

April 1, 2015

**NORTH CAROLINA’S REFERENCE TO THE INTERNAL REVENUE CODE UPDATED -
IMPACT ON 2014 NORTH CAROLINA CORPORATE AND INDIVIDUAL INCOME TAX
RETURNS**

Governor McCrory signed into law Session Law 2015-2 (Senate Bill 20) on March 31, 2015. The legislation updated North Carolina’s reference to the Internal Revenue Code to the Code as enacted as of January 1, 2015. As a result, North Carolina corporate and individual income tax law generally follows the Tax Increase Prevention Act of 2014 (“TIPA”), which extended several provisions in federal law that had sunset at the end of 2013. The law does not follow (decouples from) TIPA in six instances. The table below identifies those instances and describes each difference and which lines on the tax returns are impacted.

	<u>Federal Provision</u>	<u>State Provision</u>	<u>NC C Corporate Return</u>	<u>NC Individual Return</u>
1	Bonus depreciation is extended to property placed in service in 2014.	Addition required for 85% of bonus depreciation deducted on federal return.	Include addition on Form CD-405, Schedule H, Line 1.g.	Include addition on Form D-400 Schedule S, Part A, Line 3.
2	Code section 179 dollar and investment limitations are increased to \$500,000 and \$2,000,000, respectively, for 2014.	Dollar and investment limitations set at \$25,000 and \$200,000, respectively. Addition required for 85% of the difference between the deduction using federal limitations and the deduction using NC limitations.	Include addition on Form CD-405, Schedule H, Line 1.g.	Include addition on Form D-400 Schedule S, Part A, Line 3.
3	Mortgage insurance premiums are treated as qualified residence interest for 2014.	Mortgage insurance premiums are not treated as qualified residence interest.	Not applicable	Do not include mortgage insurance premiums in the amount of mortgage interest deducted on Form D-400 Schedule S, Part C, Line 13.
4	Cancellation of qualified principal residence debt is excluded from gross income.	Addition required for amount of cancellation of qualified principal residence debt excluded from gross income on the federal return.	Not applicable	Include addition on Form D-400 Schedule S, Part A, Line 3.

North Carolina Department of Revenue

	<u>Federal Provision</u>	<u>State Provision</u>	<u>NC C Corporate Return</u>	<u>NC Individual Return</u>
5	Qualified tuition and related expenses are deductible for 2014.	Addition required for qualified tuition and related expenses deducted on the federal return.	Not applicable	Include addition on Form D-400 Schedule S, Part A, Line 3.
6	Qualified charitable distributions from an IRA by a person who has attained age 70 ½ are excluded from gross income.	Addition required for qualified charitable distributions from an IRA by a person who has attained age 70 ½ that are excluded from gross income on the federal return. The distributions are allowable as a charitable contribution.	Not applicable	Include addition on Form D-400 Schedule S, Part A, Line 3. Deduct contribution on Form D-400 Schedule S, Part C, Line 18 if itemizing

Any person who has already filed a 2014 North Carolina income tax return and whose federal taxable income (C corporation) or federal adjusted gross income (individual) is impacted by the amendments to federal law included in TIPA or by the provisions of TIPA from which North Carolina has decoupled must file an amended North Carolina return. If the amended return reflects additional tax due, the taxpayer will avoid interest if the additional tax is paid by the original due date of the return (April 15 for calendar-year taxpayers). The taxpayer will also avoid a late-payment penalty if the additional tax reflected on the amended return is paid when the amended return is filed or April 15, whichever is later.

D-400 Schedule S

2014 North Carolina Supplemental Schedule

Last Name (First 10 Characters)

Your Social Security Number

Important: Refer to the **D-400 Income Tax Instructions** before completing Parts A, B, C, or D of 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 on Page 12.)

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 on Page 12) ▶ 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 beginning on Page 12.)

- 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 Line instructions on Page 12) ▶ 8.
- 9. Adjustment for bonus depreciation added back in 2009, 2010, 2011, 2012 and 2013 (See Line instructions on Page 12)
 - 9a. 2009 ▶
 - 9b. 2010 ▶
 - 9c. 2011 ▶
 - 9d. 2012 ▶
 - 9e. 2013 ▶

(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, and 2013 (See Line instructions on Page 12)
 - 10a. 2010 ▶
 - 10b. 2011 ▶
 - 10c. 2012 ▶
 - 10d. 2013 ▶

(Add Lines 10a, 10b, 10c, and 10d and enter on Line 10e.) 10e.
- 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, 10e, 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 enter the appropriate amount for your filing status from the following chart on Form D-400, Line 11; otherwise, complete Part C, Itemized Deductions.

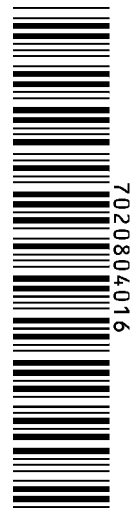
If your filing status is:	Your standard deduction is:
Single	\$7,500
Married filing jointly/Qualifying widow(er)	\$15,000
Married filing separately	
If spouse <u>does not claim</u> itemized deductions	\$7,500
If spouse <u>claims</u> itemized deductions	0
Head of household	\$12,000

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 on Page 13.)

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

- 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. **Total N.C. itemized deductions**, add Lines 17 and 18 and enter the amount
(Enter on Form D-400, Line 11) ▶ 19.



Part D. Computation of North Carolina Taxable Income for Part-Year Residents and Nonresidents
(See Line Instructions on Page 13. Note: Do not complete Lines 20 through 22 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 and enter the dates of residency in the boxes. ▶ 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 read the instructions on Page 13 and complete the worksheet on Page 14 to determine the amounts to enter on Lines 20 and 21 below.

- 20. Enter the amount from **Column B, Line 28 of the Part-Year Resident/Nonresident Worksheet** on Page 14 of the Instructions. ▶ 20.
- 21. Enter the amount from **Column A, Line 28 of the Part-Year Resident/Nonresident Worksheet** on Page 14 of the Instructions. ▶ 21.
- 22. Divide Line 20 by Line 21 (Enter the result as a decimal amount here and on Form D-400, Line 13; round to four decimal places.) ▶ 22.