

April 13, 2016

IMPACT OF THE FEDERAL PROTECTING AMERICANS FROM TAX HIKES ACT OF 2015 ON NORTH CAROLINA'S CORPORATE AND INDIVIDUAL INCOME TAX RETURNS FOR TAX YEAR 2015

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 January 1, 2015. 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 ("decouples" from) certain amendments to federal law.

On December 18, 2015, President Obama signed into law the Protecting Americans From Tax Hikes Act of 2015 ("PATH"). The Act extended several provisions in federal law that had sunset at the end of 2014. Some provisions were extended through the end of 2016 while other provisions were made permanent. The Act also included new tax reduction provisions. If the General Assembly does not update the reference to the Code to December 18, 2015 or later, neither the extension of those provisions that had sunset at the end of 2014 nor the new tax reduction provisions will 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 March 8, 2016, the Revenue Laws Study Committee adopted a recommendation to update the reference to the Code to January 1, 2016 but to decouple from specific provisions in PATH. 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 tax year 2015 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 for 2015. For tax year 2015 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 lieu of the exclusion from gross income, an individual can include the amount of the qualified charitable distribution in the deduction for charitable contributions if the taxpayer elects to deduct itemized deductions on the North Carolina individual income tax return. 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 required to file a North Carolina income tax return whose 2015 federal taxable income or federal adjusted gross income is impacted by the amendments to federal law included in PATH should consider waiting to file the 2015 North Carolina income tax return until the General Assembly takes action. A taxpayer who files the 2015 income tax return before the General Assembly takes action may have to amend the return to reflect the General Assembly's action. Please note that the General Assembly is scheduled to convene on April 25, 2016. A taxpayer whose income tax return is statutorily due on Friday, April 15, 2016 has until Monday, April 18, 2016 to timely file the return and pay any income tax due because Emancipation Day is observed on April 15, 2016. A taxpayer with a tax return due on April 15, 2016 who chooses to wait for legislation to be enacted should, by April 18, 2016, file an application for an extension of six months to file the income tax return. If a timely application for an extension is filed, the return will be considered timely filed if filed by Monday, October 17, 2016.

If the General Assembly enacts legislation to update the Code reference, the Department will provide additional guidance, including how to report any required additions or deductions on the 2015 return.

For calendar year **2015**, or other tax year beginning (MM-DD) ____ - ____ - **15** and ending (MM-DD-YY) ____ - ____ - ____ (DOR Use Only) ____ / ____ / ____

Legal Name (First 35 Characters)(USE CAPITAL LETTERS FOR YOUR NAME AND ADDRESS)


Address

City State Zip Code

Federal Employer ID Number

Secretary of State ID NAICS Code

Fill in all applicable circles: Initial Return Amended Return NC-478 is attached Tax Exempt (IRC § 521)
 Final Return Short Year Return CD-479 is attached Has Escheatable Property

 **N.C. Education Endowment Fund:** You may contribute to the N.C. Education Endowment Fund by making a contribution or designating some or all of your overpayment to the Fund. To make a contribution, enclose Form NC-EDU and your payment of \$_____. To designate your overpayment to the Fund, enter the amount of your designation on Page 2, Line 18. See instructions for information about the Fund.

(A) Computation of Income Tax

<p>1. Federal Taxable Income Before NOL (From Schedule B, Line 27 or Federal Form 1120-C, Line 25a minus Lines 26a and 26b)</p>	<p>▶ 1. <input type="radio"/> _____ .00</p>
<p>2. Adjustments to Federal Taxable Income (From Schedule C, Line 5)</p>	<p>▶ 2. <input type="radio"/> _____ .00</p>
<p>3. Net Income Before Contributions Add Lines 1 and 2</p>	<p>▶ 3. <input type="radio"/> _____ .00</p>
<p>4. Contributions (From Schedule E, Line 5)</p>	<p>▶ 4. _____ .00</p>
<p>5. Net Taxable Income Line 3 minus Line 4</p>	<p>▶ 5. <input type="radio"/> _____ .00</p>
<p>6. N.C. Net Income Tax Multiply Line 5 by 5.0%</p>	<p>▶ 6. _____ .00</p>
<p>7. Annual Report Fee</p>	<p>▶ 7. _____ .00</p>
<p>8. Add Lines 6 and 7</p>	<p>▶ 8. _____ .00</p>
<p>9. Payments and Credits</p>	<p>▶ 9a. _____ .00</p> <p>▶ 9b. _____ .00</p> <p>▶ 9c. _____ .00</p> <p>▶ 9d. _____ .00</p> <p>▶ 9e. _____ .00</p>
<p>10. Add Lines 9a through 9e</p>	<p>▶ 10. _____ .00</p>

If amount on Lines 1, 2, 3, or 5 is negative, fill in circle.
Example:

Include \$25.00 **ONLY** if filing report with the Department of Revenue.

A Computation of Income Tax

11. Income Tax Due - Line 8 minus Line 10		11. \$	_____ .00
12. Underpayment of Estimated Income Tax	Exception to Underpayment of Estimated Tax <input type="checkbox"/>	12.	_____ .00
13. a. Interest	b. Penalties	(Add Lines 13a and 13b and enter the total on Line 13c)	
_____ .00	_____ .00	13c.	_____ .00
14. Total Due - If Line 10 is smaller than the total of Lines 8, 12, and 13c, enter total due here <i>Pay online. Go to www.dornrc.com and click on E-Services.</i>	Pay in U.S. Currency From a Domestic Bank	14.	_____ .00
15. Overpayment - If Line 10 is larger than the total of Line 8 and Line 12, enter overpayment here		15.	_____ .00
16. Amount of Line 15 applied to 2016 Estimated Income Tax		16.	_____ .00
17. Amount of Line 15 contributed to N.C. Nongame and Endangered Wildlife Fund		17.	_____ .00
18. Amount of Line 15 contributed to N.C. Education Endowment Fund		18.	_____ .00
19. Amount of Line 15 To Be Refunded - Line 15 minus Lines 16 through 18		19.	_____ .00

Explanation of Changes for Amended Return

(Attach additional sheets if necessary)

Sign Here:

Signature and Title of Officer: _____ Date: _____ Corporate Telephone Number: _____
I certify that, to the best of my knowledge, this return is accurate and complete. (Important: Include Area Code)

Signature of Paid Preparer: _____ Preparer's FEIN SSN PTIN: _____
I certify that, to the best of my knowledge, this return is accurate and complete. (Fill in applicable circle)

MAIL TO: N.C. Dept. of Revenue, P.O. Box 25000, Raleigh, N.C. 27640-0540. Returns are due by the 15th day of the 9th month after the end of the income year.

(B) Federal Taxable Income Before NOL Deduction	
<i>Complete this schedule if you do not attach a copy of your federal income tax return.</i>	
1. a. Gross receipts or sales	.00
b. Returns and allowances	.00
c. Balance (Line 1a minus Line 1b)	.00
2. Cost of goods sold (Attach schedule)	.00
3. Gross Profit (Line 1c minus Line 2)	.00
4. Dividends (Attach schedule)	.00
5. a. Interest on obligations of the United States and its instrumentalities	.00
b. Other interest	.00
6. Gross rents and royalties	.00
7. Capital gain net income (Attach schedule)	.00
8. Net gain (loss) (Attach schedule)	.00
9. Other income (Attach schedule)	.00
10. Total Income Add Lines 3 through 9	.00
11. Compensation of officers (Attach schedule)	.00
12. Salaries and wages (Less employment credits)	.00
13. Bad debts	.00
14. Rents	.00
15. Taxes and licenses	.00
16. Interest	.00
17. Charitable contributions	.00
18. a. Depreciation _____	
b. Depreciation included in cost of goods sold _____	
c. Balance (Line 18a minus Line 18b)	.00
19. Advertising	.00
20. Pension, profit-sharing, and similar plans	.00
21. Employee benefit programs	.00
22. Domestic production activities deduction	.00
23. Other deductions (Attach schedule)	.00
24. Total Deductions (Add Lines 11-23)	.00
25. Taxable Income before IRC § 1382, NOL, and Special Deductions Line 10 minus Line 24	.00
26. a. Deductions and adjustments under IRC § 1382 (From Schedule D, Line 5)	.00
b. Special Deductions (From Federal Form 1120-C, Line 26c)	.00
27. Federal Taxable Income Before NOL Line 25 minus Lines 26a and 26b; enter amount here and on Schedule A, Line 1	.00

(C) Adjustments to Federal Taxable Income	
1. Additions:	
a. Taxes based on net income	.00
b. Contributions	.00
c. Dividends paid on capital stock (From Schedule D, Line 1)	.00
d. Nonpatronage income allocated to patrons (From Schedule D, Line 2)	.00
e. Expenses attributable to income not taxed (See instructions for Form CD-405)	.00
f. Domestic production activities deduction (Schedule B, Line 22 minus Schedule D, Line 4)	.00
g. Other (Attach schedule)	.00
2. Total Additions (Add Lines 1a-1g)	.00
3. Deductions	
a. U.S. obligation interest (net of expenses)	.00
b. Other deductible dividends	.00
c. Net economic loss	.00
d. Bonus depreciation (See instructions)	.00
e. Section 179 expense deduction	.00
f. Other (Attach schedule)	.00
4. Total Deductions (Add Lines 3a-3f)	.00
5. Adjustments to Federal Taxable Income Line 2 minus Line 4, enter amount here and on Schedule A, Line 2	.00

(D) Deductions and Adjustments Under IRC § 1382	
1. Dividends paid on capital stock (Internal Revenue Code § 521 cooperatives only)	.00
2. Nonpatronage income allocated to patrons (Internal Revenue Code § 521 cooperatives only)	.00
3. Patronage dividends:	
a. Money	.00
b. Qualified written notices of allocation	.00
c. Other property (except nonqualified written notices of allocation)	.00
d. Money or other property (except written notices of allocation) in redemption of nonqualified written notices of allocation	.00
4. Domestic production activities deduction allocated to patrons	(.00)
5. Total - Add Lines 1 through 4; enter amount here and on Schedule B, Line 26a	.00

(E) Contributions	
1. Enter total contributions to donees other than those listed in Line 4, below	.00
2. Multiply the amount shown on Schedule A, Line 3 by 5% if Line 3 is greater than zero. Otherwise, enter zero here.	.00
3. Enter the lesser of Line 1 or Line 2	.00
4. Enter total contributions to the State of N.C. and its political subdivisions	.00
5. Amount Deductible Add Lines 3 and 4; enter total here and on Schedule A, Line 4	.00

Note: The letters F through K are not used to designate schedules.

Complete this schedule only if you do not attach a copy of your federal income tax return with all supporting schedules.

	Beginning of Tax Year		End of Tax Year	
	(a)	(b)	(c)	(d)
Assets				
1. Cash				
2. a. Trade notes and accounts receivable				
b. Less allowance for bad debts	()		()	
3. Inventories				
4. Other current assets <i>(Attach schedule)</i>				
5. Investments <i>(Attach schedule)</i>				
6. Loans to shareholders				
7. Mortgage and real estate loans				
8. a. Buildings and other depreciable assets				
b. Less accumulated depreciation	()		()	
9. a. Depletable assets				
b. Less accumulated depletion	()		()	
10. Land (net of any amortization)				
11. a. Intangible assets (amortizable only)				
b. Less accumulated amortization	()		()	
12. Other assets <i>(Attach schedule)</i>				
13. Total Assets				
Liabilities and Capital				
14. Accounts payable				
15. Mortgages, notes, and bonds payable in less than 1 year				
16. Other current liabilities <i>(Attach schedule)</i>				
17. Loans from shareholders				
18. Mortgages, notes, and bonds payable in 1 year or more				
19. Other liabilities <i>(Attach schedule)</i>				
20. Capital stock: a. Preferred Stock				
b. Common Stock				
21. Additional paid-in capital				
22. Patronage dividends allocated in noncash form				
23. Per unit retains allocated in noncash form				
24. Retained earnings - Appropriated <i>(Attach schedule)</i>				
25. Retained earnings - Unappropriated				
26. Adjustments to shareholders' equity <i>(Attach schedule)</i>				
27. Less cost of treasury stock		()		()
28. Total Liabilities and Capital				
M-1 Reconciliation of Income (Loss) per Books With Return				
1. Net income (loss) per books			7. Income recorded on books this year not included on this return <i>(itemize)</i> :	
2. Federal income tax per books			Tax-exempt interest \$	
3. Excess of capital losses over capital gains				
4. Income subject to tax not recorded on books this year <i>(itemize)</i> :			8. Deductions on this return not charged against book income this year <i>(itemize)</i> :	
5. Expenses recorded on books this year not deducted on this return <i>(itemize)</i> :			a. Depreciation \$	
a. Depreciation \$			b. Charitable contributions \$	
b. Charitable contributions \$				
c. Travel and entertainment \$			9. Add Lines 7 and 8	
6. Add Lines 1 through 5			10. Income (Line 6 minus Line 9)	
M-2 Retained Earnings Analysis				
1. Balance at beginning of year			5. Distributions: a. Cash	
2. Net income (loss) per books			b. Stock	
3. Other increases <i>(itemize)</i> :			c. Property	
			6. Other decreases <i>(itemize)</i> :	
			7. Add Lines 5 and 6	
4. Add Lines 1, 2, and 3			8. Balance at end of year <i>(Line 4 minus Line 7)</i>	