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Tax Legislation

North Carolina Legislative Leaders Push Budget Continuing Tax Cuts

North Carolina's legislative leaders have released a budget plan that would maintain corporate and personal income tax rate reductions scheduled for next year.

The revised \$23.9 billion spending proposal for the fiscal year that begins July 1 (S.B. 99) was jointly unveiled May 28 by House Speaker Tim Moore (R) and Senate President Pro Tem Phil Berger (R). The legislation, which is scheduled for consideration by the Senate May 30, would also update conformity with certain federal tax code changes.

In his budget proposal for the upcoming fiscal year, Gov. Roy Cooper (D) had called for a halt to the corporate and personal income tax cuts that were set to take effect in 2019 and using the additional revenue to boost education, health care, and other spending.

In June 2017, lawmakers overrode the veto of budget legislation that lowers the current 3 percent corporate tax rate to 2.5 percent in 2019 and drops the personal income tax rate to 5.25 percent from 5.499 percent next year. Cooper's effort to put off those cuts is again unlikely to be approved by the Republican-controlled Legislature.

Conformity Included S.B. 99 incorporates certain language conforming the state with some of the recent federal tax code changes, along with other provisions that were in a separate bill (S.B. 715) introduced in the Senate. Certain minor revisions were made to provisions in S.B. 715 that were included in the budget legislation.

The pending budget bill would conform North Carolina to many of the changes included in the 2017 federal tax act (Pub. L. No. 115-97), but decouple the state from the federal foreign income repatriation tax. Certain recent revisions to state tax law have minimized the impact of federal tax changes, but it is estimated that con-

formity would increase state revenue by about \$59 million during the upcoming fiscal year.

Neither S.B. 99 nor S.B. 715 would decouple from new federal interest deduction limits, a move advocated by the Council On State Taxation, a Washington-based trade organization representing about 500 multistate corporations.

William W. Nelson, a partner with Smith, Anderson, Blount, Dorsett, Mitchell & Jernigan LLP in Raleigh, agreed that North Carolina should decouple from the interest deduction limitation. The federal limit isn't needed, he told Bloomberg Tax May 29, because North Carolina has its own interest limitation, and the federal provision is tied to full expensing, which the state doesn't follow.

Other Provisions Other provisions in the pending budget bill would change language related to qualifying tuition plans, the franchise tax net worth base, and calculating the apportionment of income from sales for business tax purposes. Among other provisions, S.B. 99 also would add a monetary penalty for failing to submit certain returns electronically and allow for automatic tax return filing extensions.

Nelson said that, if enacted, the automatic tax extension provision "should make tax compliance significantly more efficient."

Moving to consider the budget legislation, the Senate sent S.B. 715, the stand-alone conformity measure, back to committee on May 29.

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The budget bill (S.B. 99) is at <http://src.bna.com/zbi>.

The governor's plan is at <http://src.bna.com/yKf>.

S.B. 715 is at <http://src.bna.com/zbF>.