

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.

D-400 Schedule S

2015 North Carolina Supplemental Schedule

Last Name (First 10 Characters)

IMPORTANT: Do not send a photocopy of this form.
The original form is printed in pink and black ink.

Your Social Security Number

Important: Refer to the Instructions before completing Parts A, B, C, or D of this form.
If you complete this form, you must attach this form to Form D-400, otherwise, we may be unable to process your return.

Part A. Additions to Federal Adjusted Gross Income (See Line Instructions.)

Enter Whole U.S. Dollars Only

- 1. Interest income from obligations of states other than North Carolina ▶ 1.
- 2. Adjustment for domestic production activities (See instructions.) ▶ 2.
- 3. Other additions to federal adjusted gross income (Attach explanation or schedule.) ▶ 3.
- 4. **Total additions** - Add Lines 1 through 3. (Enter the total here and on Form D-400, Line 7.) ▶ 4.



Part B. Deductions from Federal Adjusted Gross Income (See Line Instructions.)

- 5. State or local income tax refund if included on Line 10 of Federal Form 1040 ▶ 5.
- 6. Interest income from obligations of the United States or United States' possessions ▶ 6.
- 7. Taxable portion of Social Security and Railroad Retirement Benefits included on your federal return ▶ 7.
- 8. Retirement benefits received by **vested** N.C. State government, N.C. local government, or federal government retirees (Bailey settlement - Important: See instructions.) ▶ 8.
- 9. Adjustment for bonus depreciation added back in 2010, 2011, 2012, 2013, and 2014 (See instructions.)

9a. 2010	9b. 2011	9c. 2012
▶	▶	▶
9d. 2013	9e. 2014	
▶	▶	

(Add Lines 9a, 9b, 9c, 9d, and 9e and enter on Line 9f.) ▶ 9f.
- 10. Adjustment for section 179 expense deduction added back in 2010, 2011, 2012, 2013, and 2014 (See instructions.)

10a. 2010	10b. 2011	10c. 2012
▶	▶	▶
10d. 2013	10e. 2014	
▶	▶	

(Add Lines 10a, 10b, 10c, 10d, and 10e and enter on Line 10f.) ▶ 10f.
- 11. Other deductions from federal adjusted gross income (Attach explanation or schedule. Do not include any deduction for retirement benefits on this line.) ▶ 11.
- 12. **Total deductions** - Add Lines 5 through 8 and Lines 9f, 10f, and 11, (Enter the total here and on Form D-400, Line 9.) ▶ 12.



Important: You may deduct from federal adjusted gross income either the **N.C. standard deduction** or **N.C. itemized deductions**. If the amount of N.C. standard deduction exceeds the allowable N.C. itemized deductions, do not complete Part C. Enter the appropriate amount for your filing status from the following chart on Form D-400, Line 11. Otherwise, complete Part C, Itemized Deductions.

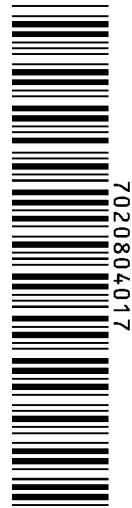
If your filing status is:	Your standard deduction is:
Single	\$7,500
Married filing jointly/Qualifying widow(er)	\$15,000
Married filing separately	
If spouse <u>does not claim</u> itemized deductions	\$7,500
If spouse <u>claims</u> itemized deductions	0
Head of household	\$12,000

Note: If you are (1) married filing a separate return for North Carolina income tax purposes and your spouse itemizes deductions, or (2) a nonresident alien, or (3) filing a short-year return because of a change in your accounting period, you are not entitled to the standard deduction.

Part C. N.C. Itemized Deductions (See Line Instructions.)
(Do not complete Part C if N.C. standard deduction is claimed on Form D-400, Line 11.)

Note: No itemized deductions included on Schedule A, Federal Form 1040 are allowed as N.C. itemized deductions except **qualified home mortgage interest, real estate property taxes, charitable contributions, and medical and dental expenses.**

- 13. Qualifying home mortgage interest ▶ 13.
- 14. Real estate property taxes ▶ 14.
- 15. Total home mortgage interest and real estate property taxes
(Add Lines 13 and 14 and enter result.) ▶ 15.
- 16. Qualifying home mortgage interest and real estate property taxes limitation ▶ 16.
- 17. Allowable home mortgage interest and real estate property taxes
(Compare Line 15 and Line 16, and enter whichever is less.) ▶ 17.
- 18. Charitable contributions ▶ 18.
- 19. Medical and dental expenses (From Line 4 of Schedule A, Federal Form 1040) ▶ 19.
- 20. **Total N.C. itemized deductions**, add Lines 17, 18, and 19 and enter the total here and on Form D-400, Line 11. ▶ 20.



Part D. Computation of North Carolina Taxable Income for Part-Year Residents and Nonresidents
(See Line Instructions.) Note: Do not complete Lines 21 through 23 if you were a full-year resident.

Fill in applicable circles.

Fill in circle(s) if you or your spouse moved into or out of North Carolina during the year. Enter the dates of residency in the boxes below. → You Spouse

You		Spouse	
Date residency began	Date residency ended	Date residency began	Date residency ended
(MM-DD-YY)	(MM-DD-YY)	(MM-DD-YY)	(MM-DD-YY)

Fill in circle(s) if you or your spouse were **nonresidents of North Carolina** for the entire year. →

Part-year residents and nonresidents must complete the **Part-Year Resident/Nonresident Worksheet** in the instructions to determine the amounts to enter on Lines 21 and 22 below.

- 21. Enter the amount from **Column B, Line 28 of the Part-Year Resident/Nonresident Worksheet** (See instructions.) ▶ 21.
- 22. Enter the amount from **Column A, Line 28 of the Part-Year Resident/Nonresident Worksheet** (See instructions.) ▶ 22.
- 23. Divide Line 21 by Line 22. (Enter the result as a decimal amount here and on Form D-400, Line 13; round to four decimal places.) ▶ 23.