

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 fiscal year beginning (MM-DD) ____ - ____ - **1 5** and ending (MM-DD-YY) ____ - ____ - ____

Legal Name (USE CAPITAL LETTERS FOR NAME AND ADDRESS)

Legal Name Continued

Federal Employer ID Number

If LLC, Enter N.C. Secretary of State ID

Fill in all applicable circles:

- ☐ Initial Return
☐ Amended Return
☐ Final Return
☐ Entity is LLC
☐ Entity has Nonresident Owners
☐ NC-NPA Forms attached
☐ NC-478 is attached
☐ Publicly Traded Partnership

Address

Apartment Number

City

State

Zip Code

County (Enter first five letters)

Part 1. Computation of Income Tax Due or Refund (See Form D-403A, Instructions for Partnership Income Tax Return.)

1. Enter the total income or loss (Add Lines 1 through 11 of Schedule K, Federal Form 1065)

2. Guaranteed payments to partners (See instructions)

3. Line 1 minus Line 2

4. Additions to income (From Part 4, Line 4)

5. Add Lines 3 and 4

6. Deductions from income (From Part 4, Line 9). The total additions and deductions on Lines 4 and 6 should be allocated to the individual partners in Part 3, Section A of this form.

7. Net distributive partnership income (Line 5 minus Line 6)

8. Nonapportionable net distributive partnership income (From Part 5, Line 1)

9. Apportionable net distributive partnership income (Line 7 minus Line 8)

10. Nonapportionable net distributive partnership income allocated to North Carolina (From Part 5, Line 2)

11. Tax due for nonresident partners (Add the amounts on Part 3, Line 18 for each partner)

12. Tax credits allocated to nonresident partners (Add the amounts on Part 3, Line 19 for each partner)

13. Net tax due for nonresident partners (Add the amounts on Part 3, Line 20 for each partner)

14. Tax paid with extension and other prepayments of tax (If filing an amended return, see instructions)

15. Tax paid by other partnerships or by S corporations (See instructions)

16. Tax withheld from personal services income (See instructions)

17. Add Lines 14 through 16

18. Total tax due for nonresident partners (If Line 13 is more than Line 17, subtract and enter the result.)

19. 19a. Penalties

19b. Interest

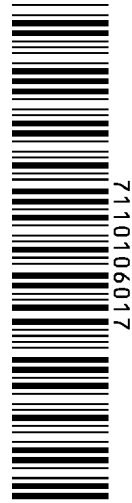
(Add Lines 19a and 19b and enter the total on Line 19c)

20. Total Due for nonresident partners (Add Lines 18 and 19c and enter the result. The manager of the partnership must pay this amount with the return.)

21. Amount to be Refunded (If net tax due on Line 13 is less than Line 17, subtract and enter the result.)

If amount on Line 1, 3, 5, 7, 8, 9, or 10 is negative, fill in circle.

Example:



▶ 1.	<input type="radio"/>	_____	.00
▶ 2.		_____	.00
3.	<input type="radio"/>	_____	.00
▶ 4.		_____	.00
5.	<input type="radio"/>	_____	.00
▶ 6.		_____	.00
7.	<input type="radio"/>	_____	.00
▶ 8.	<input type="radio"/>	_____	.00
9.	<input type="radio"/>	_____	.00
▶ 10.	<input type="radio"/>	_____	.00
▶ 11.		_____	.00
▶ 12.		_____	.00
▶ 13.		_____	.00
▶ 14.		_____	.00
▶ 15.		_____	.00
▶ 16.		_____	.00
17.		_____	.00
▶ 18.		_____	.00
19c.		_____	.00
20.	\$	_____	.00
▶ 21.		_____	.00

Legal Name (First 10 Characters)

Federal Employer ID Number

Part 2. Apportionment Percentage for Partnerships That Have One or More Nonresident Partners and Operate in North Carolina and in One or More Other States
See Form D-403A, Instructions for Partnership Income Tax Return

A

	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)					Factor
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 Percentage Divide Line 14 by the number of factors present; enter result here and on Part 3, Line 12 for each nonresident partner					%

B

Partnerships Apportioning Income to N.C. and to Other States Using Single Sales Factor

Partnerships that would meet the definition of "excluded corporation" or the definition of "capital intensive corporation" in G.S. 105-130.4 if they were corporations and certain public utilities treated as partnerships must apportion North Carolina income tax using the sales factor alone. These partnerships need not complete the property and payroll factor sections above. Enter the sales factor from Line 12 here and on Part 3, Line 12 for each nonresident partner.

 %
C

Special Apportionment

Special apportionment formulas apply to certain types of partnerships such as telephone companies, motor carriers, and railroad companies. If you use a special apportionment formula, enter the computed apportionment factor here and on Part 3, Line 12 for each nonresident partner.

 %

Legal Name (First 10 Characters)

ImportantIf more than three partners, include separate
schedule for additional partners.

Federal Employer ID Number

Part 3. A. Partners' Shares of Income, Adjustments, Tax Credits, and Other Items*Complete Lines 1 through 8 for all partners.***B. Computation of North Carolina Taxable Income for Nonresident Partners***Complete Lines 9 through 17 for all nonresident partners.***C. Computation of Tax Due for Nonresident Partners on Whose Behalf the Partnership Pays the Tax***Complete Lines 18 through 20.*

A	Partner 1	Partner 2	Partner 3
Attach other pages if needed. 1. Identifying Number 2. Name 3. Address 4. Partner's share percentage <input type="text"/> % 5. Type of partner (Ex: Ind., Corp., Part.) 6. Additions to income (loss) (To Form NC K-1, Line 2) 7. Deductions from income (loss) (To Form NC K-1, Line 3) 8. Share of Tax Credits (To Form NC K-1, Line 4) <div style="text-align: center;">NC Resident <input type="radio"/> Yes <input type="radio"/> No</div>			
B 9. Guaranteed payments to nonresident partners applicable to income on Part 1, Line 9 10. Percentage from Line 4 times amount on Part 1, Line 9 11. Add Lines 9 and 10 12. Apportionment percentage from Part 2A, Line 15; Part 2B; or Part 2C <input type="text"/> % 13. Multiply Line 11 by Line 12 14. Guaranteed payments to nonresident partners applicable to income on Part 1, Line 10 15. Percentage from Line 4 times amount on Part 1, Line 10 16. Separately stated items of income attributable to nonresident partners 17. North Carolina taxable income (Add Lines 13, 14, 15, and 16) 			
C 18. Tax Due (Multiply Line 17 by 5.75%) 19. Tax credits allocated to nonresident partners from Line 8 above 20. Net Tax Due (Line 18 minus Line 19) <div style="text-align: center;">NC-NPA Form attached <input type="radio"/> Yes <input type="radio"/> No</div>			

Important: The Partnership must provide each Partner an NC K-1 for Form D-403 or other information necessary for the Partner to prepare the appropriate North Carolina Tax Return.

Legal Name (First 10 Characters)

Federal Employer ID Number

Part 4. North Carolina Adjustments to Income (See instructions)**Additions to Income**

1. Interest income from obligations of states other than North Carolina 1. .00
2. State, local, or foreign income taxes deducted on the federal return 2. .00
3. Other additions to income (See Form D-401, Individual Income Tax Instructions, for other additions that may be applicable to partnerships) 3. .00
4. Total additions to income (Add Lines 1, 2, and 3 and enter total here and on Part 1, Line 4) 4. .00

Deductions from Income

5. Interest income from obligations of the United States or United States' possessions 5. .00
6. State, local, or foreign income tax refunds reported as income on federal return 6. .00
7. Adjustment for bonus depreciation added back in 2010, 2011, 2012, 2013, and 2014 (Add Lines 7a, 7b, 7c, 7d, and 7e, and enter total on Line 7f)

7a. 2010

7b. 2011

7c. 2012

7d. 2013

7e. 2014

 .00 .00 .00 .00 .007f. .00

8. Other deductions from income (See Form D-401, Individual Income Tax Instructions, for other deductions that may be applicable to partnerships) 8. .00
9. Total deductions from income (Add Lines 5, 6, 7f, and 8 and enter total here and on Part 1, Line 6) 9. .00

Part 5. Nonapportionable Net Distributive Partnership Income

Complete this schedule if you have income classified as nonapportionable income. See the instructions for an explanation of what is apportionable income and what is nonapportionable income.

(A) Nonapportionable Net Distributive Partnership Income	(B) Net Income from Activity	(C) Net Income Allocated Directly to N.C.
<input type="text"/>	<input type="text"/>	<input type="text"/>
<input type="text"/>	<input type="text"/>	<input type="text"/>
<input type="text"/>	<input type="text"/>	<input type="text"/>
1. Nonapportionable Income (Enter the total of Column B here and on Part 1, Line 8)	<input type="text"/> .00	<input type="text"/>
2. Nonapportionable Income Allocated to N.C. (Enter the total of Column C here and on Part 1, Line 10)	<input type="text"/>	<input type="text"/> .00

Explanation of why income listed in chart is nonapportionable income rather than apportionable income: (Attach additional sheets if necessary)**Explanation** of changes for Amended Return: (Attach additional sheets if necessary)

I certify that, to the best of my knowledge, this return is accurate and complete.

If prepared by a person other than the managing partner, this certification is based on all information of which preparer has any knowledge.

Signature of Managing Partner

Date

Signature of Preparer Other Than Managing Partner

Date

Daytime Telephone Number (Include area code)

Address

If entity is an LLC and it converted to an LLC during the tax year, enter entity name prior to conversion:

Preparer's Daytime Telephone Number (Include area code)

☐ FEIN ☐ SSN ☐ PTIN:

(Fill in applicable circle)

Preparer's FEIN, SSN, or PTIN

MAIL TO: North Carolina Department of Revenue, P.O. Box 25000, Raleigh, North Carolina 27640-0640