



March 31, 2017

IMPORTANT NOTICE: SOME TURBOTAX® AND PROSERIES® USERS WHO DEDUCTED TUITION AND FEES FROM FEDERAL GROSS INCOME MAY NEED TO AMEND THEIR 2016 STATE TAX RETURN

On March 27, 2017, Intuit, Inc. (“Intuit”) notified the Department of Revenue (“Department”) of a calculation error in its 2016 TurboTax and ProSeries State tax products. Specifically, the “Qualified Tuition and Related Expenses” add back to federal adjusted gross income required under N.C. Gen. Stat. § 105-153.5(c2)(2) was not calculating correctly.

Background

Subject to certain income limitations, a taxpayer may be allowed to take an above-the-line deduction for qualified tuition and related expenses paid during the year for the taxpayer or the taxpayer's spouse or dependents. In general, qualified education expenses are amounts paid for tuition and fees required for the student's enrollment or attendance at an eligible educational institution. Required fees include amounts for books, supplies, and equipment used in a course of study if required to be paid to the institution as a condition of enrollment or attendance.

For tax years 2013 through 2016, North Carolina law decoupled from (did not follow) the Internal Revenue Code as it relates to the deduction for qualified tuition and fees. As a result, taxpayers are required to add back the amount of the deduction taken at the federal level for purposes of determining North Carolina taxable income. For more information on State's decoupling adjustments, see the Important Notice dated June 3, 2016 available from the Department's website, http://www.dornc.com/taxes/individual/impnotice060316_referenceupdate.pdf.

Tuition and Related Expense Calculation

In some cases, the 2016 TurboTax and ProSeries North Carolina software products did not correctly add back the amount of the deduction for tuition and related fees taken at the federal level. The tax products did correctly add back the qualified expenses that were deducted on the federal return for the taxpayer and the taxpayer's dependents, but did not correctly add back the qualified expenses associated with the taxpayer's spouse.

The issue, which affects a limited number of North Carolina taxpayers, was fixed on March 30, 2017. Intuit plans to directly contact affected taxpayers and tax professionals to assist them in completing North Carolina amended returns.

Next Steps and Assistance

Any person who filed a 2016 North Carolina individual income tax return prior to March 30, 2017, and whose federal adjusted gross income is impacted by this notice 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 is due (April 18, 2017 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 June 30, 2017. For the interest rate in effect after June 30, 2017, see www.dornc.com/taxes/rate.html.

TurboTax customers can get information at <http://turbotax.intuit.com/support/go/SLN98891>. Professional Tax preparers who filed tax returns with ProSeries can receive support at <https://accountants.intuit.com/support>

If you have any questions about this notice, you may call the Department's Tax Practitioner line at 919-754-2500 (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.