

**GENERAL ASSEMBLY OF NORTH CAROLINA**  
**SESSION 2007**

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**HOUSE BILL 1503**

Short Title: Stimulate Economy Manufacturing. (Public)

Sponsors: Representatives Blackwood, Walend (Primary Sponsors); Blust, Cleveland, Current, Dockham, Frye, Gulley, Hilton, Holloway, Hurley, McGee, and West.

Referred to: Commerce, Small Business and Entrepreneurship, if favorable, Finance.

April 17, 2007

A BILL TO BE ENTITLED

AN ACT TO STIMULATE THE ECONOMY BY EXEMPTING FROM INCOME TAX INCOME DERIVED FROM MANUFACTURING AND BY EXEMPTING MANUFACTURING CORPORATIONS FROM THE FRANCHISE TAX.

The General Assembly of North Carolina enacts:

**SECTION 1.** G.S. 105-228.90(b) is amended by adding a new subdivision to read:

"(b) Definitions. – The following definitions apply in this Article:

...

(4b) Manufacturing. – An industry in manufacturing sectors 31 through 33, as defined by NAICS, but not including quick printing or retail bakeries."

**SECTION 2.** G.S. 105-130.5(b) is amended by adding a new subdivision to read:

"(23) Income, net of expenses, directly attributable to manufacturing activities. This deduction is optional at the election of the taxpayer."

**SECTION 3.** G.S. 105-134.6(b) is amended by adding a new subdivision to read:

"(19) Income, net of expenses, directly attributable to manufacturing activities. This deduction is optional at the election of the taxpayer."

**SECTION 4.** G.S. 105-129.2(16) reads as rewritten:

~~"(16) Manufacturing. – An industry in manufacturing sectors 31 through 33, as defined by NAICS, but not including quick printing or retail bakeries.~~Defined in G.S. 105-228.90."

**SECTION 5.** G.S. 105-129.81(15) reads as rewritten:

1           "(15) Manufacturing. – ~~An industry in manufacturing sectors 31 through 33,~~  
2           ~~as defined by NAICS, but not including quick printing or retail~~  
3           ~~bakeries.~~Defined in G.S. 105-228.90."

4           **SECTION 6.** G.S. 105-130.4(i) reads as rewritten:

5           "(i) All business income of corporations other than public utilities and excluded  
6 corporations shall be apportioned to this State by multiplying the income by a fraction,  
7 the numerator of which is the property factor plus the payroll factor plus twice the sales  
8 factor, and the denominator of which is four. ~~Provided, that where~~If the sales factor  
9 does not exist, the denominator of the fraction ~~shall be~~is the number of existing factors  
10 and ~~where~~if the sales factor exists but the payroll factor or the property factor does not  
11 exist, the denominator of the fraction ~~shall be~~is the number of existing factors plus one.

12           For taxpayers that elect to deduct manufacturing income pursuant to  
13 G.S. 105-130.5(b)(22), in calculating the property factor, the payroll factor, and the  
14 sales factor under this section, the following shall be excluded from both the numerator  
15 and the denominator: property used directly and primarily for manufacturing,  
16 compensation paid directly and primarily for manufacturing, and receipts derived  
17 directly and primarily from manufacturing."

18           **SECTION 7.** The General Assembly finds the following:

- 19           (1) For corporations that are taxable in North Carolina and not taxable in  
20 any other states, the calculation under Section 2 of this act is the only  
21 calculation that applies. Section 5 of this act does not apply to those  
22 corporations.
- 23           (2) For a corporation that is taxable in more than one state, if the  
24 corporation is currently allocating and apportioning its income to  
25 North Carolina by using the fraction provided in G.S. 105-130.4(i), the  
26 provisions of Section 5 of this act govern how that fraction is  
27 calculated. Section 5 of this act does not itself require a corporation to  
28 use the fraction method.
- 29           (3) Alternatively, G.S. 105-130.4(t) sets out the circumstances under  
30 which a corporation taxable in more than one state may determine the  
31 portion of its income taxable to North Carolina based on its books of  
32 account, in accordance with generally accepted accounting procedures  
33 as established by the Financial Accounting Standards Board.
- 34           (4) Section 5 of this act would not, therefore, apply to corporations  
35 currently using the separate accounting method under  
36 G.S. 105-130.4(t).

37           **SECTION 8.** G.S. 105-125(a) is amended by adding a new subdivision to  
38 read:

39           "(a) Exemptions. – The following corporations are exempt from the taxes levied  
40 by this Article. Upon request of the Secretary, an exempt corporation must establish its  
41 claim for exemption in writing:

42           ...

- 43           (10) A corporation that derives at least eighty percent (80%) of its annual  
44 revenue directly from manufacturing activities."

1                   **SECTION 9.** This act is effective for taxable years beginning on or after  
2   January 1, 2007.