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North Carolina: Veto override, additional tax rate reductions enacted

The North Carolina legislature today voted to override the governor's veto of an appropriations bill that includes reductions in the rates of the state's corporate income tax and individual income tax.

Senate Bill 257, the *Appropriations Act of 2017*, was vetoed by Governor Roy Cooper on June 27, 2017. In his [veto message](#) [PDF 436 KB], the governor said that the budget "prioritizes tax breaks for the wealthy and corporations" and "lacks structural integrity by failing to account for population growth, inflation and looming federal reductions." The legislature on June 28, 2017, voted to override the veto.

Corporate income tax rate reduction

North Carolina's corporate tax rate has been reduced several times over the last few years. Senate Bill 257 adopts an additional corporate income tax rate reduction.

The corporate income tax rate of 3% that applies for tax years beginning on or after January 1, 2017, will be further reduced to 2.5% effective for tax years beginning on or after January 1, 2019. This rate reduction is automatic and is not contingent on state revenue collections meeting or exceeding certain thresholds.

Senate Bill 257 also reduces the franchise tax for S corporations by essentially exempting the first \$1 million of tax base.

- The first \$1 million of an S corporation's tax base will be subject to the minimum tax of \$200.
- The amount of the tax base that exceeds \$1 million will be subject to the regular rate of \$1.50 per \$1,000 of tax base.

- This change is effective for tax years beginning on or after January 1, 2019, and applies to the franchise tax reported on an S corporation's tax returns for 2018 and later years.

Individual income tax rate reduction

Concerning the state's individual (personal) income tax, the tax rate is reduced from 5.499% to 5.25% effective for tax years beginning on or after January 1, 2019. The standard deduction for individuals is increased.

Sales and use tax changes

Senate Bill 257 also makes various sales and use tax changes.

- The 1% privilege tax on mill machinery and mill machinery parts and accessories is repealed, effective July 1, 2018, and there are new sales and use tax exemptions for such sales.
- The legislation also directs the Revenue Laws Study Committee to study ways as to how to clarify the scope of the sales and use tax exemption for mill machinery (as enacted by Senate Bill 257), by modernizing and further defining the statutory language and by incorporating existing administrative interpretations of the Department of Revenue, to the extent the General Assembly desires to maintain those interpretations.

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