The fiduciary or authorized representative must sign Form D-407TC, Estates and Trusts Tax Credit Summary to claim 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.

**Line-by-Line Instructions**

**Line 1** - Enter on Line 1 the federal taxable income from Federal Form 1041, Line 22.

**Line 2** - Additions to taxable income - Determine the amount to enter on Line 2 by completing Schedule A, Lines 1 through 5, and allocating the additions between the beneficiaries and the fiduciary in Schedule B, Line 3. Enter on Line 2 the amount from Line 3, Fiduciary Column of Schedule B.

**Line 4** - Deductions from taxable income - Determine the amount to enter on Line 4 by completing Schedule A, Lines 6 through 15 and allocating the deductions between the beneficiaries and the fiduciary in Schedule B, Line 4. Enter on Page 1, Line 4 the amount from Line 4, Fiduciary Column of Schedule B.

**Line 6** - If none of the federal taxable income, as adjusted (Line 5), is from dividends, interest, gains, losses, other intangibles, or 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 are nonresident beneficiaries and Line 5 includes any income from interest, dividends, gains, losses, other intangible property, or 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 from sources outside North Carolina for the benefit of a nonresident beneficiary is based on the income of the estate or trust and the facts and circumstances of the case.

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 sources outside of North Carolina for the benefit of nonresident beneficiaries is made on the basis that the nonresident beneficiaries’ income interests for the taxable year relate to the income interests of both resident and nonresident income beneficiaries for the taxable year.

**Line 9** - 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 13.

**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, enter the amount paid and include with the return a copy of the information furnished by the partnership or S corporation to verify the payment. Also enter any North Carolina tax withheld that was reported on Form 1065 and include a copy of the federal Form 1065.

**Line 13** - Tax Credit for Small Businesses That Pay N.C. Unemployment Insurance - See information about this refundable tax credit on page 2 under Form D-407TC, Estates and Trusts Tax Credit Summary.

**Line 16** - Enter the total penalties on Line 16a and interest due on Line 16b. [See (H) Penalties and interest above.] Add Lines 16a and 16b and enter the total on Line 16c.

**Line 17** - Pay This Amount - Add lines 15 and 16c 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** - Amount to be Refunded - If the amount on Line 8 is less than the amount on Line 14, subtract and enter the amount to be refunded.

**Schedule A - North Carolina Fiduciary Adjustments**

Schedule A is provided for the computation of the North Carolina fiduciary adjustments. The following additions and deductions are required by North Carolina law as adjustments to the federal taxable income of the estate or trust:

**Additions to federal taxable income,** to the extent the amounts are not included in federal taxable 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 federal taxable income.

**Line 2** - Enter on Line 2 any state, local, or foreign income tax that was deducted from federal gross income.

**Line 3** - The federal Small Business Jobs Act of 2010 extended the 50 percent bonus depreciation through 2011. Subsequent to this Act, the federal Tax Relief Act of 2010 extended the bonus depreciation from 50 percent to 100 percent for qualified property acquired and placed in service after September 8, 2010 and before January 1, 2012. North Carolina did not adopt the bonus depreciation provisions under IRC 38.
sections 168(k) and 168(n) of these Acts. Therefore, if you deducted the bonus depreciation under IRC sections 168(k) or 168(n) on your 2011 federal return, you must add to federal taxable income 85% of the amount deducted. This adjustment does not result in a difference in basis of the affected assets for State and federal income tax purposes. Note: Any amount of the bonus depreciation added to federal taxable income on your 2011 State return may be deducted in five equal installments over your first five taxable years beginning with the tax return for taxable year 2012.

Line 4 - Enter on Line 4 any other additions required, such as the following:

- The amount of federal estate tax that is attributable to income in respect of a decedent and that is deducted under Section 691(c) of the Internal Revenue Code.

Generally, estates and trusts are subject to the same additions and transitional adjustments allowed to individuals; therefore, see the North Carolina Individual Income Tax Instructions for a more detailed explanation of any applicable adjustments.

Line 5 - Enter the total of Lines 1 through 4 on Line 5. The total additions should be apportioned between the beneficiaries and the fiduciary on Schedule B, Line 3.

Deductions from federal taxable income, to the extent the amounts are included in federal taxable income.

Line 6 - Enter any interest income which was received from obligations of the United States or States’ possessions.

Line 7 - Enter the taxable portion of any Social Security or Railroad Retirement benefits included in federal taxable income.

Line 8 - Important: The following instructions apply if an estate receives retirement benefits on behalf of a decedent because the decedent was a former employee of the State of North Carolina or any of its local governments or if a decedent was a former employee of the federal government and the decedent did not have five years of service prior to August 12, 1985, or if the decedent’s estate received retirement benefits because the decedent was a former employee of another state. (Otherwise, see the line instructions for Line 14.) If the estate or trust received retirement benefits during the year from one or more federal, state, or local government retirement plans, enter on Line 8 the amount received or $4,000, whichever is less.

Line 9 - If the estate or trust received retirement benefits during the year from one or more private retirement plans other than federal, state, or local government retirement plans, enter on Line 9 the amount received or $2,000, whichever is less.

Line 11 - Enter the amount from Line 10 or $4,000, whichever is less. (If retirement benefits were included in a governmental plan and a private plan, the maximum deduction on Line 11 is $4,000.)

Line 12 - Enter any state, local, or foreign income tax refund that was included in federal taxable income.

Line 13 - North Carolina law did not adopt the 50 percent bonus depreciation provisions in IRC section 168(k) for the tax year 2008 or in IRC sections 168(h) or 168(n) for tax years 2009 and 2010. Similarly, North Carolina did not adopt the provisions of the Small Business Jobs Act of 2010 which extended the 50 percent bonus depreciation through 2012. Therefore, if your bonus depreciation deduction from Schedule A for income in respect of a decedent exceeded 50% of qualified property acquired and placed in service after September 8, 2010 and before January 1, 2012. Any amount added to Schedule B, Line 6 for 2009 and 2010 state returns must be deducted in five equal installments beginning with the 2009, 2010, and 2011 State returns, respectively. Enter 20 percent of the bonus depreciation deduction back on the line(s) of the State return for the year(s) in which you deducted it. For 2009 State return on Line 13b, and 20 percent of the bonus depreciation deduction back on the 2010 State return on Line 13c. Add Lines 13a, 13b, and 13c and enter the total on Line 13d.

Line 14 - Enter on Line 14 any other deductions required, such as the following:

- 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 and 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 State Employees Retirement System, the North Carolina Local Governmental Employees Retirement System, the North Carolina Consolidated Judicial Retirement System, the Federal Employees’ Retirement System, and other retirement systems of the United States Civil Service Retirement System. If the retiree had five or more years of creditable 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 contributed or contracted to contribute to the plan prior to August 12, 1989, and the retiree was a former employee of the State or other State, federal, or local governmental retirement plans.

- Enter the full name and social security number of each beneficiary and determine 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.

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. Part 6 of Form D-407TC must be completed to determine the tax credit allowable to the fiduciary; however, before Part 6 can be completed, gross income (from Line 9, Federal Form 1041) on which such tax was paid 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 allocated to each beneficiary and to the fiduciary. Each beneficiary should be furnished a Schedule NC-K-1 showing the applicable additions, deductions, tax credits, etc., to be reported on his North Carolina individual income tax return. A nonresident, in calculating the percentage of taxable income subject to North Carolina tax on Line 12 of Page 2 of 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.

Tax Credit for Small Businesses That Pay N.C. Unemployment Insurance- A business entitled to a tax credit certified for small businesses may apply to local government to claim a tax credit for small businesses that pay N.C. Unemployment Insurance Fund with respect to wages paid for employment in this State. A small business is defined as a business whose cumulative gross receipts from employment in this State for tax year 2011 do not exceed $1,000,000. The amount of tax credit allowed is 25% of the qualified contributions to the State Unemployment Insurance Fund and applies to only taxable years 2010 and 2011. If the credit exceeds the amount of tax for the taxable year reduced by the sum of all credits; the excess may be applied to the tax liability for the prior taxable year. In calculating the amount of tax against which multiple credits are allowed, nonrefundable credits are subtracted before refundable credits. Compute the allowable credit in Part 0 of Form D-407TC and enter the amount on Page 1, Line 13 of Form D-407.