This Week in State Tax (TWIST)

July 13, 2026

North Carolina: State enacts legislation addressing OB3 changes, prediction markets, sports wagering and data centers

North Carolina Governor Josh Stein recently signed the state fiscal year 2027 budget which repeals a sales tax exemption for electricity used in data centers and enacts new taxes on sports wagering and prediction markets. A separate tax bill signed by the governor updates state conformity to the Internal Revenue Code.

For income tax purposes, North Carolina will now conform to the Internal Revenue Code as enacted as of July 5, 2025, including changes made by the One Big Beautiful Bill Act (P.L. 119-21) (OB3). However, the bill specifically decouples from the domestic research and experimental (R&E) expenditures provisions of IRC section 174A. Instead, any taxpayer that deducts domestic R&E expenditures under IRC 174A(a) will be required to add-back 80 percent of the deduction and take a 25 percent deduction of the addback for the four subsequent years. According to the bill, the decoupling provisions are effective as follows: 1) Applicable to taxable years beginning on or after January 1, 2022, for taxpayers who make a federal election for retroactive application of IRC 174A for a taxable year beginning in 2022 through 2024; or (2) applicable to taxable years beginning on or after January 1, 2025, for taxpayers who do not make the election. This actual implementation of this language is not clear, and an update will be provided when the Department of Revenue issues further guidance. In addition, North Carolina will maintain its longstanding decoupling from bonus depreciation of certain assets under IRC sections 168 and 179.

For sales tax purposes, the bill repeals the state sales and use tax exemption for electricity used at an eligible data center, but preserves the exemption for eligible business property, such as capitalized equipment used for the generation of electricity and equipment cooling systems. This provision is effective as of July 7, 2026.

For excise tax purposes, the budget raises the tax imposed on sports wagering operators from eighteen to twenty-three percent. The rate change takes effect on July 7, 2026.

Finally, North Carolina joins Kentucky and Illinois in enacting a new tax on prediction market operators this year. Effective January 1, 2027, the state will impose tax at the rate of six percent on a prediction market operator's net trading fee revenue apportionable to the state. Revenue is apportionable to the state if it involves the trading of an event contract by a resident of the state who is domiciled and present in the state at the time of the trade, and results in the payment of trading fees by the resident to the operator. The bill further states that the tax does not impose any other regulatory requirements or obligations on prediction markets.

Contact Nikki Emanuel Jarrell (OB3 conformity) or Nicole Umpleby (wagering and data centers) with questions about Senate Bill 257 and Senate Bill 595.

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