



## **Representative McLawhorn's News from Raleigh**

**March 13, 2008**

Small businesses are important to our economy. This year legislators passed several tax measures to protect our small businesses. These changes will also help us bring more quality high-paying jobs to our state.

Thank you for allowing me to share this information with you. Please let me know if I can assist you in any way.

### **Qualified Business Venture Credit**

Legislators approved a tax credit for people who invest in certain types of small businesses. This tax credit will help small businesses because it will help generate outside capital needed for growth.

### **Internal Revenue Code Update**

Every year the state legislature decides if the state should accept changes made in the federal tax code. One of the big changes in this year's update involved the amount a property a small business could expense rather than depreciate. The General Assembly chose to go along with this year's tax code changes. These changes will save North Carolina small businesses \$36 million in the 2007-08 fiscal year.

### **Tax Credit for Research and Development Expenditures**

A few years ago we created a tax credit to encourage businesses to perform qualified research and development activities in North Carolina. That tax credit is more generous if the taxpayer is a small business. This session we increased the amount of this tax credit.

### **REIT Loophole**

The General Assembly took steps to close a potential loophole in our corporate income tax laws. Some large corporations were using real estate investment trusts (REITs) to avoid paying state income taxes. An REIT is a complicated financial mechanism for holding property used only by large corporations. We have prevented taxpayers from using REITs to put large businesses and small businesses on a level playing field. It will also make sure that all businesses pay their fair share and that the burden of the corporate income tax is not pushed more heavily onto small businesses.

### **Disadvantaged Workers**

Legislators enacted a work opportunity credit as an add-on to the federal credit as an incentive to businesses that hire disadvantaged workers. Disadvantaged workers include those who are coming off some sort of public assistance, convicted felons and other groups that find it particularly difficult to find and keep a job. This tax credit is based on a federal tax credit and allows businesses to offset a portion of the wages paid to a qualified employee.

### **Health Insurance**

Small businesses that provide health insurance to employees are eligible for a tax credit that both lowers the employers' costs of providing insurance and increases the number of insured people. Business

owners who employ 25 or fewer people and pay at least half the premium costs for their workers are eligible for a tax credit for up to \$250 a year.

### **Sales and Use Tax**

We changed the tax codes so that small businesses can immediately claim tax credits on property and equipment rather than spread it out over several years. It is estimated that with this plan, small businesses will save \$36 million yearly. Other changes in the tax code will provide \$21 million in savings. These include tax savings for software publishers, research and development, research supplies, renewable fuel facility construction and aircraft part makers.

We also changed the process a taxpayer goes through if the taxpayer has a disagreement with the Department of Revenue over the amount of tax due. This legislation will help simplify the appeals process. It also gives taxpayers options for independent review in a non-judicial setting outside of the Department of Revenue.

Manufacturers pay tax on manufacturing equipment at a reduced rate (1 percent with a cap of \$80 per item) as opposed to the general sales tax rate. Legislators voted to tax software publishers at this reduced rate. This will encourage these companies to bring their businesses and more high-paying quality jobs to North Carolina.

We approved a provision that allows a medical research company to obtain a refund of 50 percent of the sales and use taxes paid on certain types of medical testing supplies. This will make our state more competitive in attracting jobs in health care.

My colleagues and I have agreed to a phase-out of the sales tax on electricity, the excise tax on piped natural gas and the privilege tax on other fuels used by manufacturers and farmers. Expected savings are \$10 million in the first year and \$20 million in the second year.