

The references to line numbers on federal income tax forms were correct at the time the forms were finalized. If they have changed and you are unable to determine the proper line to use, please contact the Department of Revenue. These instructions are to be used as a guide in the preparation of a North Carolina partnership income tax return and are not intended to cover all provisions of the law. For further information on North Carolina tax law, refer to administrative rules, bulletins, directives, and other publications issued by the Department of Revenue ("Department"), as well as opinions issued by the Attorney General's office.

GENERAL INFORMATION

Who Must File a North Carolina Partnership Tax Return?

A partnership doing business in North Carolina that is required to file a federal partnership return must file a North Carolina information return for the taxable year. The term "partnership" includes a limited liability company that is classified for federal income tax purposes as a partnership as well as a publicly traded partnership whereby the partners' distributive share of the partnership's net income during the tax year is more than five hundred dollars (\$500.00).

What Does "Doing Business in North Carolina" Mean?

The term "doing business in North Carolina" means the operation of any business enterprise or activity in North Carolina for economic gain, including, but not limited to, the following:

- The maintenance of an office or other place of business in North Carolina;
- The maintenance in North Carolina of an inventory of merchandise or material for sale, distribution or manufacture, regardless of whether kept on the premises of the taxpayer or in a public or rented warehouse;
- The selling or distributing of merchandise to customers in North Carolina directly from a company-owned or operated vehicle when title to the merchandise is transferred from the seller or distributor to the customer at the time of the sale or distribution;
- The rendering of a service to clients or customers in North Carolina by agents or employees of a foreign partnership;
- The owning, renting, or operating of business or income-producing property in North Carolina including, but not limited to, the following:
 - (A) Realty;
 - (B) Tangible personal property;
 - (C) Trademarks, tradenames, franchise rights, computer programs, copyrights, patented processes, licenses.

In addition, a partnership that is a partner in another partnership or joint venture operating in North Carolina is considered to be "doing business in North Carolina." **Exception:** A partnership whose only activity is as an investment partnership is not considered to be "doing business in North Carolina" and is not required to file a return in North Carolina or pay income tax to North Carolina on behalf of its nonresident partners. (For more information on investment partnerships see 17 North Carolina Administrative Code 06B .3503.)

What Forms Should a Partnership File?

Form D-403. Every partnership required to file a North Carolina information return must file Form D-403. The information return must contain all of the information required by the Secretary, including the partnership's gross income, the deductions allowed under the Internal Revenue Code ("Code"), each partner's distributive share of the partnership's income, and any North Carolina adjustments. Importantly, for North Carolina tax purposes, a partner's distributive share of income includes any guaranteed payments made to the partner from the partnership.

Important: With the exception of Part 5 and Part 6, attachments may not be used as a substitute for completing Form D-403. If supporting documents are required, taxpayers who mail a paper copy of Form D-403 to the Department must attach the supporting documents behind the tax return. The supporting documents must contain all required information (including the partnership's federal identification number), follow the format of the official schedules, and must be attached in the same sequence as the schedules appear on Form D-403.

Form NC-PE. Every partnership required to add certain North Carolina adjustments to the partnership's total income (or loss), or allowed to deduct certain North Carolina adjustments from the partnership's total income (or loss), must complete Form NC-PE and attach it to Form D-403. *(For more information see Page 6 of these instructions.)*

Form D-403TC. If the partnership is entitled to claim a North Carolina tax credit and the partnership has allocated some or all of the tax credit to its nonresident owners or partners on whose behalf the partnership is required to pay North Carolina income tax, the partnership must complete Form D-403TC, Partnership Tax Credit Summary. Include Form D-403TC with Form D-403. Attach a separate schedule showing the computation of any tax credits and the allocation of the credits among the partners.

If the partnership claims any tax credit that is limited to 50% of the partnership's tax, less the sum of all other credits claimed, complete Form NC-478 and attach it to the front of Form D-403. The partnership must provide sufficient information about the tax credits to allow the partner to complete the Form NC-478 series.

Schedule NC K-1. Schedule NC K-1 is used by the partnership to report each partner's share of the partnership's income, adjustments, tax credits, etc. The Schedule NC K-1 must reflect the net tax paid by the partnership. Prepare and give a Schedule NC K-1 to each person who was a partner in the partnership at any time during the year. Schedule NC K-1 must be provided to each partner on or before the day on which the partnership return is required to be filed. When reporting the distributive share of tax credits, provide a list of the amount and type of tax credits. Any amount reported as tax paid by the manager of the partnership should include the partner's share of amounts paid with extension and by other partnerships, if applicable. **Important:** If the partner is a disregarded entity, enter the Beneficial Owner's identification number, name, and address in the Partner's Identifying Number and Partner's Name, Address, and Zip Code fields of the Information About the Partnership section of the NC K-1.

NC K-1 Supplemental Schedule. NC K-1 Supplemental Schedule is used by the partnership to report to each partner, the partner's share of North Carolina adjustments reported by the partnership on Form NC-PE. (For more information see Page 6 of these instructions.)

Who Can Sign the Return?

Form D-403 must be signed by the managing partner. If the return is prepared by a person or firm other than a partner, it must also be signed by the one preparing the return. If the partnership is a limited partnership, the return must be signed by a general partner. The managing partner should provide a telephone number where the general partner may be reached during the day if the Department needs additional information to process the return.

If the partnership wants to allow a paid preparer to discuss certain tax matters with the Department, the managing partner must check the applicable box located in the signature area on Page 5 of Form D-403. If the box is checked, the managing partner is authorizing the Department to call the paid preparer to answer any questions that may arise during the processing of the return. The managing partner is also authorizing the paid preparer to:

- Give the Department any information that is missing from the return;
- Call the Department for information about the processing of the return or the status of the refund or payment(s);
- Receive copies of notices or transcripts related to the return, upon request; and
- Respond to proposed notices of assessment or notices of adjustment.

Important: The managing partner is not authorizing the paid preparer to receive any refund check, bind the partnership to anything (including any additional tax liability), or otherwise represent the partnership before the Department regarding audit activity or a request for a Departmental review of a proposed assessment or a proposed denial of refund. Those types of matters require a Power of Attorney, GEN-58, to be filed with the Department. Paid preparer authority is extended only to an individual paid preparer, not to employees of a company. (For more information on Power of Attorney, visit the Department's website.)

When Must the Return be Filed?

A partnership must file Form D-403 by the 15th day of the 4th month following the date the partnership's tax year ended. For example, for calendar year partnerships, the due date is April 15th.

If the due date falls on a Saturday, Sunday, or legal holiday in North Carolina or in the District of Columbia, a return filed by the next business day after the Saturday, Sunday, or legal holiday will be considered timely filed. For 2021, calendar year partnership returns will be considered timely filed if they are filed with the Department by April 18, 2022. (For more information on timely mailing of N.C. tax returns, see [Directive TA-18-1](#) available on the Department's website.)

For North Carolina tax purposes, a partnership must use the same tax year that was used for federal tax purposes. Importantly, the partnership must file a Form D-403 for the form year in which tax year begins. For example, a partnership whose tax year begins January 1, 2021, must use the 2021 Form D-403.

The 2021 Form D-403 may also be used if:

- The partnership has a tax year of less than 12 months that begins

in 2021. If the partnership's tax year is less than 12 months, fill in the beginning and ending dates for the tax year and fill-in the "Short Period" circle located on Page 1 of Form D-403.

- The 2022 Form D-403 is not available at the time the partnership is required to file its return.

Important: Effective for taxable years beginning on or after January 1, 2022, certain partnerships may elect to pay North Carolina income tax at the partnership level. If the partnership wishes to make this election, see the Department's website for additional information.

Returns submitted to the Department that do not meet the specified criteria will be returned to the taxpayer with instructions to refile the return on an acceptable form.

Can a Partnership Get an Extension to File?

A partnership that is granted an automatic extension to file its federal income tax return will be granted an automatic extension to file its corresponding North Carolina income tax return if the partnership certifies on Form D-403 that the partnership received an automatic federal extension. **Important:** The partnership must certify that the partnership was granted an automatic extension to file the federal partnership tax return by filling in the "Federal Extension" circle located on Page 1 of Form D-403. A partnership that fails to file Form D-403 correctly will be subject to interest and applicable penalties.

If the partnership is not granted an automatic federal extension to file the federal partnership tax return, the partnership may still request an extension of time to file Form D-403 by filing Form D-410P, Application for Extension for Filing Partnership, Estate, or Trust Tax Return, by the original due date of the return. **Important:** Without a valid extension, an information return filed after the original due date is delinquent and is subject to interest and all applicable penalties provided by law.

A partnership is not required to send a payment of tax it estimates as due, to receive the extension; however, it will benefit the partnership to pay as much as it can with the extension request. An extension of time for filing the partnership return does not extend the time for paying the tax due. A partnership may file the return at any time within the extension period, but it must be filed on or before the end of the extension period to avoid the late filing penalty.

Where Do I File the Return?

If the partnership chooses not to e-file the partnership return, mail the return, any payment due, and Form D-403V to the following address:

**N.C. DEPARTMENT OF REVENUE
P.O. BOX 25000
RALEIGH, NC 27640-0640**

For information on e-file, visit the Department's website.

What Tax Credits are Available to Partnerships?

All tax credits available to individuals are available to partnerships, except the tax credit for income taxes paid to other states.

A partnership may pass through to each of its partners the partner's distributive share of an income tax credit for which the partnership qualifies. Any dollar limit on the amount of a tax credit applies to the partnership as a whole instead of to the individual partners. Maximum dollar limits and other limitations that apply in determining

the amount of tax credit available to a taxpayer apply to the same extent in determining the amount of tax credit for which a partnership qualifies with one exception. The exception is a limitation that the tax credit cannot exceed the tax liability of the taxpayer.

If there is a nonresident partner whose share of tax is being paid by the manager of the partnership and the partnership claims a tax credit, complete Form D-403TC, Partnership Tax Credit Summary, and include the form with the partnership return. Attach a separate schedule showing the computation of any tax credits and the allocation of the credits among the partners.

If claiming any tax credit that is limited to 50% of the partnership's tax, less the sum of all other credits claimed, complete Form NC-478 and attach it to the front of the partnership return. The partnership must provide sufficient information about the tax credits to allow the partner to complete the Form NC-478 series.

Is a Partnership Required to Pay Estimated Tax?

A partnership is not required to make estimated income tax payments; however, if the partnership makes any prepayments of tax, enter the prepayment on Part 1, Line 14d Other Payments. A resident individual partner who meets the statutory requirements must file estimated tax on Form NC-40. *(For information on the requirements for paying estimated income tax, see Form D-401, North Carolina Individual Income Tax Instructions, available from the Department's website.)* A nonresident individual partner is not required to pay estimated tax on his distributive share of partnership income.

Does a Partnership Have a Payment Responsibility if it has Nonresident Partners?

If a partnership is required to file a North Carolina tax return and has one or more nonresident partners, the managing partner is responsible for reporting each nonresident partner's distributive share of the partnership's income and is required to compute and pay the tax due for each nonresident partner. If the nonresident partner is a corporation, partnership, trust, or estate, the managing partner is not required to pay the tax on that partner's share of the partnership income provided the partner files Form NC-NPA, Nonresident Partner Affirmation by the due date of the Partnership's North Carolina tax return.

If the additional tax is owed, the partnership may pay the tax online by bank draft (free), or by credit or debit card using Mastercard or Visa (\$2 convenience fee for every \$100 paid). This online service is accurate, secure, and convenient. For details, visit the Department's website.

Form NC-NPA. Form NC-NPA affirms that the partner will pay the tax with its corporation, partnership, trust, or estate income tax return. In such cases, a copy of Form NC-NPA must be attached to the partnership return when it is originally filed. The Form NC-NPA must be signed by the partner. An unsigned form is not considered valid. A new Form NC-NPA must be provided annually by the nonresident partner and submitted by the managing partner by the due date of the partnership return. The signed Form NC-NPA applies to the original return, any amended return for that year, and any proposed assessments of additional tax for that year.

A nonresident partner that is an individual or grantor trust cannot file Form NC-NPA, and the managing partner is required to compute and pay the tax due for all nonresident partners that are individuals or grantor trusts. A nonresident individual partner is not required to file a North Carolina income tax return when the only income from

North Carolina sources is the nonresident's share of income from a partnership doing business in North Carolina, and the manager of the partnership pays the tax due for the nonresident partner. Payment of the tax due by the managing partner on behalf of corporations, partnerships, trusts, or estates that are partners does not relieve the partner from filing a North Carolina tax return. Credit for the tax paid by the managing partner on its behalf may be claimed on the partner's income tax return. The manager is authorized by statute to withhold the tax due from each nonresident partner's share of the partnership income. **Note:** If a nonresident partner is a tax-exempt organization as described in Section 501 of the Internal Revenue Code, the managing partner is not required to pay the tax unless the partnership income is from a business enterprise not related to the organization's tax-exempt purpose. Also, the managing partner is not required to pay the tax for nonresident partners who serve as investment vehicles for investing in IRAs and other qualified retirement plans.

Will a Partnership Owe Interest and Penalties?

Interest. If the managing partner does not pay the total amount of taxes owed for each nonresident partner, the Department is required to charge interest on any unpaid tax. Interest is computed at the applicable rate from the original due date to the date of payment, regardless of whether the partnership has been granted an extension. To obtain the current interest rate, visit the Department's website. If the partnership pays tax for nonresident partners after the original due date, compute the amount of interest due and include the interest on Form D-403, Line 21b.

Failure to File an Informational Return. If a partnership files Form D-403 after the original due date of the return or the extended due date of the return, whichever is later, the partnership is subject to a penalty for failure to timely file an informational return. The penalty for failure to timely file an informational return applies regardless of whether Form D-403 reflects a tax due, an overpayment, or no tax due. *(For more information on penalties, see Page 5 of these instructions.)*

Failure to File Penalty. If a partnership files Form D-403 after the original due date of the return or the extended due date of the return, whichever is later, and the return reflects tax due for nonresident partners, the partnership is subject to a penalty for failure to timely file a tax return. *(For more information on penalties, see Page 5 of these instructions.)*

Failure to Pay Penalty. If a partnership files Form D-403 after the original due date of the return and the return reflects tax due for nonresident partners, the partnership is subject to a penalty for failure to pay a tax when due. *(For more information on penalties, see Page 5 of these instructions.)*

Before You Begin?

If you are filling out Form D-403 by hand, please use black or blue ink only. Do not use red ink or pencil. Print your letters and numbers neatly. Do not use brackets or other symbols to indicate the amount is negative. If you do not have an entry for a particular line, leave it blank. Do not use dashes, zeros or other symbols to indicate that you have no entry for that line. If an amount is negative, enter the amount and fill in the circle next to the line number to indicate that the amount is negative. For example:

● , 12 , 345 .00

If you are completing a web-fill form on the Department's website,

enter a minus sign to indicate a negative number. For example:

-12345.00

Demographic and Other Taxpayer Information

Name, Address, and Identification Numbers. Print or type the partnership's name, address, Federal Employer Identification Number, and North Carolina Secretary of State number (when applicable) on the appropriate lines.

Federal Extension. Fill in the applicable circle if the partnership was granted an automatic extension to file the partnership's 2021 federal income tax return. **Important:** The partnership must certify that the partnership was granted an automatic federal extension; otherwise, its North Carolina tax return will be subject to applicable penalties. *(For more information, see "Can a Partnership Get an Extension to File?" on Page 2 of these instructions.)*

Initial Return. If this is the partnership's first return in North Carolina, fill in the appropriate circle on Page 1 of Form D-403.

Amended Return. If filing an amended return, fill in the appropriate circle located on Page 1 of Form D-403. A complete explanation as to the reason(s) for filing an amended return, including specific schedule and line number references, must be provided in the space provided on Page 2 of the return. In addition, if applicable, complete Lines 15 and 16 to report previous payments and refunds received by the partnership. *(For more information, see the specific line instructions for Line 15 and Line 16.)*

Important: The manager of a partnership may not request a refund of an overpayment made on behalf of a nonresident owner or partner if the manager of the business has already filed the partnership return and paid the tax due. The nonresident owner or partner may, on its own income tax return, request a refund of an overpayment made on its behalf by the manager of the partnership.

Final Return. If the partnership ceases to exist or leaves North Carolina during the tax year, fill in the appropriate circle on Page 1 of Form D-403.

Short Year Return. If this is neither the taxpayer's initial return nor the taxpayer's final return and the partnership has a tax year of less than 12 months, fill in the appropriate circle on Page 1 of Form D-403.

Publicly Traded Partnership. If the partnership is a Publicly Traded Partnership as described in section 7704(c) of the Internal Revenue Code, fill in the appropriate circle on Page 1 of Form D-403.

SPECIFIC LINE INSTRUCTIONS

Part 1 - Informational Return and Computation of Tax Due for Nonresident Partners

Line 1. Income (Loss). Enter the total amount of income or loss for the partnership. Before making this entry, the partnership must complete Part 5 and Part 6. *(For more information see "Ordinary Business Income (Loss)" and "Partners' Distributive Share Items" on Page 6 of these instructions.)*

Line 2. Guaranteed Payments to Partners. Enter the total amount of guaranteed payments made to all partners for services or for the

use of capital. Guaranteed payments received by a nonresident partner must be apportioned or allocated to North Carolina on the same basis as other partnership distributive income. On Page 4, Part 4, enter the amount of guaranteed payments received by each nonresident partner that is apportionable on Line 9 and the amount of guaranteed payments received by each nonresident partner that is allocable to North Carolina on Line 14.

Line 4. Additions to Income (Loss). Certain additions to income are required in calculating North Carolina partnership income to the extent the additions are not included in income. Before making this entry, complete Form NC-PE. *(For more information see "Adjustments to Income (Loss)" on Page 6 of these instructions.)*

Line 6. Deductions from Income (Loss). Certain deductions from income are permitted in calculating North Carolina partnership income to the extent the deductions are included in income or are a result of certain additions required and made on the partnership's tax returns from prior years. Before making this entry, complete Form NC-PE. *(For more information see "Adjustments to Income (Loss)" on Page 6 of these instructions.)*

Line 8. Nonapportionable Net Distributive Partnership Income (Loss). When a partnership has income from sources within North Carolina as well as sources outside North Carolina a determination of apportionable and nonapportionable income must be made. If the partnership's business is both within and outside of North Carolina, complete Part 3, Nonapportionable Net Distributive Partnership Income on Page 3 and enter the total amount of nonapportionable income from Column D on Line 8.

Line 9. Apportionable Net Distributive Partnership Income (Loss). All income apportionable under the U.S. Constitution is apportioned to North Carolina and to other states based on the apportionment factor. Subtract Line 8 from Line 7 and enter the amount on Line 9.

Line 10. Nonapportionable Net Distributive Partnership Income (Loss) Allocated to N.C. Complete Part 3, Nonapportionable Net Distributive Partnership Income, on Page 3. Enter on Line 10 the amount of nonapportionable income allocated directly to this State from Column E.

Nonresident Partners

Line 11. Tax Due for Nonresident Partners. Complete Part 4 to determine the tax due for nonresident partners. Enter on Line 11 the total amount of tax due for nonresident partners on whose behalf the partnership pays North Carolina income tax. **Important:** Line 11 must equal the partners' total as calculated on Part 4C, Line 18.

Line 12. Tax Credits Allocated to Nonresident Partners. Complete Part 4 to determine the amount of tax credits allocated to nonresident partners. Enter on Line 12 the total amount of tax credits allocated to nonresident partners on whose behalf the partnership pays North Carolina income tax. **Important:** Line 12 must equal the partners' total as calculated on Part 4C, Line 19.

Line 13. Net Tax Due for Nonresident Partners. Complete Part 4 to determine the net tax due for nonresident partners. Enter on Line 13 the total amount of net tax due for nonresident partners on whose behalf the partnership pays North Carolina income tax. **Important:** Line 13 must equal the partners' total as calculated on Part 4C, Line 20.

Line 14. Payments.

- a. If the partnership filed a request for extension, Form D-410P, enter the amount of payment made with the extension request.
- b. If the partnership had North Carolina income tax paid on its behalf by other partnerships during tax year 2021, enter the amount of North Carolina income tax paid on behalf of the partnership.
- c. If the partnership had North Carolina income tax withheld from compensation received for services performed in North Carolina during tax year 2021, enter the amount of North Carolina income tax withheld attributable to nonresident partners on whose behalf the partnership is required to pay North Carolina income tax.
- d. If, during tax year 2021, North Carolina income tax was paid on behalf of the partnership for any reason other than the reasons listed on Line 14b or Line 14c, enter the amount of the payment.
Note: A partnership is not required to make North Carolina estimated income tax payments; however, any payments made prior to filing Form D-403 must be entered on Line 14d.
- e. Enter the sum of Lines 14a through 14d.

Line 15. Amended Returns Only - Previous Payments. Complete Line 15 only if the partnership is amending its 2021 tax return. Enter the amount of tax paid with the original return (Form D-403, Line 19) plus any additional tax paid after the original return was filed. If the partnership did not pay the entire balance due shown on the original return, enter the actual amount that was paid. **Do not include payments of interest or penalties.**

Line 17. Amended Returns Only - Previous Refunds. Complete Line 17 only if the partnership is amending its 2021 tax return. Enter the amount of refund, if any, shown on the original return (Form D-403, Line 23). If the refund claimed on the partnership's original return was previously adjusted by the Department, enter the adjusted refund on Line 17. The amount includes any portion that was refunded or applied to any outstanding debt. **Do not include interest received on any refund.**

Line 19. Tax Due. If Line 13 is more than Line 18, the partnership owes additional tax. Subtract Line 18 from Line 13 and enter the result on Line 19. If Line 18 is negative, treat Line 18 as a positive number, add Lines 13 and 18 and enter the additional tax on Line 19.

Line 20. Overpayment. If Line 13 is less than Line 18, the partnership has overpaid its tax. Subtract Line 13 from Line 18 and enter the amount of the overpayment on Line 20. **Note:** Returns filed after the original due date without a valid extension are subject to a penalty of \$50 per day, up to a maximum of \$1,000. The penalty applies to any partnership return filed after the due date, regardless of whether the return reflects a tax due, an overpayment, or no tax due. If the return is filed late, compute the amount of penalty due and include the penalty on Form D-403, Line 21a.

Penalties and Interest

Line 21a. Enter the total amount of penalty due for the partnership for tax year 2021. By law, the Department may impose penalties against a taxpayer for failure to comply with the tax statutes. Statutory penalties include, but are not limited to, the following:

- Failure to file an information return on the date it is due (\$50 per day with a maximum of \$1,000),
- Failure to file a tax return on the date it is due (5% per month with a maximum of 25% on the amount of net tax due), and
- Failure to pay tax when due at the applicable rate. From January 1, 2022, through June 30, 2022, the applicable penalty is 10% of the net tax due regardless of how late the tax is paid. Beginning

July 1, 2022, the applicable penalty is 2% of the net tax due for each month, or part of a month, that the payment is late (up to a maximum penalty of 10%).

(For detailed information on penalties that may apply to partnerships, see "Will I Owe Interest and Penalties?" on Page 8 of the North Carolina Individual Income Tax Instructions, [Form D-401.](#))

Line 21b. If additional income tax is due on Line 19, compute the amount of interest due at the rate established by G.S. 105-241.21. Interest is due on taxes paid late even if an extension of time to file is granted. The rate is established semiannually by the Secretary of Revenue and is listed on the Department's website.

Line 21c. Add Lines 21a and 21b and enter the total on Line 21c.

Line 22. Total Due. Add Lines 19 and 21c and enter the total on Line 22, but not less than zero. This is the total tax, penalties, and interest due. **The manager of the partnership must pay this amount with the return.** Make the check or money order payable to the North Carolina Department of Revenue. The Department will not accept a check or money order unless the funds are payable in U.S. dollars and drawn from a U.S. (domestic) bank. **Important:** If Line 20 is greater than zero and you entered an amount on Line 21c, compare Line 21c with Line 20. If Line 21c is greater than Line 20, subtract Line 20 from Line 21c and enter result on Line 22.

Line 23. Amount to be Refunded. If Line 20 is greater than Line 21c, subtract Line 21c from Line 20 and enter result on Line 23.

Important: The manager of a partnership may not request a refund of an overpayment made on behalf of its nonresident owners or partners if the manager of the business has already filed the partnership return and paid the tax due. The nonresident owner or partner may, on its own income tax return, request a refund of an overpayment made on its behalf by the manager of the partnership within the provisions of [G.S. § 105-241.6](#).

Part 2 - Apportionment Percentage for Partnerships That Have One or More Nonresident Partners

A partnership with one or more nonresident partners whose business activities in North Carolina are unified and integrated with its business activities in other states is required to apportion its partnership income to North Carolina by multiplying the income by a fraction, the numerator of which is the total sales of the partnership within North Carolina, and the denominator of which is the total sales of the partnership everywhere during the income year. G.S. 105-130.4 and the instructions for completing Form CD-405, C-Corporation Tax Return, should be consulted for detailed information regarding apportionment of income.

Important: Special apportionment formulas apply to certain types of businesses. The Department refers to the North American Industry Classification System (NAICS) as a means of determining whether a taxpayer's business operations require the use of a special apportionment formula. See G.S. 105-130.4, 130.4A, and 130.4B for definitions and other statutory requirements.

Part 3 - Nonapportionable Net Distributive Partnership Income

"Nonapportionable income" means all income other than apportionable income. "Apportionable income" means all income that is apportionable under the U.S. Constitution. Nonapportionable income is not subject to apportionment but is allocated. G.S.

105-130.4 and the instructions for completing Form CD-405, C-Corporation Tax Return, should be consulted for detailed information regarding nonapportionable income.

Part 4A - Partners' Shares of Income, Adjustments, Tax Credits, and Other Items

Line 4. Enter the same percentage used for federal income tax purposes. (Line 4 is designed for partners whose share percentages for profits and losses are the same. If one or more partners have different share percentages for profits and losses, write "various" on Line 4 for that partner and attach a schedule to the return that explains the share percentages for that partner.)

Line 5. Enter each partner's entity type (i.e. individual, corporation, partnership, IRA/retirement plan, non-profit, trust, estate, etc.) If the partner is a disregarded entity, such as a single member LLC that did not elect to be treated as a corporation, enter the entity type of the owner. If the partner is a grantor trust, enter the entity type of the grantor (or such other person) who is taxed directly on the income or other tax attributes of the trust.

Line 6. Enter each partner's share of the additions to income from Part 1, Line 4.

Line 7. Enter each partner's share of the deductions from income from Part 1, Line 6.

Line 8. Enter each partner's share of allowable tax credits. If necessary, attach a separate schedule showing the computation of any tax credit claimed. *(For a detailed explanation of available tax credits, see [Form D-401](#), North Carolina Individual Income Tax Instructions, available from the Department's website.)*

Part 4B - Computation of North Carolina Taxable Income for Nonresident Partners

Line 9. Enter each nonresident partner's distributive share of the guaranteed payments that are applicable to the income reported on Part 1, Line 9.

Line 14. Enter each nonresident partner's distributive share of the guaranteed payments that are applicable to the income reported on Part 1, Line 10.

Line 16. Partnerships must identify each nonresident partner's share of separately stated income items and enter that amount on Form D-403, Page 4, Part 4, Line 16. For example, special rules apply for gain from the sale, exchange, or disposition of Internal Revenue Code section 1231 property on which a Code section 179 expense deduction was previously claimed. For federal purposes, the gain is not included at the entity level but instead is passed through separately to the individual partners. As a result, the gain is included in income on the partner's income tax return but is not included as part of the partner's share of the partnership's income. The partnership should assume that the partner claimed all Code section 179 expense allocated to the partner.

Part 4C - Computation of Tax Due for Nonresident Partners on Whose Behalf the Partnership Pays the Tax

Line 18. Compute the tax due for each nonresident partner and enter the amount for each partner on Line 18.

Line 20. If the total amount of tax for each nonresident partner shown on Line 18 is more than each nonresident partner's tax credits shown on Line 19, subtract and enter the result on Line 20,

Net Tax Due. Line 20 cannot be less than zero. Enter the net tax due for nonresident partners on Line 13, Page 2. The manager of the partnership is responsible for payment of the total tax, penalties, and interest due for each nonresident partner and must furnish each nonresident partner information to be included with his individual income tax return verifying the tax paid on his share of the partnership earnings in North Carolina.

Important: For amended partnership returns, the amount reported on Line 20 as net tax due for each partner cannot be less than the amount reported on Line 20 of the original partnership return for that partner. *(For more information, review the important note under "Amended Return" on Page 4 of the instructions.)*

Part 5 - Ordinary Business Income (Loss)

The computation of net income from trade or business activities follows the determination of ordinary income as defined by the Internal Revenue Code. Partnerships must transfer the information from federal Form 1065, U.S. Income Return for Partnership Income (Lines 1 through 22), to Part 5, or attach a copy of the federal form along with all supporting schedules.

Part 6 - Partners' Distributive Share Items

Line 1. Enter the ordinary business income (loss) as taken from federal Form 1065, Line 22 or from Part 5, Line 22.

Lines 2-11. Add income or deduct losses on Lines 2 through 11 that are directly passed to the partners as shown on federal Schedule K, Lines 2 through 11.

Line 12. Total of Lines 1 through 11; enter on Part 1, Line 1.

Part 7 - Adjustments to Income (Loss)

Certain adjustments must be made to the partnership's income (loss) when calculating North Carolina taxable income. Specifically, a partnership's income (loss) is subject to the same additions and deductions that are required and permitted, respectively, of individuals who must file a North Carolina individual income tax return. Form NC-PE lists all of the additions required and deductions permitted by statute for an individual. Certain adjustments on Form NC-PE will not apply to partnerships. **Note:** Only the adjustments allowed by North Carolina law can be claimed on the partnership return. Deductions reported on Federal Form 1065, Schedule K, Lines 12 and 13 cannot be claimed on the North Carolina Form D-403.

(For additional details about the State adjustments, see G.S. 105-153.5(b), (c), (c1), (c2), and [Form D-401](#), North Carolina Individual Income Tax Instructions, available from the Department's website.)