



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.