



January 15, 2015

IMPACT OF THE FEDERAL TAX INCREASE PREVENTION ACT OF 2014 ON NORTH CAROLINA'S CORPORATE AND INDIVIDUAL INCOME TAX RETURNS

North Carolina's corporate income tax law uses federal taxable income as the starting point in determining North Carolina taxable income. North Carolina's individual income tax law uses federal adjusted gross income as the starting point in determining North Carolina taxable income. In both cases, the reference to federal law is to the Internal Revenue Code ("Code") as of a certain date. Currently, that reference is to the Code as of December 31, 2013. Each year the General Assembly determines whether to update its reference to the Code. Doing so would make recent amendments to the Code applicable for North Carolina income tax purposes. In some cases, the General Assembly chooses not to follow ("decouple" from) certain amendments to federal law.

On December 19, 2014, President Obama signed into law the Tax Increase Prevention Act of 2014 ("TIPA"). The Act extended several provisions in federal law that had sunset at the end of 2013. If the General Assembly does not update the reference to the Code to December 19, 2014 or later, the extension of those provisions will not apply for North Carolina income tax purposes.

The Revenue Laws Study Committee is charged with studying North Carolina's revenue laws and making recommendations with respect to those laws to the General Assembly. On January 13, 2015, the Revenue Laws Study Committee adopted a recommendation to update the reference to the Code to January 1, 2015 but to decouple from specific provisions in TIPA. The recommended bill may be viewed [here](#).

If the General Assembly enacts legislation to update the Code reference as recommended, North Carolina will require additions on the corporate and individual income tax returns for (a) 85% of the amount deducted as bonus depreciation on the federal return and (b) 85% of the difference between the amount deducted on the federal return for Code section 179 expenses, using the federal dollar and federal investment limitations, and the amount that would be deductible for Code section 179 expenses using the North Carolina dollar and North Carolina investment limitations set out for 2014. For individual income tax returns, additions would also be required for (a) the amount excluded from gross income for the discharge of qualified principal residence indebtedness, (b) the amount deducted in arriving at adjusted gross income for qualified tuition and related expenses, and (c) the amount excluded from gross income for a qualified charitable distribution from an individual retirement plan by a person who has attained age 70 ½. In addition, an individual would also be required to exclude amounts paid for mortgage insurance premiums from the deduction for qualified residence interest if the taxpayer claims itemized deductions on the North Carolina return.

Any person filing a North Carolina income tax return whose 2014 federal taxable income or federal adjusted gross income is impacted by the amendments to federal law included in TIPA should consider waiting to file the 2014 North Carolina income tax return until the General Assembly takes action. A taxpayer who files the 2014 income tax return before the General Assembly takes action may have to amend the return to reflect the General Assembly's action. The General Assembly is scheduled to convene on January 28, 2015. If the General Assembly enacts legislation to update the Code reference, the Department will provide additional guidance, including how to report any required additions on the 2014 returns.

Computation of Corporate Income Tax

21. North Carolina Income Tax - Add Lines 19 and 20; multiply the sum by 5.8% (.058)

21. _____ .00

22. Annual Report Fee

Include \$25.00 ONLY if filing report with the Department of Revenue. (Pay online. Go to www.sosnc.com for an electronic filing option.)

22. _____ .00

23. Add Lines 21 and 22

23. _____ .00

24. Payments and Credits

When filing an amended return, see instructions.

a. Application for Income Tax Extension (From Form CD-419, Line 10)

24a. _____ .00

b. Other Prepayments of Tax

24b. _____ .00

c. Partnership (If a partnership payment is claimed on Line 24c, a copy of the NC K-1 MUST be attached.)

24c. _____ .00

d. Nonresident Withholding (Include copy of 1099 or W-2)

24d. _____ .00

e. Tax Credits Attributable to Nonresidents Filing Composite (From Form CD-425, Part 4, Line 25) If a tax credit is claimed on Line 24e, Form CD-425 MUST be attached.

24e. _____ .00

25. Add Lines 24a through 24e

25. _____ .00

26. Income Tax Due - If Line 25 is less than Line 23, enter difference here and on Line 29

26. \$ _____ .00

27. Income Tax Overpaid - If Line 25 is more than Line 23, enter difference here and on Line 29

27. _____ .00



Income Tax Due or Refund

28. Franchise Tax Due or Overpayment (From Schedule A, Line 8 or 9)

28. _____ .00

29. Income Tax Due or Overpayment (From Schedule B, Line 26 or 27)

29. _____ .00

30. Balance of Tax Due or Overpayment Add (or subtract) Lines 28 and 29

30. _____ .00

31. a. Interest

31a. _____ .00

b. Penalties

31b. _____ .00

c. Add Lines 31a and 31b and enter the total on Line 31c

31c. _____ .00

32. Total Due - Add Lines 30 and 31c and enter result here, but not less than zero. If less than zero, enter amount on Line 33. Pay online. Go to www.dornnc.com and click on E-Services.

Pay in U.S. Currency From a Domestic Bank

32. _____ .00

33. Amount to be Refunded

33. _____ .00

If amount on Line 28-30 is an overpayment fill in circle. Example:

Signature and Title of Officer: _____ Date: _____ I certify that, to the best of my knowledge, this return is accurate and complete.

Corporate Telephone Number: _____ (Important: Include Area Code)

Signature of Paid Preparer: _____ I certify that, to the best of my knowledge, this return is accurate and complete.

Preparer's FEIN SSN PTIN: _____ (Fill in applicable circle)

(C) Capital Stock, Surplus, and Undivided Profits

1. Total capital stock outstanding less cost of treasury stock	1. _____ .00
2. Paid-in or capital surplus	2. _____ .00
3. Retained earnings (earned surplus and undivided profits)	3. _____ .00
4. Other surplus	4. _____ .00
5. Deferred or unearned income	5. _____ .00
6. Allowance for bad debts	6. _____ .00
7. LIFO reserves	7. _____ .00
8. Other reserves that do not represent definite and accrued legal liabilities <i>(Attach schedule)</i>	8. _____ .00
9. Add Lines 1 through 8 and enter total	9. _____ .00
10. Affiliated indebtedness <i>(Attach schedule)</i> _____ _____ _____	10. _____ .00
11. Line 9 plus (or minus) Line 10	11. _____ .00
12. Apportionment factor <i>(From Schedule O, Part 1; Part 2 - Line 15; Part 3; or Part 4)</i>	12. _____ %
13. Capital Stock, Surplus, and Undivided Profits Multiply Line 11 by factor on Line 12 and enter result here and on Schedule A, Line 1. If amount on Line 13 is less than zero, enter zero on Schedule A, Line 1.	13. <input type="text" value=""/> .00

(D) Investment in N.C. Tangible Property

<i>Inventory valuation method:</i>	
1. Total value of inventories located in N.C. <input type="radio"/> FIFO <input type="radio"/> Lower of cost or market Other _____ <small><i>(LIFO valuation not permitted)</i></small>	1. _____ .00
2. Total value of furniture, fixtures, and machinery and equipment located in N.C.	2. _____ .00
3. Total value of land and buildings located in N.C.	3. _____ .00
4. Total value of leasehold improvements and other tangible property located in N.C.	4. _____ .00
5. Add Lines 1 through 4 and enter total	5. _____ .00
6. Accumulated depreciation, depletion, and amortization with respect to N.C. tangible property	6. _____ .00
7. Debts existing for the purchase or improvement of N.C. real estate	7. _____ .00
8. Investment in N.C. Tangible Property Line 5 minus Lines 6 and 7; enter amount here and on Schedule A, Line 2	8. <input type="text" value=""/> .00

(E) Appraised Value of N.C. Tangible Property

1. Total appraised value of all N.C. tangible property, including motor vehicles <small><i>(If tax year ends December 31, 2014 through September 30, 2015, enter the appraised county tax value of all real and tangible property located in N.C. as of January 1, 2014, including any motor vehicles assessed during the tax year. Otherwise, enter value as of January 1, 2015.)</i></small>	1. _____ .00
2. Appraised Value of N.C. Tangible Property Multiply Line 1 by 55%; enter here and on Schedule A, Line 3	2. <input type="text" value=""/> .00

(F) Other Information - All Taxpayers Must Complete this Schedule

1. State of incorporation _____ Date incorporated _____
2. Date Certificate of Authority was obtained from N.C. Secretary of State _____
3. Regular or principal trade or business in N.C. _____ Everywhere _____
4. Principal place from which business is directed or managed _____
5. What was the last year the IRS redetermined the corporation's federal taxable income? _____ Were the adjustments reported to N.C.? <input type="radio"/> Yes <input type="radio"/> No If so, when? _____
6. Is this corporation subject to franchise tax but not N.C. income tax because the corporation's income tax activities are protected under P.L. 86-272? <input type="radio"/> Yes <i>(Attach detailed explanation)</i> <input type="radio"/> No

Ⓒ Ordinary Income (Loss) from Trade or Business Activities

(Complete this schedule only if you do not attach a copy of your federal income tax return.)

1. a. Gross receipts or sales	_____	.00
b. Returns and allowances	_____	.00
c. Balance <i>(Line 1a minus Line 1b)</i>	_____	.00
2. Cost of goods sold <i>(Attach schedule)</i>	_____	.00
3. Gross profit <i>(Line 1c minus Line 2)</i>	_____	.00
4. Net gain (loss) <i>(Attach schedule)</i>	_____	.00
5. Other income (loss) <i>(Attach schedule)</i>	_____	.00
6. Total Income (Loss) Add Lines 3 through 5	_____	.00
7. Compensation of officers <i>(Attach schedule)</i>	_____	.00
8. Salaries and wages <i>(Less employment credits)</i>	_____	.00
9. Repairs and maintenance	_____	.00
10. Bad debts	_____	.00
11. Rents	_____	.00
12. Taxes and licenses	_____	.00
13. Interest	_____	.00
14. a. Depreciation _____		
b. Depreciation included in cost of goods sold _____		
c. Balance <i>(Line 14a minus 14b)</i>	_____	.00
15. Depletion	_____	.00
16. Advertising	_____	.00
17. Pension, profit-sharing, and similar plans	_____	.00
18. Employee benefit programs	_____	.00
19. Other deductions <i>(Attach schedule)</i>	_____	.00
20. Total Deductions Add the amounts shown in the far right column for Lines 7 through 19	_____	.00
21. Ordinary Business Income (Loss) Line 6 minus Line 20; enter amount here and on Schedule H, Line 1	<input type="text" value=""/>	.00

Ⓓ Computation of Income (Loss)

1. Ordinary business income (loss)	_____	.00
2. Net rental real estate income (loss)	_____	.00
3. Other net rental income (loss)	_____	.00
4. Interest income	_____	.00
5. Ordinary dividends	_____	.00
6. Royalties	_____	.00
7. Net short-term capital gain (loss)	_____	.00
8. Net long-term capital gain (loss)	_____	.00
9. Net section 1231 gain (loss)	_____	.00
10. Other income (loss) <i>(Attach schedule)</i>	_____	.00
11. Total Income (Loss) Add Lines 1 through 10 and enter amount here and on Schedule B, Line 10	<input type="text" value=""/>	.00

Ⓔ Adjustments to Income (Loss)

1. Additions to Federal Adjusted Gross Income (Loss): <i>(See Form D-400 Income Tax instructions before completing Line 1)</i>	_____	.00
2. Deductions from Federal Adjusted Gross Income (Loss): <i>(See Form D-400 Income Tax instructions before completing Line 2)</i>	_____	.00
3. Adjustments to Income (Loss) Line 1 minus Line 2; enter result here and on Schedule B, Line 11	<input type="text" value=""/>	.00

Ⓙ Explanation of Changes for Amended Return

<p>_____</p> <p>_____</p> <p>_____</p> <p>_____</p> <p>_____</p>
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Shareholders' Pro Rata Share Items

	Shareholder 1	Shareholder 2	Shareholder 3
1. Identifying Number	<input style="width: 95%;" type="text"/>	<input style="width: 95%;" type="text"/>	<input style="width: 95%;" type="text"/>
2. Name	<input style="width: 95%;" type="text"/>	<input style="width: 95%;" type="text"/>	<input style="width: 95%;" type="text"/>
3. Address	<input style="width: 95%; height: 40px;" type="text"/>	<input style="width: 95%; height: 40px;" type="text"/>	<input style="width: 95%; height: 40px;" type="text"/>
4. Percentage of ownership	<input style="width: 90%;" type="text"/> %	<input style="width: 90%;" type="text"/> %	<input style="width: 90%;" type="text"/> %
5. Share of income (loss) <i>(From Schedule H, Line 11)</i>	<input style="width: 95%;" type="text"/>	<input style="width: 95%;" type="text"/>	<input style="width: 95%;" type="text"/>
6. Additions to income (loss) <i>(From Schedule I, Line 1)</i>	<input style="width: 95%;" type="text"/>	<input style="width: 95%;" type="text"/>	<input style="width: 95%;" type="text"/>
7. Deductions from income (loss) <i>(From Schedule I, Line 2)</i>	<input style="width: 95%;" type="text"/>	<input style="width: 95%;" type="text"/>	<input style="width: 95%;" type="text"/>
8. Income subject to N.C. tax Add (subtract) Lines 5, 6, and 7	<input style="width: 95%;" type="text"/>	<input style="width: 95%;" type="text"/>	<input style="width: 95%;" type="text"/>
9. Share of tax credits <i>(See instructions)</i>	<input style="width: 95%;" type="text"/>	<input style="width: 95%;" type="text"/>	<input style="width: 95%;" type="text"/>
10. Share of tax withheld from nonwage compensation	<input style="width: 95%;" type="text"/>	<input style="width: 95%;" type="text"/>	<input style="width: 95%;" type="text"/>
11. Amount of Line 8 apportioned or allocated to N.C. (nonresidents only)	<input style="width: 95%;" type="text"/>	<input style="width: 95%;" type="text"/>	<input style="width: 95%;" type="text"/>
12. Separately stated items of income (nonresidents only)	<input style="width: 95%;" type="text"/>	<input style="width: 95%;" type="text"/>	<input style="width: 95%;" type="text"/>
13. Net tax paid for shareholder by corporation (nonresidents only)	<input style="width: 95%;" type="text"/>	<input style="width: 95%;" type="text"/>	<input style="width: 95%;" type="text"/>
	Shareholder 4	Shareholder 5	Shareholders' Total
1. Identifying Number	<input style="width: 95%;" type="text"/>	<input style="width: 95%;" type="text"/>	<input style="width: 95%;" type="text"/>
2. Name	<input style="width: 95%;" type="text"/>	<input style="width: 95%;" type="text"/>	<input style="width: 95%;" type="text"/>
3. Address	<input style="width: 95%; height: 40px;" type="text"/>	<input style="width: 95%; height: 40px;" type="text"/>	<input style="width: 95%; height: 40px;" type="text"/>
4. Percentage of ownership	<input style="width: 90%;" type="text"/> %	<input style="width: 90%;" type="text"/> %	<input style="width: 90%;" type="text"/> %
5. Share of income (loss) <i>(From Schedule H, Line 11)</i>	<input style="width: 95%;" type="text"/>	<input style="width: 95%;" type="text"/>	<input style="width: 95%;" type="text"/>
6. Additions to income (loss) <i>(From Schedule I, Line 2)</i>	<input style="width: 95%;" type="text"/>	<input style="width: 95%;" type="text"/>	<input style="width: 95%;" type="text"/>
7. Deductions from income (loss) <i>(From Schedule I, Line 4)</i>	<input style="width: 95%;" type="text"/>	<input style="width: 95%;" type="text"/>	<input style="width: 95%;" type="text"/>
8. Income subject to N.C. tax Add (subtract) Lines 5, 6, and 7	<input style="width: 95%;" type="text"/>	<input style="width: 95%;" type="text"/>	<input style="width: 95%;" type="text"/>
9. Share of tax credits <i>(See instructions)</i>	<input style="width: 95%;" type="text"/>	<input style="width: 95%;" type="text"/>	<input style="width: 95%;" type="text"/>
10. Share of tax withheld from nonwage compensation	<input style="width: 95%;" type="text"/>	<input style="width: 95%;" type="text"/>	<input style="width: 95%;" type="text"/>
11. Amount of Line 8 apportioned or allocated to N.C. (nonresidents only)	<input style="width: 95%;" type="text"/>	<input style="width: 95%;" type="text"/>	<input style="width: 95%;" type="text"/>
12. Separately stated items of income (nonresidents only)	<input style="width: 95%;" type="text"/>	<input style="width: 95%;" type="text"/>	<input style="width: 95%;" type="text"/>
13. Net tax paid for shareholder by corporation (nonresidents only)	<input style="width: 95%;" type="text"/>	<input style="width: 95%;" type="text"/>	<input style="width: 95%;" type="text"/>

		Beginning of Tax Year		End of Tax Year	
Ⓛ	Assets				
	1. Cash				
	2. a. Trade notes and accounts receivable				
	b. Less allowance for bad debts	()		()	
	3. Inventories				
	4. a. U.S. government obligations				
	b. State and other obligations				
	5. Tax-exempt securities				
	6. Other current assets <i>(Attach schedule)</i>				
	7. Loans to shareholders				
	8. Mortgage and real estate loans				
	9. Other investments <i>(Attach schedule)</i>				
	10. a. Buildings and other depreciable assets				
	b. Less accumulated depreciation	()		()	
	11. a. Depletable assets				
b. Less accumulated depletion	()		()		
12. Land <i>(net of any amortization)</i>					
13. a. Intangible assets <i>(amortizable only)</i>					
b. Less accumulated amortization	()		()		
14. Other assets <i>(Attach schedule)</i>					
15. Total Assets					
Liabilities and Shareholders' Equity					
16. Accounts payable					
17. Mortgages, notes, and bonds payable in less than 1 year					
18. Other current liabilities <i>(Attach schedule)</i>					
19. Loans from shareholders					
20. Mortgages, notes, and bonds payable in 1 year or more					
21. Other liabilities <i>(Attach schedule)</i>					
22. Capital stock					
23. Additional paid-in capital					
24. Retained earnings					
25. Adjustments to shareholders' equity <i>(Attach schedule)</i>					
26. Less cost of treasury stock		()		()	
27. Total Liabilities and Shareholders' Equity					
M-1	Federal Schedule				
	1. Net income (loss) per books			5. Income recorded on books this year not included on Federal Schedule K, Lines 1 through 10 <i>(itemize)</i> :	
	2. Income included on Federal Schedule K, Lines 1, 2, 3c, 4, 5a, 6, 7, 8a, 9 and 10 not recorded on books this year <i>(itemize)</i> :			Tax-exempt interest \$ _____	
	3. Expenses recorded on books this year not included on Federal Schedule K, Lines 1 through 12, and 14l <i>(itemize)</i> :			6. Deductions included on Federal Schedule K, Lines 1 through 12, and 14l not charged against book income this year <i>(itemize)</i> :	
a. Depreciation \$ _____			Depreciation \$ _____		
b. Travel and entertainment \$ _____			7. Add Lines 5 and 6		
4. Add Lines 1 through 3			8. Income (Loss) (Federal Schedule K, Line 18) Line 4 minus Line 7		
M-2	Analysis of N.C. AAA	N.C. Accumulated Adjustments	N.C. Other Adjustments	Undistributed income previously taxed	
	1. Balance at beginning of year				
	2. Ordinary income from Schedule G, Line 21				
	3. Other additions				
	4. Loss from Schedule G, Line 21	()			
	5. Other reductions	()	()		
	6. Combine Lines 1 through 5				
	7. Distributions other than dividend distributions				
8. Balance at end of tax year <i>(Line 6 minus Line 7)</i>					

Complete this schedule only if you apportion income to North Carolina and to other states **AND** you have income classified as nonapportionable income. See the instructions for an explanation of what is apportionable income and what is nonapportionable income.

Nonapportionable Income

(A) Nonapportionable Income	(B) Gross Amounts	(C) Related Expenses*	(D) Net Amounts (Column B minus Column C)	(E) Net Amounts Allocated Directly to N.C.

1. **Nonapportionable Income** (Enter the total of Column D here and on Schedule B, Line 13)

2. **Nonapportionable Income Allocated to N.C.** (Enter the total of Column E here and on Schedule B, Line 17)

Explanation of why income listed in chart is nonapportionable income rather than apportionable income:

(Attach additional sheets if necessary)

* For an acceptable means of computing related expenses, see 17 N.C.A.C. 5C .0304.

Computation of Apportionment Factor

Part 1. Domestic and Other Corporations Not Apportioning Franchise or Income Outside N.C. %
 Enter 100% on Schedule B, Line 15 and Schedule C, Line 12

Part 2. Corporations Apportioning Franchise or Income to N.C. and to Other States
Note: Apportionment factors **must be calculated 4 places** to the right of the decimal. Example: %

	1. Within North Carolina		2. Total Everywhere	
	(a) Beginning Period	(b) Ending Period	(a) Beginning Period	(b) Ending Period
1. Land				
2. Buildings				
3. Inventories				
4. Other property				
5. Total (Add Lines 1-4)				

6. Average value of property
 Add amounts on Line 5 for (a) and (b); divide by 2

7. Rented property (Multiply annual rents by 8)

8. **Property Factor** (Add Lines 6 and 7; divide Column 1 by Column 2 and enter factor) %

9. Gross payroll

10. Compensation of general executive officers

11. **Payroll Factor** (Line 9 minus Line 10; divide Column 1 by Column 2 and enter factor) %

12. **Sales Factor** (Attach schedule) Divide Column 1 by Column 2 and enter factor %

13. **Sales Factor** (Enter the same factor as on Line 12) %

14. **Total of Factors** (Add Lines 8, 11, 12, and 13) %

15. **N.C. Apportionment Factor** (Divide Line 14 by the number of factors present; enter result here and on Schedule B, Line 15 and Schedule C, Line 12) %

Part 3. Corporations Apportioning Franchise or Income to N.C. and to Other States Using Single Sales Factor
 Excluded corporations, qualified capital intensive corporations, and certain public utilities must apportion North Carolina franchise and corporate income tax using the sales factor alone. These corporations need not complete the property and payroll factor sections of this Schedule. Enter the sales factor from Line 12 here, on Schedule B, Line 15, and on Schedule C, Line 12. (See instructions and G.S.105-130.4 for more information.) %

Part 4. Special Apportionment
 Special apportionment formulas apply to certain types of corporations such as telephone companies, motor carriers, and railroad companies. If you use a special apportionment formula, enter the computed apportionment factor here, on Schedule B, Line 15, and on Schedule C, Line 12. (See instructions and G.S.105-130.4 for more information.) %