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.

<table>
<thead>
<tr>
<th>Federal Provision</th>
<th>State Provision for 2015</th>
<th>NC C Corporate Return</th>
<th>NC Individual Return</th>
</tr>
</thead>
<tbody>
<tr>
<td>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.</td>
<td>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.</td>
<td>Include on Form CD-405, Schedule H, Line 1.g.</td>
<td>Include on Form D-400 Schedule S, Part A, Line 3.</td>
</tr>
<tr>
<td>3. The treatment of mortgage insurance premiums as qualified residence interest is extended for 2015 and 2016.</td>
<td>Mortgage insurance premiums are not treated as qualified residence interest.</td>
<td>Not applicable</td>
<td>Exclude from Form D-400 Schedule S, Part C, Line 13.</td>
</tr>
<tr>
<td></td>
<td>The exclusion from gross income for cancellation of qualified principal residence debt is extended for 2015 and 2016.</td>
<td>Cancellation of qualified principal residence debt is not excluded from gross income.</td>
<td>Not applicable</td>
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<tr>
<td>5</td>
<td>The exclusion from gross income for qualified charitable distributions from an IRA by a person who has attained age 70 1/2 is extended for 2015 and 2016.</td>
<td>Qualified charitable distributions from an IRA by a person who has attained age 70 1/2 are not excluded from gross income. The distributions are allowable as a charitable contribution.</td>
<td>Not applicable</td>
</tr>
<tr>
<td>6</td>
<td>The deduction for qualified tuition and related expenses is extended for 2015 and 2016.</td>
<td>Qualified tuition and related expenses are not deductible.</td>
<td>Not applicable</td>
</tr>
</tbody>
</table>

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.dornc.com/taxes/rate.html](http://www.dornc.com/taxes/rate.html) on or after December 1, 2016.
Instructions for Estates and Trusts
Income Tax Return
North Carolina Department of Revenue
2015

The references to line numbers and form numbers on federal income tax forms were correct at the time of printing. If they have changed and you are unable to determine the correct federal information contained in the federal grantor trust returns. Therefore, a State grantor trust return is not required to be filed when the entire trust is treated as a grantor trust for federal tax purposes.

(B) Other returns to be filed by fiduciaries:

(1) Returns for decedents - A personal representative must file an individual return if the estate is required to file a federal income tax return for estates and trusts and (2) the estate or trust derives income from North Carolina sources or (2) the estate or trust derives any income which is for the benefit of a resident of North Carolina. Exception: With respect to grantor trust returns, the Department has the sole discretion whether to allow the use of a return to claim credit for Federal income tax paid by the decedent's appropriate Federal Form 1040 and the fiduciary must report the income to the estate or trust as it can with the extension request.

(C) Period to be covered by the return - Returns shall be filed for the calendar year 2015 or fiscal year beginning in 2015. If the return is filed for other than a calendar year, fill in the beginning and ending dates of the taxable year in the boxes 5 percent of the total.

(D) Time and place for filing - Returns must be filed with the North Carolina Department of Revenue, P. O. Box 25000, Raleigh, North Carolina 27640-0640, on or before the 15th of April for an estate or trust filing on the calendar year basis, and on or before the 15th day of the fourth month following the close of the fiscal year for the trust or trust filing on the fiscal year basis. However, for tax year 2015, the due date is Monday, April 18, 2016, because April 15 is the Emancipation Day holiday observed in the District of Columbia.

(E) Extensions - If Form D-407 cannot be filed by the due date, the fiduciary may apply for an automatic 6-month extension of time to file the return. To receive the extension, the fiduciary must file Form D-400, Application for Extension for Filing Partnership, Estate, or Trust Tax Return, by the original due date of the return.

The fiduciary is not required to send a payment of the tax it estimates as due to receive the extension; however, it will benefit the estate or trust to pay as much as it can with the extension request.

A 10 percent late payment penalty will apply on the remaining balance due if the tax paid by the original due date of the return is less than 90 percent of the total tax due. If the 90 percent rule is met, any remaining balance due must be paid with the estate or trust return or on or before the expiration of the extension period to avoid the penalty. A fiduciary 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.

(F) Signature - The fiduciary or authorized representative must sign Form D-407. The return must also be signed by the person or in the name of the firm or corporation preparing the fiduciary’s return for compensation. The daytime telephone number of the decedent’s facsimile signature is shown so that he may be reached if additional information is needed to process the return. For tax due returns only, the preparer’s facsimile signature is acceptable provided the preparer submits with the return a letter, manually signed by the preparer, identifying each return bearing the facsimile signature by taxpayer name and identifying number and a declaration under penalty of perjury that the facsimile signature on each return is the signature used by the preparer to sign the return.

(G) When and to whom the tax must be paid - The tax of an estate or trust must be paid in full on or before the original due date of the return, or on or before the expiration of the extension period. The tax may be paid by check or money order payable in U.S. dollars to the North Carolina Department of Revenue.

Important: The Department will not accept a check or money order unless it is drawn on a U.S. (domestic) bank and the funds are payable in U.S. dollars.

(H) Penalties and interest - For failure to file a timely estate or trust return, the penalty is 5 percent of the tax per month with a 25 percent maximum. Returns filed after April 15 without a valid extension are subject to a late payment penalty of 10 percent of the unpaid tax. In addition, penalties are provided for fraud, for willful failure to file on time, and for willful attempt to evade or defeat the tax. Taxes also bear interest from the due date until the date paid.

(I) Copy of governing instrument - A copy of the decedent’s will or the trust instrument is not required unless the Department of Revenue requests it. If the Department requests it, a copy (including any amendments) with the following:

(1) A signed statement under verification that the copy of the will is true and complete.

(2) A statement listing the provisions of the will or the trust instrument that divide the income among the estate or trust and the beneficiaries.

(J) Specific Instructions for Form NC K-1 - Schedule NC K-1 for Form D-407 is used by an estate or trust to report each beneficiary’s share of income, adjustments, tax credits, etc. Prepare and give a Schedule NC K-1 to each person who was a beneficiary of the estate or trust at any time during the year. Schedule NC K-1 must be provided to each beneficiary on or before the day on which the estate or trust return is required to be filed.

(K) N. C. Education Endowment Fund Contribution - You may contribute to the North Carolina Education Endowment Fund by making a contribution or designating some or all of your overpayment to the Fund. To make a contribution, simply enclose Form NC-EDU and your payment. You can access Form NC-EDU online at www. dornc.com. If you owe additional tax and wish to make a contribution to the fund, you may write one check payable to “North Carolina Department of Revenue” and send with your return along with Form NC-EDU. Write the contribution amount on Form NC-EDU. Your election to contribute to the Fund cannot be changed after you file your return. Additional contributions to the Fund may be made by mailing your donation directly to the North Carolina Department of Public Instruction, Cash Collections, 6331 Mail Service Center, Raleigh, North Carolina 27699-6331. Make check payable to “North Carolina Department of Public Instruction” and indicate either on the check or in an attached note that it is a contribution for the North Carolina Education Endowment Fund. To designate your overpayment, see instructions for Line 19 below.

Line-by-Line Instructions

Line 1 - Enter on Line 1 the federal taxable income from Federal Form 1041.

Line 2 - Additions to income - Determine the amount to enter on Line 2 by completing Schedule A, Lines 1 through 4, and allocating the additions between beneficiary and trust beneficiaries and enter on Line 5. Enter on Line 6 the amount from Line 5, Fiduciary Column of Schedule B.

Line 3 - Deductions from income - Determine the amount to enter on Line 4 by completing Schedule A, Lines 5 through 11 and allocating the deductions between the beneficiaries and the fiduciary in Schedule B, Line 5. Enter on Page 1, Line 4 the amount from Line 5, Fiduciary Column of Schedule B.

Line 6 - If none of the federal taxable income, as adjusted (Line 5), is from dividends, capital gains, losses, other intangible income from sources outside North Carolina for the benefit of a nonresident beneficiary, the total income of the estate or trust is taxable to the fiduciary and you should enter zero on Line 6. If there is nonresident income and the income is from interest, dividends, gains, losses, other intangible property, or is business income from sources outside North Carolina for the benefit of a nonresident beneficiary, enter the amount of such income for the benefit of nonresident beneficiaries on Line 6. The determination of the amount of federal taxable income (as adjusted) which is from intangible property or is business income from sources outside North Carolina for the benefit of a nonresident beneficiary is based on the income beneficiary’s state of residence on the last day of the taxable year of the estate or trust. In the case of both resident and nonresident income beneficiaries, the determination of the amount of federal taxable income (as adjusted) which is from intangible property or business income from sources outside North Carolina for the benefit of nonresident beneficiary, enter the amount of such income for the benefit of nonresident beneficiaries on Line 6.

Line 7 - Complete Form D-407TC, Estates and Trusts Tax Credit Summary to determine the fiduciary’s share of any tax credits. Enter on Line 9 the amount from Form D-407TC, Line 11.

Line 10 - If Form D-410P was filed to request an extension of time to file Form D-407, include any tax paid with the extension on Line 10.

Line 11 - No estimated tax is required of a fiduciary; however, if the fiduciary makes any prepayments of tax, include the prepayment on Line 11. If filing an amended return, include on this line any amount paid with the original return.

Line 12 - If tax was paid by a partnership or S corporation on behalf of the estate or trust enter the amount paid and include with the return any additional information furnished by the partnership or S corporation to verify the payment. Also enter any North Carolina tax withheld that was reported on Form 1099-R and include a copy of the form.

Line 15 - Enter the total penalties on Line 15a and interest due on Line 15b. [See (H) Penalties and interest above.] Add Lines 15a and 15b and enter the total on Line 15c.

Line 16 - Pay This Amount - Add lines 14 and 15c and enter the total. The total tax, penalties, and interest due must be paid by the fiduciary responsible for administering the estate or trust.

Line 18 - Contribution to the N. C. Nongame and Endangered Wildlife Fund - Help keep North Carolina wild by contributing any portion of your refund to the N. C. Nongame and Endangered Wildlife Fund. Contributions are essential to monitoring and managing our wildlife populations, including turtles, flying squirrels, frogs, mussels, salamanders, and hundreds of bird species from terns to wrens to woodpeckers. wildlife survival and the habitats of these species are important to our state, our economy, and our quality of life. If wildlife conservation is important to you, please give what you can and help conserve North Carolina’s wildlife for future generations to enjoy.

If you wish to contribute to the Fund, enter the amount of your contribution on...
In taxing estates and trusts, all income is taxable to the fiduciary or to the beneficiaries. The conduit rule for taxing estates and trusts is applicable for North Carolina income tax purposes. Under the conduit rules regardless of who is taxed, the income retains its same character as when received by the estate or trust. The additions and deductions to federal taxable income of an estate or trust must be apportioned between the estate or trust and the beneficiaries based on the distributions of income made during the taxable year. If the trust instrument or the will governing the estate claims any tax credits, the amount of certain classes of income to different beneficiaries, the apportionment of additions and deductions to the beneficiaries is determined on the basis that each beneficiary’s share of the estate’s or trust’s “total income,” the sum of lines 1 through 8 on the beneficiary’s Schedule K-1, Federal Form 1041, relates to adjusted total income from line 17 of Federal Form 1041. If the trust instrument or will specifically allocates the income to the beneficiaries, the fiduciary’s share and each beneficiary’s share of gross income taxed in a year must be apportioned to the beneficiaries to which that class of income is distributed. In apportioning the adjustments, the total income on Federal Schedule K-1 must be adjusted for distributions to the beneficiaries that are not reflected in the total income. The adjusted total income on the Schedule K-1 (Line 7) must be adjusted (1) to exclude classes of income that are not part of the distribution to the beneficiary, (2) to include classes of income that are a part of the distribution to the beneficiary but are not included on Line 17, and (3) by any deduction treated differently for State and federal tax purposes that affects federal taxable income.

Schedule A - North Carolina Fiduciary Adjustments

Schedule A is provided for the computation of the North Carolina fiduciary adjustments and allows the fiduciary to apportion the income and the adjustments required by North Carolina law as adjustments to the income of the estate or trust. Generally, estates and trusts are subject to the same additions and deductions allowed to individuals; therefore, see the North Carolina Individual Income Tax Instructions for a more detailed explanation of any applicable adjustments.

Additions to income, to the extent the amounts are not included in income:

Line 1 - Enter on Line 1 any interest received from bonds or obligations of a state or its political subdivisions other than North Carolina if not included in income.

Line 2 - Enter on Line 2 any state, local, or foreign income taxes deducted on the federal return.

Line 3 - Enter on Line 3 any other additions required.

Line 4 - Enter the total of Lines 1, 2, and 3 on Line 4. The total additions should be apportioned between the beneficiaries and the fiduciary on Schedule B, Line 4.

Deductions from income, to the extent the amounts are included in income:

Line 5 - Enter any interest income which was received from obligations of the United States or United States’ possessions.

Line 6 - Enter the taxable portion of any Social Security or Railroad Retirement benefits included in income.

Line 7 - Enter on Line 7 retirement benefits received from vested N. C. State government, N. C. local government, or federal government retirement systems. As a result of the North Carolina Supreme Court’s decision in Bailey v. State of North Carolina, North Carolina may not tax certain retirement benefits received by retirees (and their beneficiaries and estates) of the State of North Carolina, its local governments or by United States government retirees (and their beneficiaries and estates), including military retirees. The exclusion applies to retirement benefits received from certain defined benefit plans, such as the North Carolina Teachers’ and State Employees’ Retirement System, the North Carolina Local Governmental Employees’ Retirement System, the North Carolina Consolidated Judicial Retirement System, the Federal Employees’ Retirement System, or the United States Civil Service Retirement System, if the retiree had five or more years of credited service as of August 12, 1989. The exclusion also applies to retirement benefits received from the State’s §401(k) and §457 plans if the retiree had five or more years of credited service as of December 31, 2011, and before January 1, 2012. In addition, North Carolina did not adopt the provisions of the Tax Relief Act which makes 50 percent bonus depreciation provisions available to property placed in service after September 8, 2010, and before January 1, 2012. Certain long-lived property and transportation property is eligible for 100 percent expensing if placed in service before January 1, 2013. The Tax Increase Prevention Act of 2014 extended the 50 percent bonus depreciation for property placed in service in 2014. North Carolina did not adopt the bonus depreciation provisions under IRC sections 168(k) or 168(n). Any amount added to income on the 2010, 2011, 2012, 2013, and 2014 State returns may be deducted in five equal annual installments beginning with the 2011, 2012, 2013, and 2014 State returns, respectively. Therefore, enter 20 percent of the bonus depreciation added back on the 2010, 2011, 2012, 2013, and 2014 State returns.

Line 10 - Enter on Line 10 any other deductions required.

Line 11 - Enter the total of Lines 5, 6, 7, 8, 9f, and 10 on Line 11. The total deductions on Line 11 should be apportioned between the beneficiaries and the fiduciary on Schedule B, Line 5.

Schedule B - Apportionment of Income and Adjustments

In taxing estates and trusts, all income is taxable to the fiduciary or to the beneficiaries. The conduit rule for taxing estates and trusts is applicable for North Carolina income tax purposes. Under the conduit rules regardless of who is taxed, the income retains its same character as when received by the estate or trust. The additions and deductions to federal taxable income of an estate or trust must be apportioned between the estate or trust and the beneficiaries based on the distributions of income made during the taxable year. If the trust instrument or will specifically allocates the income to the beneficiaries, the amount of certain classes of income to different beneficiaries, the apportionment of additions and deductions to the beneficiaries is determined on the basis that each beneficiary’s share of the estate’s or trust’s “total income,” the sum of lines 1 through 8 on the beneficiary’s Schedule K-1, Federal Form 1041, relates to adjusted total income from line 17 of Federal Form 1041. If the trust instrument or will specifically provides for the distribution of certain classes of income to different beneficiaries, the additions and deductions to the beneficiaries that is not reflected in the total income. The adjusted total income on Federal Schedule K-1 must be adjusted (1) to exclude classes of income that are not part of the distribution to the beneficiary; (2) to include classes of income that are a part of the distribution to the beneficiary but are not included on Line 17, and (3) by any deduction treated differently for State and federal tax purposes that affects federal taxable income.

Form D-407TC - Estates and Trusts Tax Credit Summary

The tax credit for income tax paid to another state or country must be allocated between the fiduciary and the beneficiaries. The fiduciary’s share and each beneficiary’s share of the gross income on which tax was paid must be apportioned based on the following:

The apportionment of the adjustments, the total income on Federal Schedule K-1 must be adjusted for distributions to the beneficiaries that are not reflected in the total income. The adjusted total income on the Schedule K-1 (Line 7) must be adjusted (1) to exclude classes of income that are not part of the distribution to the beneficiary, (2) to include classes of income that are a part of the distribution to the beneficiary but are not included on Line 17, and (3) by any deduction treated differently for State and federal tax purposes that affects federal taxable income. The fiduciary may elect to apportion the federal deduction for State income tax to the estate or trust except in cases where the beneficiary’s total distribution from the estate or trust has not been included in his federal taxable income because it exceeded the estate’s or trust’s federal distributable net income. In such cases, the addition for State income tax must be apportioned to the beneficiary to the extent the addition exceeds the amount included in income because of the State income tax deduction. After apportioning the additions and deductions to the beneficiaries, the balance is apportioned to the fiduciary. Line 3 Net N.C. Source Income, should reflect the sum of lines 6 and 7, minus line 8 from D-407 NC K-1.

Form D-407TC - Estates and Trusts Tax Credit Summary

The tax credit for income tax paid to another state or country must be allocated between the fiduciary and the beneficiaries. Each beneficiary should be furnished a Schedule NC K-1 showing the applicable additions, deductions, tax credits, etc., to be reported on the beneficiary’s North Carolina income tax return. A nonresident individual, in calculating the percentage of taxable income subject to North Carolina tax on the individual income tax return, must adjust his share of the income from North Carolina sources only by the additions and deductions attributable to the North Carolina income. The fiduciary’s portion of additions and deductions should be reported on Lines 2 and 4, respectively, on Page 1 of Form D-407.

Sunset for Tax Credits - Effect on Future Installments and Carryforwards

Effective for tax year 2014, various tax credits have been repealed. Taxpayers that qualified for these tax credits may continue to take any remaining installments and carryforwards of those tax credits after the sunset date if the taxpayer continues to meet the statutory eligibility requirements for each particular tax credit.

For example, the Article 3J credit for creating jobs is repealed for business activities that were conducted after October 11, 2013. The Tax Increase Prevention Act of 2014, which met the carryforward provisions of N.C. Gen. Stat. § 105-129.83, and satisfied the threshold requirement for job creation, creates jobs in this State. The taxpayer claimed the jobs credit by filing Form NC-478A (the applicable NC-478 series forms for tax years 2010 through the last carryforward year) and such amounts were carried forward for five years. The taxpayer is allowed to continue to take remaining installments and carryforwards in the succeeding five years. The taxpayer is allowed to continue to take remaining installments as long as the taxpayer continues to meet the requirements of N.C. Gen. Stat. § 105-129.83 and N.C. Gen. Stat. § 105-129.87. If the taxpayer fails to maintain eligibility requirements, remaining installments are forfeited and only the carryforward amount of a previously accrued installment may be taken, subject to the carryforward provisions of N.C. Gen. Stat. § 105-129.84.