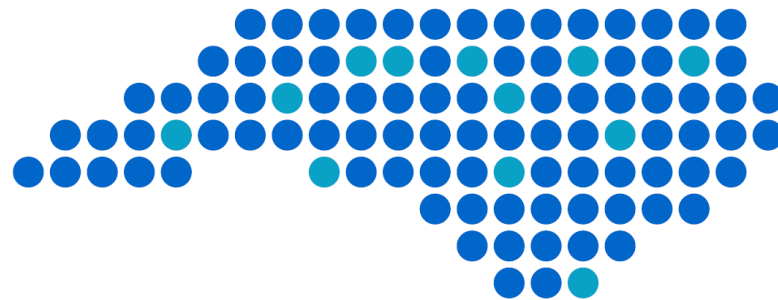


2014 Individual Income Tax Changes



Individual Income Tax Law changes effective for tax years beginning on or after January 1, 2014



CAUTION

The NC Department of Revenue provides this information as a courtesy to help keep you informed. As tax laws change, the way this information is applied may change as well. This information is generalized and should not be considered advice for your specific situation. If you would like to obtain specific tax advice that is binding on the Department, you may follow the procedure for requesting a letter ruling, which is located at www.dornc.com.

Overview

The Tax Simplification and Reduction Act (House Bill 998) was signed into law on July 23, 2013. Under this new law, all taxpayers will be taxed at a lower rate and be granted a higher standard deduction. The Act made significant changes to the individual income tax law for tax years beginning on or after January 1, 2014.

Individual Income Tax Rate Changes



Changes to Individual Income Tax Rate

- **Before Tax Year 2014:** There were three (3) rates. Your NC taxable income was taxed at a rate of 6, 7, or 7.75% depending on the amount of your North Carolina Taxable Income.
- **Tax Year 2014:** All NC taxpayers will be taxed at the same rate. This rate is 5.8% for tax year 2014. The tax rate is scheduled to decrease to 5.75% for tax year 2015.

Rates	2013 and Prior (Tiered)	2014	2015 and After
Individual Income Tax Rate	6% 7% 7.75%	5.8%	5.75%

NCDOR

NORTH
CAROLINA
DEPARTMENT
OF REVENUE

Standard Deduction



Changes to North Carolina Standard Deduction

- **Before Tax Year 2014:** The NC standard deduction for most people was \$3,000, \$6,000, or \$4,400 depending on your filing status.
- **Tax Year 2014:** The NC standard deduction has increased to \$7,500, \$15,000, or \$12,000 depending on your filing status.

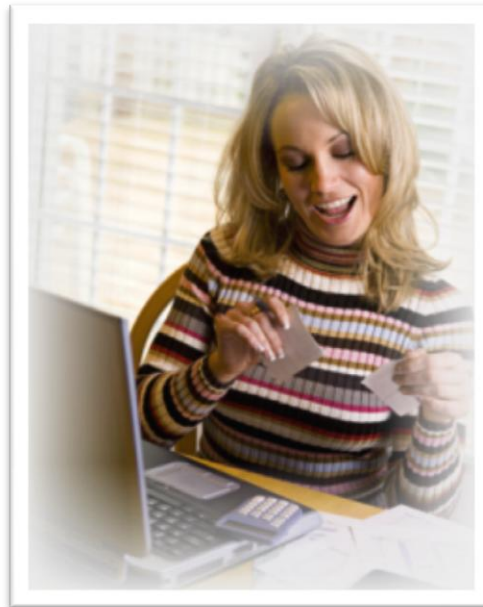
Filing Status	Previous Standard Deduction 2013 and Prior	New Standard Deduction 2014 and After
Single	\$3,000	\$7,500
Married filing jointly / Qualifying widow(er)	\$6,000	\$15,000
Married filing separately	\$3,000	\$7,500
Head of Household	\$4,400	\$12,000



The NC standard deduction may be greater than your allowable NC itemized deductions.

Please choose what is best for your specific situation!

Itemized Deductions



Changes to North Carolina Itemized Deductions

- **Prior to Tax Year 2014:** Most taxpayers were able to claim the same amount of itemized deductions on their NC individual income tax return as on their federal individual income tax return.
- **Tax Year 2014:** North Carolina no longer allows all of the itemized deductions claimed on the federal return. North Carolina's itemized deductions include:

Itemized Deductions	2013 and Prior	2014 and After
Medical and Dental	✓	
Real Estate Taxes	✓	✓
Personal Property Taxes	✓	
Home Mortgage Interest	✓	✓
Charitable Contributions	✓	✓
Job Expenses	✓	

New Guidelines for Itemized Deductions!

- The remaining itemized deductions that can be claimed on your NC return are:
 - Qualified charitable contributions
 - There is no limit on charitable contributions other than those set forth under the Internal Revenue Code.
 - Mortgage interest and property taxes paid on real estate
 - A cap of \$20,000 is placed on the sum of the mortgage interest and property taxes you can claim.
 - You cannot claim personal property tax.

These are the itemized deductions allowed for North Carolina:

- Home mortgage interest and property taxes paid on real estate, limited to the sum of \$20,000
- Charitable contributions

The NC standard deduction may be greater than your allowable NC itemized deductions. Please choose what is best for your specific situation!

Reminder

SCHEDULE A (Form 1040)		Itemized Deductions		OMB No. 1545-0074
Department of the Treasury Internal Revenue Service (IRS)		Information about Schedule A and its separate instructions is at www.irs.gov/schedufoa .		2013 Attachment Sequence No. 07
Name(s) shown on Form 1040		Attach to Form 1040.		Your social security number
Caution. Do not include expenses reimbursed or paid by others.				
Medical and Dental Expenses	1	Medical and dental expenses (see Instructions)	1	
	2	Enter amount from Form 1040, line 38	2	
	3	Multiply line 2 by 10% (.10). But if either you or your spouse was born before January 2, 1949, multiply line 2 by 7.5% (.075) instead	3	
	4	Subtract line 3 from line 1. If line 3 is more than line 1, enter -0-	4	
Taxes You Paid	5 State and local (check only one box):			
	a <input type="checkbox"/> Income taxes, or			
	b <input type="checkbox"/> General sales taxes			
	6	Real estate taxes (see Instructions)	6	
	7	Personal property taxes	7	
8	Other taxes. List type and amount	8		
9		Add lines 5 through 8	9	
Interest You Paid	10	Home mortgage interest and points reported to you on Form 1098	10	
	11	Home mortgage interest not reported to you on Form 1098. If paid to the person from whom you bought the home, see Instructions and show that person's name, identifying no., and address	11	
Note. Your mortgage interest deduction may be limited (see instructions).				
12	Points not reported to you on Form 1098. See Instructions for special rules	12		
13	Mortgage insurance premiums (see Instructions)	13		
14	Investment interest. Attach Form 4952 if required. (See Instructions.)	14		
15		Add lines 10 through 14	15	
Gifts to Charity	16	Gifts by cash or check. If you made any gift of \$250 or more, see Instructions	16	
	17	Other than by cash or check. If any gift of \$250 or more, see Instructions. You must attach Form 8283 if over \$500	17	
	18	Carryover from prior year	18	
	19		Add lines 16 through 18	19
20		Casualty or theft loss(es). Attach Form 4684. (See Instructions.)	20	
Job Expenses and Certain Miscellaneous Deductions	21	Unreimbursed employee expenses—job travel, union dues, job education, etc. Attach Form 2106 or 2106-EZ if required. (See Instructions.)	21	
	22	Tax preparation fees	22	
	23	Other expenses—investment, safe deposit box, etc. List type and amount	23	
	24		Add lines 21 through 23	24
25	Enter amount from Form 1040, line 38	25		
26	Multiply line 25 by 2% (.02)	26		
27		Subtract line 26 from line 24. If line 26 is more than line 24, enter -0-	27	
28		Other—from list in Instructions. List type and amount	28	
Total Itemized Deductions	29 Is Form 1040, line 38, over \$150,000?			
	<input type="checkbox"/> No. Your deduction is not limited. Add the amounts in the far right column for lines 4 through 28. Also, enter this amount on Form 1040, line 40.			
	<input type="checkbox"/> Yes. Your deduction may be limited. See the Itemized Deductions Worksheet in the Instructions to figure the amount to enter.			
30		If you elect to itemize deductions even though they are less than your standard deduction, check here		

NCDOR

NORTH
CAROLINA
DEPARTMENT
OF REVENUE

Children and Dependents



Changes to Credits and Allowances for Children and Dependents

- Before Tax Year 2014: Taxpayers were allowed to claim personal exemption allowances for themselves, their spouse, their children, or any other qualifying dependents, the child tax credit, the tax credit for child care expenses, and the earned income tax credit.
- Tax year 2014: Taxpayers are only allowed to claim the child tax credit

Credits and Deductions	2013 and Prior	2014 and After
Child Tax Credit	✓	✓
Personal Exemption Allowance	✓	
Child care expenses credit	✓	
Earned Income Tax Credit	✓	

2014 Child Tax Credit

- The child tax credit has increased to \$125 for taxpayers whose federal adjusted gross income is less than the following:
 - \$40,000 (Married Filing Jointly);
 - \$32,000 (Head of Household);
 - \$20,000 (Single or Married Filing Separately)
- The credit remains \$100 for taxpayers whose federal adjusted gross income exceeds the thresholds above but does not exceed:
 - \$100,000 (Married Filing Jointly);
 - \$80,000 (Head of Household);
 - \$50,000 (Single or Married Filing Separately)



NCDOR

NORTH
CAROLINA
DEPARTMENT
OF REVENUE

Business Owners



Business Credits and Deductions

- **Before Tax Year 2014:** Qualified business owners were allowed a deduction for net business income that is not considered passive under the Internal Revenue Code (up to \$50,000) and credits for qualified business investments and for investments in growing businesses.
- **Tax Year 2014:** Qualified business owners are only allowed to take credit for qualified business investments made prior to January 1, 2014 and for investments in growing businesses made prior to January 1, 2014.

Credits and Deductions	2013 and Prior	2014 and After
Net Business Income Deduction	✓	
Credit for Qualified Business Investments	✓	✓
Business Incentive	✓	✓

(Installment and carryforwards are allowed on qualifying activities occurring prior to 2014)

2014 Business Credits

- The remaining business credits that can be claimed on your NC return are:
 - Credit for Qualified Business Investments
 - A tax credit is allowed for qualifying investments in the equity securities or subordinated debt of a qualified business venture, qualified grantee business, or qualified licensee business. For 2014 the credit is for qualifying investments made during calendar year 2013.
 - Growing Business and Energy Tax Credits
 - Tax credits are available as incentives to new and expanding businesses or for investing in renewable energy property, low-income housing, rehabilitation of historic structures, or for the production of a film, or a television or radio program.
 - See Instructions for 2013 NC-478 Series, General Instructions, for more details.

NCDOR

NORTH
CAROLINA
DEPARTMENT
OF REVENUE

Retirement



Changes to Deduction for Retirement Benefits

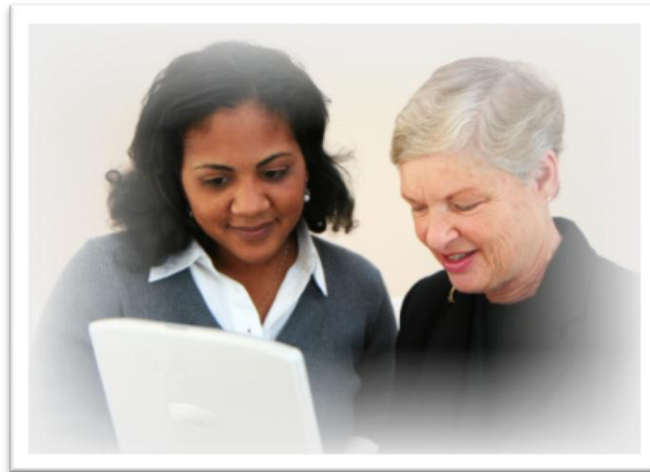
- **Before Tax year 2014:** Taxpayers were allowed a deduction on their NC return for government retirement income (up to \$4,000) and private retirement income (up to \$2,000), retirement benefits received by vested NC State government, NC local government, or Federal Government Retirees under the Bailey settlement, and taxable social security.
- **Tax Year 2014:** The deductions for retirement benefits received pursuant to the Bailey settlement and Taxable Social Security are still allowed.

Deductions	2013 and Prior	2014 and After
\$4,000 Government Retirement Deduction	✓	
\$2,000 Private Retirement Deduction	✓	
Bailey Retirement Deduction	✓	✓
Social Security Deduction	✓	✓

2014 Retirement Deductions

- The remaining retirement deductions that can be claimed on your NC return are:
 - Retirement benefits received by qualified NC State, NC Local, and federal government (Bailey settlement) retirees
 - Qualifications include:
 - Retirees that had five or more years of creditable service as of August 12, 1989.
 - Retirees that received retirement benefits from the State's 401 (k) and 457 plans and had contributed or contracted to contribute to the plan prior to August 12, 1989.
- Taxable Social Security
 - You may take a deduction if any portion of your social security or railroad retirement benefits were included in federal adjusted gross income

Deductions from Federal Adjusted Gross Income (AGI)



Changes to Deductions from Federal AGI

- Tax Year 2014: The deductions for other retirement benefits, severance wages, and net business income not considered passive under Internal Revenue Code are eliminated.

Deductions from Federal AGI	2013 and Prior	2014 and After
State or local income tax refund	✓	✓
Interest Income from obligations of United States	✓	✓
Taxable portion of Social Security	✓	✓
Bailey Retirement	✓	✓
Other Retirement benefits	✓	
Severance Wages	✓	
Deduction for Bonus Depreciation	✓	✓
Deduction for Section 179	✓	✓
Business Income Deduction	✓	
Other deductions	✓	✓

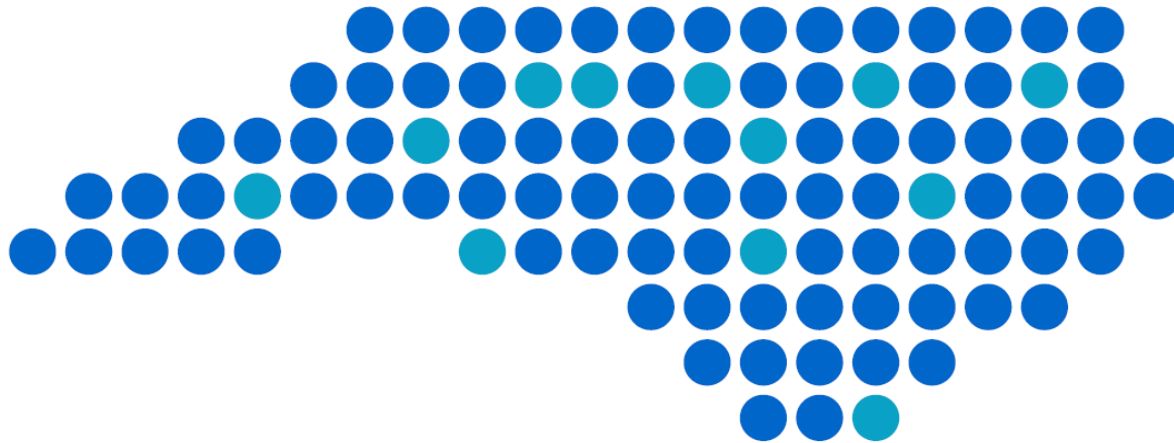
2014 Deductions

- The remaining deductions from federal AGI that can be claimed on your NC return include:
 - State or local income tax refund
 - [Interest income](#) from obligations of the United States or United States' possessions;
 - [Taxable portion](#) of Social Security and Railroad Retirement Benefit included in federal AGI;
 - [Retirement benefits](#) received by vested N.C. State government retirees, N.C. local governments retirees, or federal government retirees;
 - Deduction for [bonus depreciation](#);
 - Deduction for [Section 179 expense](#);
 - Other deductions from federal AGI.

NCDOR

NORTH
CAROLINA
DEPARTMENT
OF REVENUE

Resources



Individual Income Education

- An easy to understand one page document, to quickly highlight the major changes for taxpayers in 2014



2014 NORTH CAROLINA INDIVIDUAL INCOME TAX LAW CHANGES

The Tax Simplification and Reduction Act (House Bill 998) was signed into law on July 23, 2013. Under this new law, all taxpayers will be taxed at a lower rate and be granted a higher standard deduction. The Act made significant changes to the individual income tax law for tax years beginning on or after January 1, 2014.

As the 2014 tax filing season approaches, please consider the following key changes to the 2014 individual income tax law.

Tax Rate – The North Carolina individual income tax rate is now the same for all filing statuses and has been reduced to 5.8%. The tax rate is scheduled to be reduced to 5.75% for 2015.

Standard Deduction – The amount of the North Carolina standard deduction has increased for all filing statuses.

Filing Status	Previous Standard Deduction For 2013	New Standard Deduction For 2014
Single	\$3,000	\$7,500
Married filing jointly / qualifying widow(er)	\$6,000	\$15,000
Married filing separately	\$3,000	\$7,500
Head of household	\$4,400	\$12,000

Itemized Deductions – North Carolina's itemized deductions are no longer identical to the federal itemized deductions and include the following:

- Charitable contributions
- Mortgage interest paid or accrued on a qualified residence
- Property taxes paid or accrued on real estate

(The combined deductions for mortgage interest and property taxes cannot exceed \$20,000.)

Children and Dependents

- The child tax credit for children under age 17 may increase for certain taxpayers.

The following are no longer available:

- Personal exemption allowance for you, your spouse, your children, or any other qualifying dependents
- Credit for child and dependent care expenses
- Earned income tax credit (EITC)

Business Owners

- The deduction for up to \$50,000 of net business income is no longer available.

Retirees

- The deductions for retirement benefits received from vested NC State government, NC local government, or federal government retirees pursuant to the Bailey settlement are still available.
- The deduction for taxable Social Security benefits is still available.
- The deductions for other government retirement income (up to \$4,000) and private retirement income (up to \$2,000) are no longer available.

For a complete list of 2014 individual income tax law changes and additional information, visit our website at www.dornc.com.

Individual Income Tax Estimator

- The North Carolina Department of Revenue introduced a tax estimator that taxpayers can use to calculate the amount of their refunds or tax due balances for the current tax year (2014).
 - **There are two versions of the estimator:**
 - EZ version for those who will take the standard deduction
 - Standard version for those who will itemize deductions for North Carolina.
- The estimator was designed as a tool for taxpayers to use in planning whether to adjust their North Carolina withholding taxes.
 - If a taxpayer finds that he/she has a balance due, he/she can decrease allowances by submitting a new Form NC-4.

Individual Income Tax Estimator

EZ Version

North Carolina Income Tax Estimator

Please fill in all applicable boxes highlighted in yellow

Personal Information	
Number of children under age 17	
Single Married Filing Separate (MFS) Married Filing Jointly (MFJ) Widow/Widower Head of Household (HOH)	Single
Standard Deduction	\$ 7,500.00
Last full month of wages	June 30
Year to date North Carolina Tax Withheld	

\$0.00

Estimated Refund or Amount Due
Note: Negative Number represents Refund

Estimated North Carolina Taxable income

\$ (7,500.00)

Estimated North Carolina Tax

\$ -

Please enter Income for the entire year (not year-to-date)
 If using Married Filing Joint, please enter income for both spouses

Income	
Taxable portion of - Wages, salaries, tips, etc.	
Taxable interest	
Unemployment compensation	

Standard Version

North Carolina Income Tax Estimator

Please fill in all applicable boxes highlighted in yellow

Personal Information	
Number of children under age 17 at the last day of the tax year	
Single Married Filing Separate (MFS) Married Filing Jointly (MFJ) Widow/Widower Head of Household (HOH)	Single
Standard Deduction	\$ 7,500.00
Last full month of wages	June 30
Year to date North Carolina Tax Withheld	

\$0.00

Estimated Refund or Amount Due
Note: Negative Number represents Refund

Estimated North Carolina Taxable income

\$ (7,500.00)

Estimated North Carolina Tax

\$ -

Please enter Income and Deductions for the entire year (not year-to-date)
 If using the estimator as Married Filing Joint, please enter income and deductions for both spouses

Income	Deductions
Taxable portion of - Wages, salaries, tips, etc.	Health saving account deduction
Taxable interest	Moving expenses
Ordinary dividends	Deductible part of self-employment tax
Qualified dividends	Self-employment SEP, SIMPLE, and qualified plans
Alimony received	Self-employment health insurance deduction
Business income or (loss)	Alimony paid
Capital gain or (loss)	IRA deduction
IRA distributions	Student loan interest deduction
Pensions and annuities other than Rollover Pensions	Charitable contributions
Rollover Pensions	Mortgage Interest
Rental real estate, royalties, partnerships, S corporations, trusts, etc.	Real Estate Taxes Paid
Farm income or (loss)	
Unemployment compensation	
Taxable portion of Social Security	
Other income	

NC Standard Deduction	NC Itemized Deduction
\$7,500.00	\$0.00

This estimator will calculate your tax liability using the higher of your NC Standard Deduction or your NC Itemized Deduction.

North Carolina Income

Please fill in all applicable boxes

Personal Information

Number of children under age 17	2
Single Married Filing Separate (MFS) Married Filing Jointly (MFJ) Widow/Widower Head of Household (HOH)	Single
Standard Deduction	\$ 7,5
Last full month of wages	June
Year to date North Carolina Tax Withheld	\$

Enter your number of children under age 17

North Carolina Income Tax Estimator

Please fill in all applicable boxes highlighted in yellow

Personal Information	
Number of children under age 17	
Single Married Filing Separate (MFS) Married Filing Jointly (MFJ) Widow/Widower Head of Household (HOH)	Single
Standard Deduction	Single
Last full month of wages	MFJ
Year to date North Carolina Tax Withheld	

\$0.00
Estimated Refund or Amount Due <i>Note: Negative Number represents Refund</i>
Estimated North Carolina Taxable income \$ (7,500.00)
-

Use drop down menu to choose filing status

Please enter Income for the entire year
If using Married Filing Joint, please enter in

Income	
Taxable portion of - Wages, salaries, tips, etc.	
Taxable interest	
Unemployment compensation	

Earnings Statement							
EMPLOYEE NO.	EMPLOYEE NAME		SOCIAL SECURITY NO	PERIOD BEG	PERIOD END	CHECK DATE	
045345	JOHN J. DOE		xxx-xx-9898	6/1/2014	6/30/2014		
EARNINGS		HOURS	RATE	CURRENT AMOUNT	WITHHOLDINGS/DEDUCTIONS	CURRENT AMOUNT	YEAR TO DATE
REGULAR PAY		87.60		2307.69	STATE TAX AMT	87.69	350.77
					DEFERRED CMP	0.00	0.00
					FED TAX AMT	281.54	1126.15
					HI TAX	33.46	133.85
					OASDI	96.92	387.69
YTD EARNINGS		YTD DEDUCTIONS		YTD NET PAY		CHECK NO.	
9230.77		1998.46		7232.31		48974	

North Carolina Income Tax Estimator

Please fill in all applicable boxes highlighted in yellow

Personal Information	
Year to date North Carolina Withholding	Single
Head of Household (HOH)	
Standard Deduction	\$ 7,500.00
Last full month of wages	June 30
Year to date North Carolina Tax Withheld	

\$0.00	
Month Ending	Amount Due Payments Refund
Estimated North Carolina Taxable income	\$ (7,500.00)
Estimated North Carolina Tax	\$ -

Please enter Income for the entire year (not year-to-date)
If using Married Filing Joint, please enter income for both spouses

Income	
Taxable portion of - Wages, salaries, tips, etc.	
Taxable interest	
Unemployment compensation	

Earnings Statement						
EMPLOYEE NO.	EMPLOYEE NAME		SOCIAL SECURITY NO	PERIOD BEG.	PERIOD END	CHECK DATE
045345	JOHN J. DOE		xxx-xx-9898	6/1/2014	6/30/2014	
EARNINGS	HOURS	RATE	CURRENT AMOUNT	WITHHOLDINGS/DEDUCTIONS	CURRENT AMOUNT	YEAR TO DATE
REGULAR PAY			2307.69	STATE TAX AMT DEFERRED CMP	87.69 0.00	350.77 0.00
CURRENT AMOUNT	CURRENT DEDUCTIONS	NET PAY				
2307.69	499.62	1808.08				

Monthly Taxable Earnings multiplied by 12 months
 $(\$2,307.69 \times 12 = \$27,692.28)$

North Carolina Income Tax Estimator

Please fill in all applicable boxes highlighted in yellow

Personal Information	
Number of children under age 17	
Single Married Filing Separate (MFS) Married Filing Jointly (MFJ) Widow/Widower Head of Household (HOH)	Single
Standard Deduction	\$ 7,500.00
Last full month of wages	June 30
Year to date North Carolina Tax Withheld	

\$0.00	
Estimate	(7,500.00)
Monthly taxable earnings multiplied by 12 months $(2,307.69 \times 12) = \$27,692.28$	
	-

Please enter **Income for the entire year (not year-to-date)**
 If using Married Filing Joint, please enter income for both spouses

Income	
Taxable portion of - Wages, salaries, tips, etc.	
Taxable interest	
Unemployment compensation	

North Carolina Income Tax Estimator

Please fill in all applicable boxes highlighted in yellow

Personal Information	
Number of children under age 17	2
Single Married Filing Separate (MFS) Married Filing Jointly (MFJ) Head of Household (HOH)	Single
Income	7,500.00
Income tax year	June 30
Year to date North Carolina Tax Withheld	\$ 350.77

**Balance due of
\$269.61**

\$269.61
<i>Estimated Refund or Amount Due</i> <i>Note: Negative Number represents Refund</i>
Estimated North Carolina Taxable income \$ 20,192.28 Estimated North Carolina Tax \$ 1,171.15

Please enter Income for the entire year (not year-to-date)
 If using Married Filing Joint, please enter income for both spouses

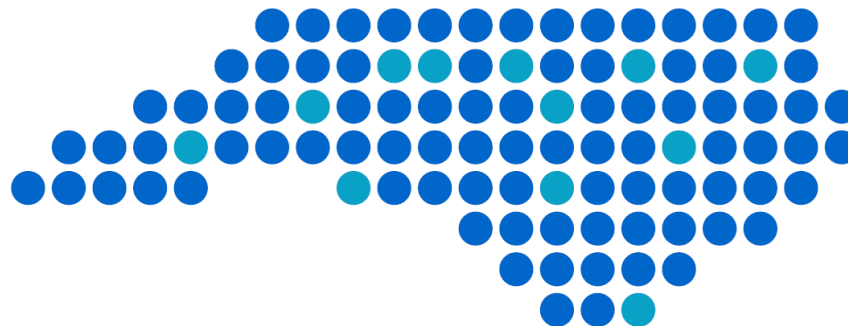
Income	
Taxable portion of - Wages, salaries, tips, etc.	\$ 27,692.28
Taxable interest	
Unemployment compensation	

Resources

- Website: www.dornc.com
- Phone: 1-877-252-3052
- Income Tax Estimator
 - This application can help estimate individual income tax refund or liability amount.

Service Centers

- Asheville
- Charlotte
- Durham
- Elizabeth City
- Fayetteville
- Greensboro



- Greenville
- Hickory
- Raleigh
- Wilmington
- Winston-Salem