

GENERAL ASSEMBLY OF NORTH CAROLINA

SESSION 1989

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SENATE BILL 1359\*  
Finance Committee Substitute Adopted 6/6/90

Short Title: Tax Fairness Changes.

(Public)

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Sponsors:

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Referred to:

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May 23, 1990

A BILL TO BE ENTITLED

1 AN ACT TO UPDATE THE REFERENCE TO THE INTERNAL REVENUE CODE  
2 USED TO DETERMINE CERTAIN TAXABLE INCOME AND TAX  
3 EXEMPTIONS, TO AMEND THE TAX FAIRNESS ACT OF 1989 TO PROVIDE  
4 TRANSITIONAL ADJUSTMENTS RELATING TO SUBCHAPTER S  
5 CORPORATIONS AND DEPRECIATION DEDUCTIONS, TO ADOPT THE  
6 FEDERAL STANDARD DEDUCTION AND PERSONAL EXEMPTION  
7 AMOUNTS FOR 1990, TO CORRECT AN ERROR THAT INADVERTENTLY  
8 DISALLOWED DEDUCTIONS FOR SOME MORTGAGE INTEREST  
9 PAYMENTS, AND TO PROVIDE ADDITIONAL TAX RELIEF FOR  
10 TAXPAYERS WITH DEPENDENTS WHO ARE PERMANENTLY AND  
11 TOTALLY DISABLED.  
12

13 The General Assembly of North Carolina enacts:

14 Section 1. G.S. 105-134.1(1) reads as rewritten:

15 "(1) Code. The Internal Revenue Code as enacted as of January 1, ~~1989,~~  
16 1990, including any provisions enacted as of that date which become  
17 effective either before or after that ~~date, but not including sections~~  
18 63(c)(4) and 151(d)(3)-date."

19 Sec. 2. G.S. 105-134.6(c) reads as rewritten:

20 "(c) Additions. The following additions to taxable income shall be made in  
21 calculating North Carolina taxable income, to the extent each item is not included in  
22 gross income:

- 1 (1) Interest upon the obligations of states, other than this State, and their  
2 political subdivisions.
- 3 (2) Any amount allowed as a deduction from gross income under the Code  
4 that is taxed under the Code by a separate tax other than the tax  
5 imposed in section 1 of the Code. The Secretary shall report to the  
6 1991 General Assembly all provisions under the Code for taxing  
7 certain amounts separately and shall recommend whether those  
8 amounts should be taxed separately under this Division or should be  
9 added to taxable income in calculating North Carolina taxable income.
- 10 (3) Any amount deducted from gross income under section 164 of the  
11 Code as State, local, or foreign income tax to the extent that the  
12 taxpayer's total itemized deductions deducted under the Code for the  
13 taxable year exceed the standard deduction allowable to the taxpayer  
14 under the Code reduced by the amount by which the taxpayer's  
15 allowable standard deduction has been increased under section  
16 63(c)(4) of the Code. Code for taxable years beginning on or after  
17 January 1, 1991.
- 18 (4) The amount by which the taxpayer's standard deduction has been  
19 increased under section 63(c)(4) of the Code for taxable years  
20 beginning on or after January 1, 1991, and the amount by which the  
21 taxpayer's personal exemptions have been increased under section  
22 151(d)(3) of the Code. Code for taxable years beginning on or after  
23 January 1, 1991."

24 Sec. 3. G.S. 105-134.2 reads as rewritten:

25 **"§ 105-134.2. Individual income tax imposed.**

26 (a) A tax is imposed upon the North Carolina taxable income of every individual.  
27 The tax shall be levied, collected, and paid annually and shall be computed at the  
28 following percentages of the taxpayer's North Carolina taxable income.

- 29 (1) For married individuals who file a joint return under G.S. 105-152.1  
30 and for surviving spouses, as defined in section 2(a) of the Code:

31 On the North Carolina taxable income up to ~~twenty-one thousand~~  
32 ~~two hundred fifty dollars (\$21,250),~~ thirteen thousand five hundred  
33 dollars (\$13,500), six percent (6%); and

34 On the excess over ~~twenty-one thousand two hundred fifty dollars~~  
35 ~~(\$21,250),~~ thirteen thousand five hundred dollars (\$13,500), seven  
36 percent (7%).

- 37 (2) For heads of households, as defined in section 2(b) of the Code:

38 On the North Carolina taxable income up to ~~seventeen thousand~~  
39 ~~dollars (\$17,000),~~ ten thousand eight hundred dollars (\$10,800), six  
40 percent (6%); and

41 On the excess over ~~seventeen thousand dollars (\$17,000),~~ ten  
42 thousand eight hundred dollars (\$10,800), seven percent (7%).

- 43 (3) For unmarried individuals other than surviving spouses and heads of  
44 households:

1                   On the North Carolina taxable income up to ~~twelve thousand seven~~  
2                   ~~hundred fifty dollars (\$12,750),~~ eight thousand one hundred dollars  
3                   (\$8,100), six percent (6%); and

4                   On the excess over ~~twelve thousand seven hundred fifty dollars~~  
5                   ~~(\$12,750),~~ eight thousand one hundred dollars (\$8,100), seven percent  
6                   (7%).

7                   (4) For married individuals who do not file a joint return under G.S. 105-  
8                   152.1:

9                   On the North Carolina taxable income up to ~~ten thousand six hundred~~  
10                   ~~twenty five dollars (\$10,625),~~ six thousand seven hundred fifty dollars  
11                   (\$6,750), six percent (6%); and

12                   On the excess over ~~ten thousand six hundred twenty five dollars~~  
13                   ~~(\$10,625),~~ six thousand seven hundred fifty dollars (\$6,750), seven  
14                   percent (7%)."

15                   Sec. 4. G.S. 105-2.1 reads as rewritten:

16                   "**§ 105-2.1. Internal Revenue Code definition.**

17                   As used in this Article, the term 'Code' means the Internal Revenue Code as enacted  
18                   as of ~~January 1, 1989,~~ January 1, 1990, and includes any provisions enacted as of that  
19                   date which become effective either before or after that date."

20                   Sec. 5. G.S. 105-114 reads as rewritten:

21                   "**§ 105-114. Nature of taxes; definitions.**

22                   (a) Nature of Taxes. The taxes levied in this Article upon persons and  
23                   partnerships are for the privilege of engaging in business or doing the act named. The  
24                   taxes levied in this Article upon corporations are privilege or excise taxes levied upon:

25                   (1) Corporations organized under the laws of this State for the existence of  
26                   the corporate rights and privileges granted by their charters, and the  
27                   enjoyment, under the protection of the laws of this State, of the  
28                   powers, rights, privileges and immunities derived from the State by the  
29                   form of such existence; and

30                   (2) Corporations not organized under the laws of this State for doing  
31                   business in this State and for the benefit and protection which such  
32                   corporations receive from the government and laws of this State in  
33                   doing business in this State.

34                   If the corporation is organized under the laws of this State, the payment of the taxes  
35                   levied by this Article shall be a condition precedent to the right to continue in such form  
36                   of organization; and if the corporation is not organized under the laws of this State,  
37                   payment of these taxes shall be a condition precedent to the right to continue to engage  
38                   in doing business in this State. The taxes levied in this Article or schedule shall be for  
39                   the fiscal year of the State in which the taxes become due; except that the taxes levied in  
40                   G.S. 105-122 and G.S. 105-123 shall be for the income year of the corporation in which  
41                   the taxes become due.

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

43                   (1) ~~As used in this Article, the~~ The term 'Code' means the Internal Revenue  
44                   Code as enacted as of ~~January 1, 1989,~~ January 1, 1990, and includes

1 any provisions enacted as of that date which become effective either  
2 before or after that date.

3 (2) The term 'corporation' ~~as used in this Article~~ shall, unless the context  
4 clearly requires another interpretation, mean and include not only  
5 corporations but also associations or joint-stock companies and every  
6 other form of organization for pecuniary gain, having capital stock  
7 represented by shares, whether with or without par value, and having  
8 privileges not possessed by individuals or partnerships; and whether  
9 organized under, or without, statutory authority. The term  
10 'corporation' ~~as used in this Article~~ shall also mean and include any  
11 electric membership corporation organized under Chapter 117, and any  
12 electric membership corporation, whether or not organized under the  
13 laws of this State, doing business within the State.

14 (3) ~~The~~ When the term 'doing business' is used in this Article, it shall mean  
15 and include each and every act, power or privilege exercised or  
16 enjoyed in this State, as an incident to, or by virtue of the powers and  
17 privileges acquired by the nature of such organizations whether the  
18 form of existence be corporate, associate, joint-stock company or  
19 common-law trust.

20 ~~If the corporation is organized under the laws of this State, the payment of the taxes~~  
21 ~~levied by this Article shall be a condition precedent to the right to continue in such form~~  
22 ~~of organization; and if the corporation is not organized under the laws of this State,~~  
23 ~~payment of said taxes shall be a condition precedent to the right to continue to engage in~~  
24 ~~doing business in this State. The taxes levied in this Article or schedule shall be for the~~  
25 ~~fiscal year of the State in which said taxes become due; except, that the taxes levied in~~  
26 ~~G.S. 105-122 and G.S. 105-123 shall be for the income year of the corporation in which~~  
27 ~~such taxes become due. For purposes of this Article, the words~~

28 (4) The term 'income year' shall mean an income year as defined in G.S.  
29 105-130.2(5)."

30 Sec. 6. G.S. 105-130.2(1) reads as rewritten:

31 "(1) 'Code' means the Internal Revenue Code as enacted as of ~~January 1,~~  
32 ~~1989, January 1, 1990,~~ and includes any provisions enacted as of that  
33 date which become effective either before or after that date."

34 Sec. 7. G.S. 105-131(b)(1) reads as rewritten:

35 "(1) 'Code' means the Internal Revenue Code ~~of 1986,~~ as enacted as of  
36 ~~January 1, 1989, January 1, 1990,~~ and includes any provisions enacted  
37 as of that date which become effective either before or after that date."

38 Sec. 8. G.S. 105-163.1(11) reads as rewritten:

39 "(11) 'Code' means the Internal Revenue Code as enacted as of ~~January 1,~~  
40 ~~1989, January 1, 1990,~~ and includes any provisions enacted as of  
41 that date which become effective either before or after that date."

42 Sec. 9. G.S. 105-212(f) reads as rewritten:

1       "(f) As used in this section, the term 'Code' means the Internal Revenue Code as  
2 enacted as of ~~January 1, 1989~~, January 1, 1990, and includes any provisions enacted as of  
3 that date which become effective either before or after that date."

4               Sec. 10. G.S. 105-131.4 reads as rewritten:

5 **"§ 105-131.4. Carryforwards; carrybacks; loss limitation.**

6       (a) Carryforwards and carrybacks to and from an S Corporation shall be  
7 restricted in the manner provided in section 1371(b) of the Code.

8       (b) The aggregate amount of losses or deductions of an S Corporation taken into  
9 account by a shareholder pursuant to G.S. 105-131.1(b) may not exceed the combined  
10 adjusted bases, determined in accordance with G.S. 105-131.3, of the shareholder in the  
11 stock and indebtedness of the S Corporation.

12       (c) Any loss or deduction that is disallowed for a taxable period pursuant to  
13 subsection (b) of this section shall be treated as incurred by the corporation in the  
14 succeeding taxable period with respect to that shareholder.

15       (d)               (1) Any loss or deduction that is disallowed pursuant to  
16 subsection (b) of this section for the corporation's last taxable period  
17 as an S Corporation shall be treated as incurred by the shareholder  
18 on the last day of any post-termination transition period.

19               (2) The aggregate amount of losses and deductions taken into account by a  
20 shareholder pursuant to subdivision (1) of this subsection may not  
21 exceed the adjusted basis of the shareholder in the stock of the  
22 corporation (determined in accordance with G.S. 105-131.3 at the  
23 close of the last day of any post-termination transition period and  
24 without regard to this subsection).

25       (e) Each shareholder's pro rata share of the reduction of an S Corporation's  
26 income because of the allowance of a carryforward loss to the S Corporation under this  
27 subsection shall be taken into account by the shareholder as a transitional adjustment  
28 under G.S. 105-134.7. Notwithstanding the provisions of subsection (a) of this section,  
29 an S Corporation that sustained a net economic loss in a taxable year beginning before  
30 January 1, 1989, may carry the loss forward to a taxable year beginning on or after  
31 January 1, 1989, and before July 1, 1990, and may deduct the loss in that year to the  
32 extent it could have carried forward and deducted the loss pursuant to G.S. 105-  
33 130.5(b)(4) and G.S. 105-130.8 if the S Corporation Income Tax Act had not become  
34 effective until taxable years beginning on or after July 1, 1990. Any loss carryforward  
35 allowed as a deduction by this subsection may not exceed the S Corporation's net  
36 income, as defined in the Code subject to the adjustments provided in G.S. 105-130.5  
37 other than the adjustment provided in G.S. 105-130.5(b)(4), and is subject to the  
38 limitations provided in G.S. 105-131.4(b) and (d). Notwithstanding the provisions of  
39 G.S. 105-131.3, the basis of a shareholder in the stock of an S Corporation shall be  
40 adjusted for the shareholder's pro rata share of the carryforward loss allowed as a  
41 deduction to the S Corporation under this subsection. Notwithstanding the provisions of  
42 G.S. 105-131.6(c)(2), the accumulated adjustments account maintained for each resident  
43 shareholder shall be adjusted for the shareholder's pro rata share of the carryforward  
44 loss allowed as a deduction to the S Corporation under this subsection."

1           Sec. 11. G.S. 105-151.19 reads as rewritten:

2   **"§ 105-151.19. Credit for North Carolina dividends.**

3           There is allowed as a credit against the tax imposed by this Division an amount  
4 equal to six percent (6%) of the amount of dividends received by the taxpayer during  
5 the taxable year from stock issued by a qualified corporation, up to a maximum credit of  
6 three hundred dollars (\$300.00) per taxpayer for the taxable year. A corporation is a  
7 qualified corporation if fifty percent (50%) or more of the dividends from stock issued  
8 by the corporation would be deductible by a corporate shareholder for the taxable year  
9 under the provisions of G.S. 105-130.7(1), (2), (3), (3a), or (5) except that no credit  
10 shall be allowed for dividends ~~issued with respect to~~ deemed distributable from earnings  
11 for a taxable period during which the corporation is an S Corporation subject to the  
12 provisions of Division I-S of this Article.

13           This credit applies only with respect to dividends received while the taxpayer was a  
14 resident of this State. In the case of a married couple filing a joint return where both  
15 spouses received dividends during the taxable year, the three hundred dollar (\$300.00)  
16 maximum applies separately to each spouse's dividends for a potential total credit of six  
17 hundred dollars (\$600.00) for the couple. This credit may not exceed the amount of tax  
18 imposed by this Division for the taxable year reduced by the sum of all credits allowed  
19 under this Division, except payments of tax made by or on behalf of the taxpayer."

20           Sec. 12. Notwithstanding any other provision of law, with respect to  
21 dividends received by a taxpayer from an S Corporation and included in the taxpayer's  
22 North Carolina taxable income under Division II of Article 4 of Chapter 105 of the  
23 General Statutes for the taxpayer's 1989 taxable year, if (i) the dividends were  
24 distributed during the corporation's 1988 taxable year which began on or after January  
25 2, 1988, and ended on or after January 1, 1989, or (ii) the dividends were distributed  
26 before October 1, 1989, then the three hundred dollar (\$300.00) limitation in G.S. 105-  
27 151.19 shall not apply and any credit otherwise allowable with respect to these  
28 dividends shall be allowed without regard to the three hundred dollar (\$300.00)  
29 limitation. No additional credit is allowed under G.S. 105-151.19 for dividends  
30 distributed on or after October 1, 1989, from an S Corporation during its 1989 taxable  
31 year, to the extent the taxpayer's total credit under G.S. 105-151.19 for the taxable year  
32 exceeds three hundred dollars (\$300.00).

33           Sec. 13. G.S. 105-134.6(b) reads as rewritten:

34           "(b) Deductions. The following deductions from taxable income shall be made in  
35 calculating North Carolina taxable income, to the extent each item is included in gross  
36 income:

- 37           (1) Interest upon the obligations of (i) the United States or its possessions,  
38           (ii) this State or a political subdivision of this State, or (iii) a nonprofit  
39           educational institution organized or chartered under the laws of this  
40           State.  
41           (2) Interest upon obligations and gain from the disposition of obligations  
42           to the extent the interest or gain is exempt from tax under the laws of  
43           this State.

- 1 (3) Benefits received under Title II of the Social Security Act and amounts  
2 received from retirement annuities or pensions paid under the  
3 provisions of the Railroad Retirement Act of 1937.
- 4 (4) Any amount not to exceed one thousand five hundred dollars (\$1,500)  
5 received by the taxpayer during the taxable year as compensation for  
6 the performance of duties as a member of the North Carolina  
7 organized militia, the national guard as defined in G.S. 127A-3.
- 8 (5) Refunds of State, local, and foreign income taxes included in the  
9 taxpayer's gross income.
- 10 (6) a. An amount, not to exceed four thousand dollars (\$4,000), equal to  
11 the sum of the amount calculated in subparagraph b. plus the amount  
12 calculated in subparagraph c.
- 13 b. The amount calculated in this subparagraph is the amount  
14 received during the taxable year from one or more state, local,  
15 or federal government retirement plans.
- 16 c. The amount calculated in this subparagraph is the amount  
17 received during the taxable year from one or more retirement  
18 plans other than state, local, or federal government retirement  
19 plans, not to exceed a total of two thousand dollars (\$2,000) in  
20 any taxable year.
- 21 d. In the case of a married couple filing a joint return where both  
22 spouses received retirement benefits during the taxable year, the  
23 maximum dollar amounts provided in this subdivision for  
24 various types of retirement benefits apply separately to each  
25 spouse's benefits.
- 26 (7) The amount of inheritance tax attributable to an item of income in  
27 respect of a decedent required to be included in gross income under the  
28 Code, adjusted as provided in G.S. 105-134.5, 105-134.6, and 105-  
29 134.7. The amount of inheritance tax attributable to an item of income  
30 in respect of a decedent is (i) the amount by which the inheritance tax  
31 paid under Article 1 of this Chapter on property transferred to a  
32 beneficiary by a decedent exceeds the amount of inheritance tax that  
33 would have been payable by the beneficiary if the item of income in  
34 respect of a decedent had not been included in the property transferred  
35 to the beneficiary by the decedent, (ii) multiplied by a fraction, the  
36 numerator of which is the amount required to be included in gross  
37 income for the taxable year under the Code, adjusted as provided in  
38 G.S. 105-134.5, 105-134.6, and 105-134.7, and the denominator of  
39 which is the total amount of income in respect of a decedent  
40 transferred to the beneficiary by the decedent. For an estate or trust,  
41 the deduction allowed by this subdivision shall be computed by  
42 excluding from the gross income of the estate or trust the portion, if  
43 any, of the items of income in respect of a decedent that are properly

1           paid, credited, or to be distributed to the beneficiaries during the  
2           taxable year.

3           (8)   The amount by which the taxpayer's mortgage interest deduction under  
4           the Code was reduced pursuant to section 163(g) of the Code."

5           Sec. 14. G.S. 105-134.7(a) reads as rewritten:

6           "(a)   The following adjustments to taxable income shall be made in calculating  
7           North Carolina taxable income:

8           (1)   Amounts that were included in the basis of property under federal tax  
9           law but not under State tax law before January 1, 1989, shall be added  
10          to taxable income in the year the taxpayer disposes of the property.

11          (2)   Amounts that were included in the basis of property under State tax  
12          law but not under federal tax law before January 1, 1989, shall be  
13          deducted from taxable income in the year the taxpayer disposes of the  
14          property.

15          (3)   Amounts that were recognized as income under federal law but not  
16          under State law due to a taxpayer's use of the installment method set  
17          out in G.S. 105-142(f) prior to January 1, 1989, shall be added to  
18          taxable income in the taxpayer's first taxable year beginning on or after  
19          January 1, 1989. Amounts that were recognized as income under State  
20          law but not under federal law due to a taxpayer's use of a different  
21          installment method prior to January 1, 1989, shall be deducted from  
22          taxable income in the taxpayer's first taxable year beginning on or after  
23          January 1, 1989.

24          (4)   Losses in the nature of net economic losses sustained in any or all of  
25          the five taxable years preceding the taxpayer's first taxable year  
26          beginning on or after January 1, 1989, arising from business  
27          transactions, business capital, or business property, may be deducted  
28          from taxable income subject to the limitations contained in former  
29          G.S. 105-147(9)a., c., and d. (repealed).

30          (5)   The amount of any net operating loss for a taxable year beginning on  
31          or after January 1, 1989, carried back to a taxable year beginning  
32          before January 1, 1989, pursuant to section 172 of the Code may be  
33          deducted from taxable income in the taxable year following the taxable  
34          year for which the loss occurred.

35          (6)   A loss or deduction that was incurred or paid and deducted from State  
36          taxable income in a taxable year beginning before January 1, 1989, and  
37          is carried forward and deducted in a taxable year beginning on or after  
38          January 1, 1989, under the Code shall be added to taxable income.

39          (7)   The transitional adjustments provided in Division I-S of this Article  
40          shall be made with respect to a shareholder's pro rata share of S  
41          Corporation income.

42          (8)   Notwithstanding the provisions of subdivision (2) of this subsection, in  
43          the case of property that the taxpayer elected to expense under section  
44          179 of the Code for a taxable year beginning on or before December



1                   31, 1988, the taxpayer shall deduct an allowance for depreciation equal  
 2                   to the amount that would have been allowed under former G.S. 105-  
 3                   147(12)(repealed) each year until the amount deductible for  
 4                   depreciation is equal to the amount deducted under section 179 of the  
 5                   Code. Amounts deductible under this subdivision may not be  
 6                   deducted from taxable income under subdivision (2) of this subsection  
 7                   in the year the taxpayer disposes of the property."

8                   Sec. 15. G.S. 105-151.18 reads as rewritten:

9                   **"§ 105-151.18. Credit for the disabled.**

10                  (a) Disabled Taxpayer. A ~~person-taxpayer~~ who (i) is retired on disability, (ii) at  
 11                  the time of retirement, was permanently and totally disabled, ~~disabled as defined in section~~  
 12                  ~~22 of the Code,~~ and (iii) claims a federal income tax credit under section 22 of the Code  
 13                  for the taxable year, is allowed as a credit against the tax imposed by this Division an  
 14                  amount equal to one-third of the amount of the federal income tax credit for which ~~he~~  
 15                  the taxpayer is eligible under section 22 of the Code.

16                  (b) Disabled Dependent. If a dependent or spouse for whom a taxpayer is  
 17                  allowed an exemption under the Code is permanently and totally disabled, the taxpayer  
 18                  is allowed a credit against the tax imposed by this Division. In order to claim the credit  
 19                  allowed by this subsection, the taxpayer must attach to the tax return on which the credit  
 20                  is claimed a statement from a physician or local health department certifying that the  
 21                  dependent or spouse for whom the credit is claimed is permanently and totally disabled,  
 22                  as defined in this section. The amount of the credit allowed shall be determined as  
 23                  follows: For a taxpayer whose North Carolina adjusted gross income does not exceed  
 24                  the appropriate income amount provided in the table below, based on the taxpayer's  
 25                  filing status, the credit allowed is the appropriate initial credit provided in the table  
 26                  below. For a taxpayer whose North Carolina adjusted gross income does exceed the  
 27                  appropriate income amount, the credit allowed is the appropriate initial credit reduced  
 28                  by five dollars (\$5.00) for every one thousand dollars (\$1,000) by which the taxpayer's  
 29                  North Carolina adjusted gross income exceeds the appropriate income amount.

<u>Filing Status</u>	<u>Initial Credit</u>	<u>Income Amount</u>
<u>Head of Household</u>	<u>\$ 80.00</u>	<u>\$16,000</u>
<u>Surviving Spouse or</u> <u>Joint Return</u>	<u>\$100.00</u>	<u>\$20,000</u>
<u>Single</u>	<u>\$ 60.00</u>	<u>\$12,000</u>
<u>Married Filing</u> <u>Separately</u>	<u>\$ 50.00</u>	<u>\$10,000</u>

43                  (c) Definitions. The following definitions apply in this section:

1           (1) North Carolina Adjusted Gross Income. Adjusted gross income, as  
2           determined under the Code, adjusted as provided in G.S. 105-134.6  
3           and G.S. 105-134.7.

4           (2) Permanently and Totally Disabled. Unable to engage in any  
5           substantial gainful activity by reason of any medically determinable  
6           physical or mental impairment that can be expected to result in death  
7           or that has lasted or can be expected to last for a continuous period of  
8           not less than 12 months.

9           (d) Limitations. A nonresident or part-year resident who claims the credit  
10          allowed by this section shall reduce the amount of the credit by multiplying it by the  
11          fraction calculated under G.S. 105-134.5(b) or (c), as appropriate. The credit allowed  
12          under this section may not exceed the amount of tax imposed by this Division for the  
13          taxable year reduced by the sum of all credits allowed under this Division, except  
14          payments of tax made by or on behalf of the taxpayer."

15                Sec. 16. Sections 1 through 9 and 15 of this act are effective for taxable years  
16          beginning on or after January 1, 1990. Section 10 of this act is effective retroactively  
17          for taxable years beginning on or after January 1, 1989, and shall expire for taxable  
18          years beginning on or after July 1, 1990. The remainder of this act is effective  
19          retroactively for taxable years beginning on or after January 1, 1989.