



June 3, 2016

## North Carolina’s Reference to the Internal Revenue Code Updated - Impact on 2015 North Carolina Corporate and Individual income Tax Returns

Governor McCrory signed into law Session Law 2016-6 (Senate Bill 726) on June 1, 2016. The legislation updated North Carolina’s reference to the Internal Revenue Code to the Code as enacted as of January 1, 2016. As a result, North Carolina corporate and individual income tax laws generally follow the Protecting Americans From Tax Hikes Act of 2015 (“PATH”), which extended, and in some cases made permanent, several provisions in federal law that had sunset at the end of 2014. The law decouples from (does not follow) PATH 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 for 2015</u>	<u>NC C Corporate Return</u>	<u>NC Individual Return</u>
1	Bonus depreciation is extended to property placed in service in 2015, 2016 and 2017.	Addition required for 85% of bonus depreciation deducted on federal return.	Include on Form CD-405, Schedule H, Line 1.g.	Include on Form D-400 Schedule S, Part A, Line 3.
2	Code section 179 dollar and investment limitations of \$500,000 and \$2,000,000, respectively, extended to 2015. These amounts will increase for inflation beginning with tax year 2016.	NC dollar and investment limitations of \$25,000 and \$200,000, respectively, extended to 2015 and made permanent. Addition required for 85% of the difference between the deduction using federal limitations and the deduction using NC limitations.	Include on Form CD-405, Schedule H, Line 1.g.	Include on Form D-400 Schedule S, Part A, Line 3.
3	The treatment of mortgage insurance premiums as qualified residence interest is extended for 2015 and 2016.	Mortgage insurance premiums are not treated as qualified residence interest.	Not applicable	Exclude from Form D-400 Schedule S, Part C, Line 13.

4	The exclusion from gross income for cancellation of qualified principal residence debt is extended for 2015 and 2016.	Cancellation of qualified principal residence debt is not excluded from gross income.	Not applicable	Include on Form D-400 Schedule S, Part A, Line 3.
5	The exclusion from gross income for qualified charitable distributions from an IRA by a person who has attained age 70 ½ is extended for 2015 and 2016.	Qualified charitable distributions from an IRA by a person who has attained age 70 ½ are not excluded from gross income. 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
6	The deduction for qualified tuition and related expenses is extended for 2015 and 2016.	Qualified tuition and related expenses are not deductible.	Not applicable	Include addition on Form D-400 Schedule S, Part A, Line 3.

Any person who has already filed a 2015 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 PATH or by the provisions of PATH 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 a late-payment penalty if the additional tax reflected on the amended return is paid when the amended return is filed. If the amended return reflects additional tax due, interest is due on the additional tax from the date the tax was due (April 15, 2016 for calendar year taxpayers; the fifteenth day of the fourth month after the end of the tax year for fiscal year taxpayers) until the additional tax is paid. The interest rate is 5% per year through December 31, 2016. For the interest rate in effect after December 31, 2016, see [www.dorncc.com/taxes/rate.html](http://www.dorncc.com/taxes/rate.html) on or after December 1, 2016.



Schedule C. Combined Federal Taxable Income Before NOL	A	B	C	D	E
	Principal Member Name	Member Name	Member Name	Eliminations between members (attach schedule)	Combined Totals
	FEIN	FEIN	FEIN		
1. a. Gross receipts or sales					
b. Returns and allowances					
c. Balance (Line 1a minus Line 1b)					
2. Cost of goods sold (Attach schedule)					
3. Gross Profit (Line 1c minus Line 2)					
4. Dividends (Attach schedule)					
5. a. Interest on obligations of the US and its instrumentalities					
b. Other interest					
6. Gross rents					
7. Gross royalties					
8. Capital gain net income (Attach schedule)					
9. Net gain (loss) (Attach schedule)					
10. Other income (Attach schedule)					
11. Total Income (Add Lines 3 through 10)					
12. Compensation of officers (Attach schedule)					
13. Salaries and wages (Less employment credits)					
14. Repairs and maintenance					
15. Bad debts					
16. Rents					
17. Taxes and licenses					
18. Interest					
19. Charitable contributions					
20. a. Depreciation					
b. Depreciation included in cost of goods sold					
c. Balance (Line 20a minus Line 20b)					
21. Depletion					
22. Advertising					
23. Pension, profit-sharing, and similar plans					
24. Employee benefit programs					
25. Domestic production activities deduction					
26. Other deductions (Attach schedule)					
27. Total Deductions (Add Lines 12 through 19, 20c, and 21 through 26)					
28. Taxable Income (Line 11 minus Line 27)					
29. Special Deductions (From Federal Form 1120, Line 29b)					
30. Federal Taxable Income Before NOL (Line 28 minus Line 29. Enter amount from Column E on Form CD-405, Schedule B, Line 10.)					.00

<b>Schedule D. Combined Adjustments to Federal Taxable Income</b>	<b>A</b>	<b>B</b>	<b>C</b>	<b>D</b>	<b>E</b>
	Principal Member Name	Member Name	Member Name	Eliminations between members (attach schedule)	Combined Totals
	FEIN	FEIN	FEIN		
<b>1. Additions:</b>					
a. Taxes based on net income					
b. Dividends paid by captive REITs					
c. Contributions					
d. Royalties paid to related members (See instructions)					
e. Expenses attributable to income not taxed (See instructions)					
f. Domestic production activities deduction (From Schedule C, Line 25)					
g. Other (Attach explanation or schedule)					
<b>2. Total Additions</b> (Add Lines 1a-1g)					
<b>3. Deductions:</b>					
a. U.S. obligation interest (net of expenses)					
b. Other deductible dividends (See instructions)					
c. Dividends received from captive REITs					
d. Royalties received from related members (See instructions)					
e. Interest on deposits with FHLB (net of expenses) <b>S&amp;L's only</b>					
f. Bonus depreciation (See instructions)					
g. Section 179 expense deduction					
h. Other (Attach explanation or schedule)					
<b>4. Total Deductions</b> (Add Lines 3a-3h)					
<b>5. Combined Adjustments to Federal Taxable Income</b> (Line 2 minus Line 4. Enter amount from Column E on Form CD-405, Schedule B, Line 11.)					.00

**Schedule E. Combined Apportionment Factor** (Only one apportionment factor is to be calculated for the combined group. The standard three factor formula must be used unless more than 50% of the group's combined income subject to apportionment is generated from a business activity subject to special apportionment. In that case, the formula applicable to that industry is used to apportion the income of the entire group, see Schedule E, Parts 2 or 3. The apportionment factor **must be calculated 4 places** to the right of the decimal.)

Part 1. Standard Three Factor	<b>A</b>	<b>B</b>	<b>C</b>	<b>D</b>	<b>E</b>
	Principal Member Name	Member Name	Member Name	Eliminations between members (attach schedule)	Combined Totals
	FEIN	FEIN	FEIN		
1. Property - NC (Beginning of income year)	a. Land				
	b. Buildings				
	c. Inventories				
	d. Other Property				
	e. Total - NC (Add Lines 1a through 1d)				
2. Property - NC (End of income year)	a. Land				
	b. Buildings				
	c. Inventories				
	d. Other Property				
	e. Total - NC (Add Lines 2a through 2d)				
3. Average Value of Property - NC (Add Line 1e plus Line 2e; divide by 2)					
4. Rented Property - NC (Multiply annual rents by 8)					
5. Property - Everywhere (Beginning of income year)	a. Land				
	b. Buildings				
	c. Inventories				
	d. Other Property				
	e. Total - Everywhere (Add Lines 5a through 5d)				
6. Property - Everywhere (End of income year)	a. Land				
	b. Buildings				
	c. Inventories				
	d. Other Property				
	e. Total - Everywhere (Add Lines 6a through 6d)				
7. Average Value of Property - Everywhere (Add Line 5e plus Line 6e; divide by 2)					
8. Rented Property - Everywhere (Multiply annual rents by 8)					
9. <b>Property Factor</b>	a. Add Lines 3 and 4; enter sum here				
	b. Add Lines 7 and 8; enter sum here				
	c. Divide Line 9a by 9b; enter factor here				%
10. a. Gross Payroll - NC					
b. Compensation of General Executive Officers					
c. Net Payroll - NC (Line 10a minus Line 10b)					
11. a. Gross Payroll - Everywhere					
b. Compensation of General Executive Officers					
c. Net Payroll - Everywhere (Line 11a minus Line 11b)					
12. <b>Payroll Factor</b>	a. Enter amount from Line 10c				
	b. Enter amount from Line 11c				
	c. Divide Line 12a by 12b; enter factor here				%
13. Gross Receipts - NC					
14. Gross Receipts - Everywhere					
15. <b>Sales Factor</b>	a. Enter amount from Line 13				
	b. Enter amount from Line 14				
	c. Divide Line 15a by 15b; enter factor here				%
16. <b>Sales Factor</b> (Enter the same factor as on Line 15c)					%
17. Total Factors (Add Lines 9c, 12c, 15c, and 16)					%
18. <b>NC Combined Apportionment Factor</b> (Divide Line 17 by the number of factors present. Enter factor on Form CD-405, Schedule B, Line 17.)					%

<b>Schedule E. Combined Apportionment Factor</b> (continued)					
<b>Part 2. Single Sales Factor</b> (Excluded corporations, qualified capital intensive corporations, and certain public utilities must apportion North Carolina corporate income tax using the sales factor alone. See G.S.105 -130.4 for more information.)	<b>A</b>	<b>B</b>	<b>C</b>	<b>D</b>	<b>E</b>
	Principal Member Name	Member Name	Member Name	Eliminations between members (attach schedule)	Combined Totals
	FEIN	FEIN	FEIN		
1. Gross Receipts - NC					
2. Gross Receipts - Everywhere					
3. <b>Sales Factor</b> (Divide Line 1 by Line 2. Enter factor on Form CD-405, Schedule B, Line 17)					<input type="text"/> %
<b>Part 3. Other Special Factor</b> (Special apportionment factors apply to certain types of corporations such as telephone companies, motor carriers, and railroad companies. The respective tax statutes should be consulted for additional information. If the combined group uses a special apportionment factor, enter factor for the group on Form CD-405, Schedule B, Line 17. See G.S.105 -130.4 for more information.)					<input type="text"/> %

<b>Schedule F. Schedule of Payments Made by Each Member of the Combined Group</b>	<b>A</b>	<b>B</b>	<b>C</b>		<b>E</b>
	Principal Member Name	Member Name	Member Name		Combined Totals
	FEIN	FEIN	FEIN		
1. First estimated tax payment (From Form CD-429)					
2. Second estimated tax payment (From Form CD-429)					
3. Third estimated tax payment (From Form CD-429)					
4. Fourth estimated tax payment (From Form CD-429)					
5. Overpayment from prior year return (From 2014 Form CD-405, Line 40)					
6. Total estimated tax payments (Add Lines 1 through 5. Enter total on Form CD-405, Schedule B, Line 29b)					<input type="text"/> .00
7. Total income tax extension payments. (From Form CD-419, Line 10) Add Columns A through C. Enter total on Form CD-405, Schedule B, Line 29a.					<input type="text"/> .00