



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.



**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)				<b>Factor</b>
	<b>8. Property Factor</b> Add Lines 6 and 7; divide Column 1 by Column 2 and enter factor				%
	9. Gross payroll				
	10. Compensation of general executive officers				
	<b>11. Payroll Factor</b> Line 9 minus Line 10; divide Column 1 by Column 2 and enter factor				%
	<b>12. Sales Factor (Attach schedule)</b> Divide Column 1 by Column 2 and enter factor				%
	<b>13. Sales Factor</b> Enter the same factor as on Line 12				%
	<b>14. Total of Factors</b> Add Lines 8, 11, 12, and 13				%
	<b>15. N.C. Apportionment Percentage</b> Divide Line 14 by the number of factors present; enter result here and on Part 3, Line 12 for each nonresident partner				%
<b>B</b>	<b>Partnerships Apportioning Income to N.C. and to Other States Using Single Sales Factor</b>				
	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.				%
<b>C</b>	<b>Special Apportionment</b>				
	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)

**Important**

Federal Employer ID Number

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

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

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

**Deductions from Income**

- 5. Interest income from obligations of the United States or United States' possessions 5.
- 6. State, local, or foreign income tax refunds reported as income on federal return 6.
- 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
  - 7f.
- 8. Other deductions from income (See Form D-401, Individual Income Tax Instructions, for other deductions that may be applicable to partnerships) 8.
- 9. Total deductions from income (Add Lines 5, 6, 7f, and 8 and enter total here and on Part 1, Line 6) 9.

**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.
<b>1. Nonapportionable Income</b> (Enter the total of Column B here and on Part 1, Line 8)		
<b>2. Nonapportionable Income Allocated to N.C.</b> (Enter the total of Column C here and on Part 1, Line 10)		

**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