18 while adequate services are provided and the tax burden is shared
19 equitably.
- 20 (3) These studies have found that the corporate income tax is a volatile
21 revenue source and is complicated by excessive tax credits and special
22 adjustments. These studies have also found that the corporate income
23 tax is undermined by taxing corporations as separate entities, rather
24 than allowing combined or consolidated returns.
- 25 (4) Recent years have seen the evolution of new corporate forms not
26 adequately addressed by business tax laws, with the inequitable result
27 that similar businesses are taxed differently based only on the type of
28 entity. To address one part of this problem, the Modernization
29 Commission recommended that the franchise tax apply to all types of

1 business entities and that the rate be reduced to minimize the tax
2 burden and share it fairly among businesses.

- 3 (5) The General Assembly has been unable to adequately evaluate
4 proposals for reforming and simplifying the taxation of businesses
5 because North Carolina lacks the technical ability to model and
6 estimate the effect of proposed changes on State and local budgets or
7 on business operations. In order to advance the goals of the
8 Modernization Commission and other study commissions to
9 modernize the taxation of businesses, it is necessary for the
10 Department of Revenue to develop the necessary technology to model
11 and forecast the impact of proposed changes.

12 **SECTION 2.** The Revenue Laws Study Committee shall study
13 comprehensive reform and simplification of the existing State taxes on business entities,
14 including corporations, limited liability companies, partnerships, business trusts,
15 associations, and other entities engaged in business. The elements of the plan to be
16 studied shall include the following:

- 17 (1) Repealing the corporate income tax, Part 1 of Article 4 of Chapter 105
18 of the General Statutes.
- 19 (2) Including all types of business entities under a revised form of the
20 franchise tax, Article 3 of Chapter 105 of the General Statutes.
- 21 (3) Limiting the annual filing fee for all business entities to the amount of
22 the filing fee for corporations.
- 23 (4) Revising the current franchise tax to include two components, an
24 assessment based on asset values and an assessment based on gross
25 income or receipts from business activities.
- 26 (5) The revised franchise tax would be calculated and applied on a
27 consolidated basis for members of a related or affiliated group of
28 business entities, allocated and apportioned to this State using existing
29 formulas for allocating and apportioning corporate income.
- 30 (6) The tax rates to be applied to these components would be the rates that
31 are determined to yield revenue equal to the current combined revenue
32 from corporate income and franchise taxes.
- 33 (7) The Department of Revenue would annually review the revenue
34 generated by the new simplified tax to determine if rate adjustments
35 are necessary to preserve the revenue-neutrality of the simplification.
- 36 (8) Any other issues or elements the Study Committee considers
37 appropriate.

38 **SECTION 3.** The Revenue Laws Study Committee may report its findings,
39 together with any recommended legislation, to the 2005 General Assembly upon its
40 convening and shall make a final report, together with any recommended legislation, to
41 the 2006 Regular Session of the 2005 General Assembly upon its convening.

42 **SECTION 4.** There is appropriated from the General Fund to the
43 Department of Revenue the sum of five hundred thousand dollars (\$500,000) for the
44 2004-2005 fiscal year for the purpose of creating computer modeling capability to

1 predict the fiscal effect of various proposed changes and adjustments to the State's
2 current and future system of business taxation.

3 **SECTION 5.** This act becomes effective July 1, 2004.