

**GENERAL ASSEMBLY OF NORTH CAROLINA  
SESSION 2013**

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**SENATE BILL 490\*  
Finance Committee Substitute Adopted 5/7/13**

Short Title: Exclude Custom Software from Property Tax.

(Public)

Sponsors:

Referred to:

March 28, 2013

1 A BILL TO BE ENTITLED  
2 AN ACT TO EXCLUDE CUSTOM SOFTWARE FROM PROPERTY TAX.  
3 The General Assembly of North Carolina enacts:

4 **SECTION 1.** G.S. 105-275(40) reads as rewritten:

5 "**§ 105-275. Property classified and excluded from the tax base.**

6 The following classes of property are designated special classes under Article V, Sec. 2(2),  
7 of the North Carolina Constitution and are excluded from tax:

8 ...

9 (40) Computer software and any documentation related to the computer software.  
10 As used in this subdivision, the term "computer software" means any  
11 program or routine used to cause a computer to perform a specific task or set  
12 of tasks. The term includes system and application programs and database  
13 storage and management programs.

14 The exclusion established by this subdivision does not apply to computer  
15 software and its related documentation if the computer software meets one  
16 or more of the following descriptions:

17 a. It is embedded software. "Embedded software" means computer  
18 instructions, known as microcode, that reside permanently in the  
19 internal memory of a computer system or other equipment and are  
20 not intended to be removed without terminating the operation of the  
21 computer system or equipment and removing a computer chip, a  
22 circuit, or another mechanical device.

23 b. It is purchased or licensed from a person who is unrelated to the  
24 taxpayer and it is capitalized on the books of the taxpayer in  
25 accordance with generally accepted accounting principles, including  
26 financial accounting standards issued by the Financial Accounting  
27 Standards Board. A person is unrelated to a taxpayer if (i) the  
28 taxpayer and the person are not subject to any common ownership,  
29 either directly or indirectly, and (ii) neither the taxpayer nor the  
30 person has any ownership interest, either directly or indirectly, in the  
31 other. The foregoing does not include development of software or  
32 any modifications to software, whether done internally by the  
33 taxpayer or externally by a third party, to meet the customer's  
34 specified needs.

35 This subdivision does not affect the value or taxable status of any property  
36 that is otherwise subject to taxation under this Subchapter.



1                           The provisions of the exclusion established by this subdivision are not  
2                           severable. If any provision of this subdivision or its application is held  
3                           invalid, the entire subdivision is repealed.

4                           ...."

5                           **SECTION 2.** This act is effective for taxes imposed for taxable years beginning on  
6 or after July 1, 2013.