

## North Carolina Makes It Easier to Qualify for the Medical and Dental Expense Deduction - Impact on 2019 North Carolina Individual Income Tax Returns

On June 30, 2020, Governor Cooper signed into law [Session Law 2020-58](#) (House Bill 1080). This legislation updated North Carolina's reference to the Internal Revenue Code (the "Code") from January 1, 2019, to May 1, 2020. This means changes made to the Code as of May 1, 2020, including changes made by the [Further Consolidated Appropriations Act of 2020](#) ("FCAA") and the [Coronavirus Aid, Relief, and Economic Security Act](#) ("CARES Act"), (collectively, "federal tax provisions") apply when calculating an individual's State income tax liability to the extent North Carolina follows the federal tax provisions and does not decouple from the changes.

The purpose of this notice is to address the medical and dental expense deduction threshold for tax year 2019.<sup>1</sup> The FCAA reduced the federal medical and dental expense deduction threshold from 10% of adjusted gross income ("AGI") to 7.5% of AGI for tax years 2019 and 2020. For tax year 2019 and 2020, North Carolina now matches the federal medical and dental expense deduction threshold of 7.5% of AGI. The lower threshold means that more North Carolinians will likely qualify for the deduction.

### **North Carolina Law**

[N.C. Gen. Stat. § 105-153.5](#) provides that in calculating North Carolina taxable income, a taxpayer may deduct either the North Carolina standard deduction amount as provided in N.C. Gen. Stat. § 153.5(a)(1) or the North Carolina itemized deduction amount as provided in N.C. Gen. Stat. § 105-153.5(a)(2).

[N.C. Gen. Stat. § 105-153.5\(a\)\(2\)\(c\)](#) provides that the North Carolina itemized deduction amount includes the amount allowed as a deduction for medical and dental expenses under section 213 of the Code for that taxable year.

[N.C. Gen. Stat. § 228.90\(b\)\(1b\)](#) defines the term "Code" as "the Internal Revenue Code as enacted as of May 1, 2020, including any provisions enacted as of that date that become effective either before or after that date.

### **Application of North Carolina Law**

On June 30, 2020, the General Assembly updated the State's reference to the Code to include federal tax provisions enacted as of May 1, 2020. As part of that update, the reference to section 213 of the Code was updated from January 1, 2019 to May 1, 2020. For tax year 2019, this

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<sup>1</sup> The Department has issued an [additional notice](#) to address other changes related to the update to the Code reference and accompanying decoupling adjustments.

update allows taxpayers who elect to deduct North Carolina itemized deductions to deduct qualifying medical and dental expenses that exceed 7.5% of AGI, instead of 10% of AGI.

At the time the Department printed the [2019 North Carolina Individual Income Tax Return](#), (“D-400”), the State had not updated its reference to section 213 of the Code. (See the [Department’s Important Notice dated February 3, 2020](#).) As a result, the D-400, as printed by the Department, permits a taxpayer to deduct only the amount of medical and dental expenses that is more than 10% of the taxpayer’s AGI. (See [2019 D-400, Schedule S, Supplemental Schedule](#), (“Schedule S”).

### **How to Compute the Enhanced Medical and Dental Expense Deduction on the D-400**

If you elect to itemize North Carolina deductions for tax year 2019 and you qualified to deduct medical and dental expenses on Line 4 of the 2019 [federal Schedule A, Itemized Deductions](#), you may do the following:

**If you have not filed** your [D-400](#), you should calculate the amount on [Schedule S](#), Line 22c by multiplying Schedule S, Line 22b by 7.5% (.075). You should follow the remaining instructions found on the D-400 and in the [2019 North Carolina Individual Income Tax Instructions](#), (“D-401”).

**If you have filed** your [D-400](#), you may file an amended return to reflect the change to the medical and dental expense threshold. You must follow the instructions for amending returns found in the [D-401](#). In addition, you should calculate the amount on [Schedule S](#), Line 22c by multiplying Schedule S, Line 22b by 7.5% (.075). You should then follow the remaining instructions found on the D-400 and in the D-401.

If you file an amended [D-400](#), you must file the return within the statute of limitations for obtaining a refund. In general, the statute of limitations for obtaining a refund is the later of (1) three years after the due date of the return; or (2) two years after payment of the tax. See [N.C. Gen. Stat. § 105-241.6](#).

### **Assistance**

If you have any questions about this notice, you may call the North Carolina Department of Revenue Customer Interaction Center at 1-877-252-3052 (8:00 am until 5:00 pm EST, Monday through Friday), or write to Customer Service, PO Box 1168, Raleigh, NC 27602.

*To the extent there is any change to a statute or regulation, or new case law subsequent to the date of this notice, the provisions in this important notice may be superseded or voided. To the extent that any provisions in any other notice, directive, technical bulletin, or published guidance regarding the subject of this notice and issued prior to this notice conflict with this important notice, the provisions contained in this important notice supersede the previous guidance.*