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 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>Description</td>
<td>Exclusion for Cancellation of Qualified Principal Residence Debt</td>
<td>Not Applicable</td>
</tr>
<tr>
<td>---</td>
<td>-------------</td>
<td>------------------------------------------------------------</td>
<td>---------------</td>
</tr>
<tr>
<td>4</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>
</tr>
<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 ½ is extended for 2015 and 2016.</td>
<td>Qualified charitable distributions from an IRA by a person who has attained age 70 ½ are not excluded from gross income. The distributions are allowable as a charitable contribution.</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.
For calendar year 2015 or other tax year beginning (MM-DD) _____ – _____ = 15 and ending (MM-DD-YY) _____ – _____ = _____

<table>
<thead>
<tr>
<th>Legal Name (First 35 Characters)</th>
<th>Federal Employer ID Number</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Secretary of State ID NAICS Code</td>
</tr>
<tr>
<td></td>
<td>Gross Receipts / Sales Total Assets per Balance Sheet</td>
</tr>
</tbody>
</table>

N.C. Education Endowment Fund: You may contribute to the N.C. Education Endowment Fund by making a contribution or designating some or all of your overpayment to the Fund. To make a contribution, enclose Form NC-EDU and your payment of $ _____________________________. To designate your overpayment to the Fund, enter the amount of your designation on Page 2, Line 42. See instructions for information about the Fund.

### Computation of Franchise Tax

1. Capital Stock, Surplus, and Undivided Profits
   (From Schedule C, Line 13)
2. Investment in N.C. Tangible Property
   (From Schedule D, Line 8)
3. Appraised Value of N.C. Tangible Property
   (From Schedule E, Line 2)
4. Taxable Amount
   Line 1, 2, or 3, whichever is greatest
5. Total Franchise Tax Due
   Multiply Line 4 by $1.50 per $1,000.00 - minimum $35.00
6. Payment with Franchise Tax Extension
   (From Form CD-419, Line 9)
7. Tax Credits
   (From Form CD-425, Part 2, Line 11)
8. Franchise Tax Due - If the sum of Line 6 plus 7 is less than Line 5, enter difference here and on Page 2, Line 33
9. Franchise Tax Overpaid - If the sum of Line 6 plus 7 is more than Line 5, enter difference here and on Page 2, Line 33

### Computation of Corporate Income Tax

10. Federal Taxable Income Before NOL
    (From Schedule G, Line 30 or Federal Form 1120, Line 28 minus 29b)
11. Adjustments to Federal Taxable Income
    (From Schedule H, Line 5)
12. Net Income Before Contributions
    Add Lines 10 and 11
13. Contributions to Donees Outside N.C.
    (From Schedule I, Line 1c)
14. N.C. Taxable Income
    Line 12 minus Line 13
15. Nonapportionable Income
    (From Schedule N, Line 1)
16. Apportionable Income
    Line 14 minus Line 15
17. Apportionment Factor
    Enter to four decimal places
    (From Schedule O, Part 1; Part 2 - Line 15; Part 3; or Part 4)
18. Income Apportioned to N.C.
    Multiply Line 16 by factor on Line 17
19. Nonapportionable Income Allocated to N.C.
    (From Schedule N, Line 2)
20. Income Subject to N.C. Tax
    Add Lines 18 and 19
21. Percentage Depletion over Cost Depletion on N.C. Property
    (See Instructions)
22. State Net Loss (Attach schedule)  
23. Income Before Contributions to N.C. Donees  
Line 20 minus Lines 21 and 22  
24. Contributions to N.C. Donees  
(From Schedule I, Line 2e)  
25. Net Taxable Income  
Line 23 minus Line 24  
26. N.C. Net Income Tax  
Multiply Line 25 by 5.0%  
27. Annual Report Fee  
Include $25.00 ONLY if filing report with the Department of Revenue.  
28. Add Lines 26 and 27  
29. Payments and Credits  
When filing an amended return, see instructions.  
a. Income Tax Extension  
(From Form CD-419, Line 10)  
b. 2015 Estimated Tax  
c. Partnership (If a partnership payment is claimed on Line 29c, a copy of Form D-403 NC K-1 MUST be attached.)  
d. Nonresident Withholding  
(Include copy of 1099 or W-2)  
e. Tax Credits (From Form CD-425, Part 4, Line 25)  
If a tax credit is claimed on Line 29e, Form CD-425 MUST be attached.  
30. Add Lines 29a through 29e  
31. Income Tax Due - If Line 30 is less than Line 28, enter difference here and on Line 34, below  
32. Income Tax Overpaid - If Line 30 is more than Line 28, enter difference here and on Line 34, below  
33. Franchise Tax Due or Overpayment  
(From Schedule A, Line 8 or 9)  
34. Income Tax Due or Overpayment  
(From Schedule B, Line 31 or 32)  
35. Balance of Tax Due or Overpayment  
Add (or subtract) Lines 33 and 34  
36. Underpayment of Estimated Income Tax  
(Enter letter in exceptions box, if applicable. See instructions.)  
37. a. Interest  
b. Penalties  
(Add Lines 37a and 37b and enter the total on Line 37c)  
38. Total Due - Add Lines 35, 36, and 37c and enter result here, but not less than zero. If less than zero, enter amount on Line 39.  
Pay online. Go to www.dornc.com and click on eServices.  
39. Overpayment  
40. Amount of Line 39 applied to 2016 Estimated Income Tax  
41. Amount of Line 39 contributed to N.C. Nongame and Endangered Wildlife Fund  
42. Amount of Line 39 contributed to N.C. Education Endowment Fund  
43. Amount to be Refunded  
Line 39 minus Lines 40, 41, and 42
### Capital Stock, Surplus, and Undivided Profits

1. Total capital stock outstanding less cost of treasury stock 
2. Paid-in or capital surplus 
3. Retained earnings (earned surplus and undivided profits) 
4. Other surplus 
5. Deferred or unearned income 
6. Allowance for bad debts 
7. LIFO reserves 
8. Other reserves that do not represent definite and accrued legal liabilities (Attach schedule) 
9. Add Lines 1 through 8 and enter total 
10. Affiliated indebtedness (Attach schedule) 
11. Line 9 plus (or minus) Line 10 
12. Apportionment factor (From Schedule O, Part 1; Part 2 - Line 15; Part 3; or Part 4) 
13. Capital Stock, Surplus, and Undivided Profits 
   - Multiply Line 11 by factor on Line 12 and enter result here and on Schedule A, Line 1. 
   - If amount on Line 13 is less than zero, enter zero on Schedule A, Line 1.

### Investment in N.C. Tangible Property

- **Inventory valuation method:**
  - FIFO
  - Lower of cost or market
  - Other

1. Total value of inventories located in N.C. 
2. Total value of furniture, fixtures, and machinery and equipment located in N.C. 
3. Total value of land and buildings located in N.C. 
4. Total value of leasehold improvements and other tangible property located in N.C. 
5. Add Lines 1 through 4 and enter total 
6. Accumulated depreciation, depletion, and amortization with respect to N.C. tangible property 
7. Debts existing for the purchase or improvement of N.C. real estate 
8. Investment in N.C. Tangible Property 
   - Line 5 minus Lines 6 and 7; enter amount here and on Schedule A, Line 2

### Appraised Value of N.C. Tangible Property

1. Total appraised value of all N.C. tangible property, including motor vehicles 
   - (If tax year ends December 31, 2015 through September 30, 2016, enter the appraised county tax value of all real and tangible property located in N.C. as of January 1, 2015, including any motor vehicles assessed during the tax year. Otherwise, enter value as of January 1, 2016.)
2. Appraised Value of N.C. Tangible Property 
   - Multiply Line 1 by 55%; enter here and on Schedule A, Line 3

### Other Information - All Taxpayers Must Complete this Schedule

1. State of incorporation 
2. Date Certificate of Authority was obtained from N.C. Secretary of State 
3. Regular or principal trade or business in N.C. 
4. Principal place from which business is directed or managed 
5. What was the last year the IRS redetermined the corporation’s federal taxable income? 
6. Were the adjustments reported to N.C.? 
7. Does this corporation finance or discount its receivables through a related or an affiliated company? 
8. Is this corporation subject to franchise tax but not N.C. income tax because the corporation’s income tax activities are protected under P.L. 86-272? 
9. Officers’ names and addresses:
   - President 
   - Vice-President 
   - Secretary 
   - Treasurer
### Federal Taxable Income Before NOL Deduction

Complete this schedule if you do not attach a copy of your federal income tax return.

<table>
<thead>
<tr>
<th>Line</th>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>a. Gross receipts or sales</td>
<td></td>
</tr>
<tr>
<td></td>
<td>b. Returns and allowances</td>
<td></td>
</tr>
<tr>
<td></td>
<td>c. Balance (Line 1a minus Line 1b)</td>
<td></td>
</tr>
<tr>
<td>2</td>
<td>Cost of goods sold (Attach schedule)</td>
<td></td>
</tr>
<tr>
<td>3</td>
<td>Gross Profit (Line 1c minus Line 2)</td>
<td></td>
</tr>
<tr>
<td>4</td>
<td>Dividends (Attach schedule)</td>
<td></td>
</tr>
<tr>
<td>5</td>
<td>a. Interest on obligations of the United States and its instrumentalities</td>
<td></td>
</tr>
<tr>
<td></td>
<td>b. Other interest</td>
<td></td>
</tr>
<tr>
<td>6</td>
<td>Gross rents</td>
<td></td>
</tr>
<tr>
<td>7</td>
<td>Gross royalties</td>
<td></td>
</tr>
<tr>
<td>8</td>
<td>Capital gain net income (Attach schedule)</td>
<td></td>
</tr>
<tr>
<td>9</td>
<td>Net gain (loss) (Attach schedule)</td>
<td></td>
</tr>
<tr>
<td>10</td>
<td>Other income (Attach schedule)</td>
<td></td>
</tr>
<tr>
<td>11</td>
<td>Total Income (Attach schedule)</td>
<td></td>
</tr>
</tbody>
</table>

Add Lines 3 through 10

#### Adjustments to Federal Taxable Income

1. **Additions:**
   - a. Taxes based on net income
   - b. Dividends paid by captive REITs
   - c. Contributions
   - d. Royalties paid to related members (See instructions)
   - e. Expenses attributable to income not taxed (See instructions)
   - f. Domestic production activities deduction (From Schedule G, Line 25)
   - g. Other (Attach explanation or schedule)

2. **Total Additions** (Add Lines 1a-1g)

3. **Deductions:**
   - a. U.S. obligation interest (net of expenses)
   - b. Other deductible dividends (See instructions)
   - c. Dividends received from captive REITs
   - d. Royalties received from related members (See instructions)
   - e. Interest on deposits with FHLB (net of expenses) S&L’s only
   - f. Bonus depreciation (See instructions)
   - g. Section 179 expense deduction
   - h. Other (Attach explanation or schedule)

4. **Total Deductions** (Add Lines 3a-3h)

5. **Adjustments to Federal Taxable Income**
   - Line 2 minus Line 4, enter amount here and on Schedule B, Line 11

### Contributions

1. **Contributions to Donees Outside N.C.**
   - a. Enter total contributions to donees outside N.C.
   - b. Multiply the amount shown on Schedule B, Line 12 by 5% if Line 12 is greater than zero. Otherwise, enter zero here.
   - c. **Amount Deductible** Enter the lesser of Line 1a or 1b here and on Schedule B, Line 13

2. **Contributions to N.C. Donees**
   - a. Enter total contributions to N.C. donees other than those listed in Line 2d, below
   - b. Multiply the amount shown on Schedule B, Line 23 by 5% if Line 23 is greater than zero. Otherwise, enter zero here.
   - c. Enter the lesser of Line 2a or 2b
   - d. Enter total contributions to the State of N.C. and its political subdivisions
   - e. **Amount Deductible** Add Lines 2c and 2d; enter total here and on Schedule B, Line 24

### Explanation of Changes for Amended Return

Attach additional sheets if necessary

Note: The letter K is not used to designate a schedule.
### Balance Sheet per Books

<table>
<thead>
<tr>
<th>Assets</th>
<th>Beginning of Tax Year</th>
<th>End of Tax Year</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Cash</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2. a. Trade notes and accounts receivable</td>
<td>( )</td>
<td>( )</td>
</tr>
<tr>
<td>3.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>4. a. U.S. government obligations</td>
<td></td>
<td></td>
</tr>
<tr>
<td>5. Tax-exempt securities</td>
<td></td>
<td></td>
</tr>
<tr>
<td>6. Other current assets (Attach schedule)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>7. Loans to shareholders</td>
<td></td>
<td></td>
</tr>
<tr>
<td>8. Mortgage and real estate loans</td>
<td></td>
<td></td>
</tr>
<tr>
<td>9. Other investments (Attach schedule)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>10. a. Buildings and other depreciable assets</td>
<td>( )</td>
<td>( )</td>
</tr>
<tr>
<td>11. a. Depletable assets</td>
<td>( )</td>
<td>( )</td>
</tr>
<tr>
<td>12. b. Less accumulated depreciation</td>
<td>( )</td>
<td>( )</td>
</tr>
<tr>
<td>13. a. Intangible assets (amortizable only)</td>
<td>( )</td>
<td>( )</td>
</tr>
<tr>
<td>14. Other assets (Attach schedule)</td>
<td>( )</td>
<td>( )</td>
</tr>
<tr>
<td>15. Total Assets</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Liabilities and Shareholders’ Equity</th>
<th>Beginning of Tax Year</th>
<th>End of Tax Year</th>
</tr>
</thead>
<tbody>
<tr>
<td>16. Accounts payable</td>
<td></td>
<td></td>
</tr>
<tr>
<td>17. Mortgages, notes, and bonds payable in less than 1 year</td>
<td></td>
<td></td>
</tr>
<tr>
<td>18. Other current liabilities (Attach schedule)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>19. Loans from shareholders</td>
<td></td>
<td></td>
</tr>
<tr>
<td>20. Mortgages, notes, and bonds payable in 1 year or more</td>
<td></td>
<td></td>
</tr>
<tr>
<td>21. Other liabilities (Attach schedule)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>23. b. Common Stock</td>
<td></td>
<td></td>
</tr>
<tr>
<td>24. Additional paid-in capital</td>
<td></td>
<td></td>
</tr>
<tr>
<td>25. Retained earnings – Appropriated (Attach schedule)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>26. Retained earnings – Unappropriated (Attach schedule)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>27. Less cost of treasury stock</td>
<td>( )</td>
<td>( )</td>
</tr>
<tr>
<td>28. Total Liabilities and Shareholders’ Equity</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### M-1: Reconciliation of Income (Loss) per Books With Return

1. Net income (loss) per books | 7. Income recorded on books this year not included on this return (itemize): |
2. Federal income tax | Tax-exempt interest $ | |
3. Excess of capital losses over capital gains | 8. Deductions on this return not charged against book income this year (itemize): |
4. Income subject to tax not recorded on books this year (itemize): | a. Depreciation $ |
5. Expenses recorded on books this year not deducted on this return (itemize): | b. Charitable Contributions $ |
| a. Depreciation $ | |
| b. Charitable Contributions $ | |
| c. Travel and entertainment $ | |
6. Add Lines 1 through 5 | 9. Add Lines 7 and 8 |

### M-2: Retained Earnings Analysis

2. Net income (loss) per books | b. Stock |
3. Other increases (itemize): | c. Property |
4. Add Lines 1, 2, and 3 | 6. Other decreases (itemize): |
 | 7. Add Lines 5 and 6 |
 | 8. Balance at End of Year (Line 4 minus Line 7) |
Complete this schedule if you have income classified as nonapportionable income. See the instructions for an explanation of what is apportionable income and what is nonapportionable income.

### Part 1. Domestic and Other Corporations Not Apportioning Franchise or Income Outside N.C.

Enter 100% on Schedule B, Line 17 and Schedule C, Line 12

<table>
<thead>
<tr>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>100.0000%</td>
</tr>
</tbody>
</table>

### Part 2. Corporations Apportioning Franchise or Income to N.C. and to Other States

**Note:** Apportionment factors must be calculated 4 places to the right of the decimal.

<table>
<thead>
<tr>
<th>(a) Beginning Period</th>
<th>(b) Ending Period</th>
</tr>
</thead>
</table>

### Part 3. Corporations Apportioning Franchise or Income to N.C. and to Other States Using Single Sales Factor

Excluded corporations, qualified capital intensive corporations, and certain public utilities must apportion North Carolina franchise and corporate income tax using the sales factor alone. These corporations need not complete the property and payroll factor sections of this Schedule. Enter the sales factor from Line 12 here, on Schedule B, Line 17, and on Schedule C, Line 12. (See instructions and G.S. 105-130.4 for more information.)

### Part 4. Special Apportionment

Special apportionment formulas apply to certain types of corporations such as telephone companies, motor carriers, and railroad companies. If you use a special apportionment formula, enter the computed apportionment factor here, on Schedule B, Line 17, and on Schedule C, Line 12. (See instructions and G.S. 105-130.4 for more information.)

---

<table>
<thead>
<tr>
<th>(A) Nonapportionable Income</th>
<th>(B) Gross Amounts</th>
<th>(C) Related Expenses*</th>
<th>(D) Net Amounts (Column B minus Column C)</th>
<th>(E) Net Amounts Allocated Directly to N.C.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
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<tr>
<td></td>
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<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1. Nonapportionable Income</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(Enter the total of Column D here and on Schedule B, Line 15)</td>
<td></td>
<td></td>
<td>.00</td>
<td></td>
</tr>
<tr>
<td>2. Nonapportionable Income Allocated to N.C.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(Enter the total of Column E here and on Schedule B, Line 19)</td>
<td></td>
<td></td>
<td>.00</td>
<td></td>
</tr>
</tbody>
</table>

### Explanation of why income listed in chart is nonapportionable income rather than apportionable income:

(Attach additional sheets if necessary)

* For an acceptable means of computing related expenses, see 17 N.C.A.C. 5C.0304.