

2025 Individual Income Tax Update



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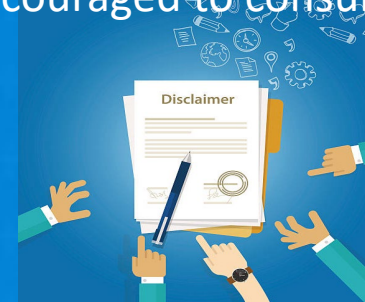
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NC DOR

Disclaimer



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- This material may be subject to disclosure under applicable public records laws.
- While the Department is committed to providing helpful and accurate information, neither the presenter nor the Department guarantees the completeness or timeliness of the information presented. Taxation rules can be complex, can change frequently, and are fact specific to an individual taxpayer’s situation. This presentation does not take into consideration pending or upcoming legislative changes. Attendees are encouraged to consult their own qualified professionals regarding specific questions or circumstances.
- We hope you find this presentation valuable and informative.





For tax year **2025**, the individual income tax rate **is 4.25%**.

For tax year **2026**, the individual income tax rate is **3.99%**. *



* The “Revenue Rate Triggers,” established by S.L. 2023-134, may reduce the individual income tax rate.



NC Standard Deduction



The **North Carolina Standard Deduction Amount**,
for each filing status, is as follows:

Filing Status	Standard Deduction Amount
Married, filing jointly/ surviving spouse	\$25,500
Head of Household	\$19,125
Single	\$12,750
Married, filing separately	\$12,750

NC Conservation Tax Credit

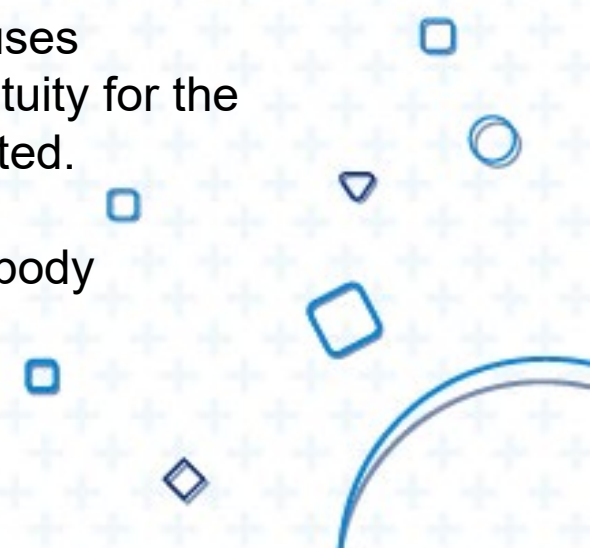


- The 2024 “Farm Bill” reenacted a nonrefundable income tax credit for Certain Real Property Donations (“**NC Conservation Tax Credit**”) to incentivize donations of real property for forestland and farmland preservation, fish and wildlife conservation, military use, floodplain protection, historic landscape preservation, and for public trails.
- Subject to the limitations set forth under **Session Law 2024-32** and **Session Law 2025-4**, the tax credit is equal to 25% of the fair market value of a qualified donation.



A qualified donation is a donation of a qualified real property interest located in North Carolina that meets **both** of the following conditions:

- (1) It is donated in perpetuity for one of the qualifying uses specifically listed in the statute and is accepted in perpetuity for the use for which the qualified real property interest is donated.
- (2) It is donated to the State, a local government, or a body organized to receive and administer conservation land.



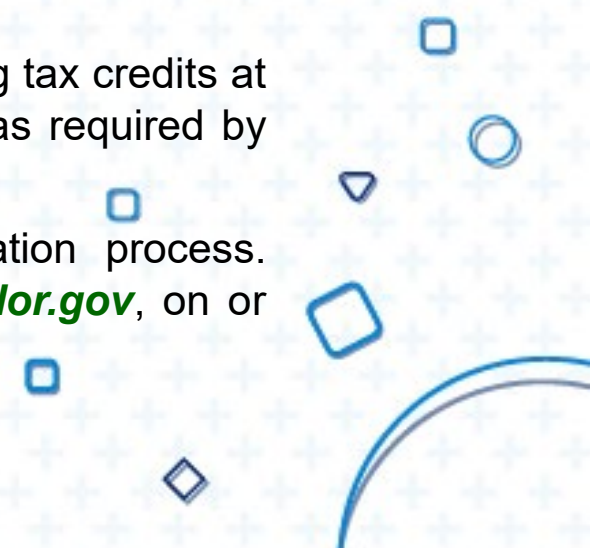
NC Conservation Tax Credit



- The tax credit is **only** available to individuals, corporations, and certain pass-through entities. **A Taxed PTE is not eligible to claim the tax credit.**
- Taxpayers **must apply** for the tax credit using **Form NC-74**, “Application for NC Conservation Tax Credit.” Form NC-74, is available on the Department’s website, ncdor.gov.
- The application is due on or before April 15th of the year following the calendar year of the donation. The Department **MAY NOT** accept late filed applications. For example, the application for qualified donations made in calendar year 2025 (“2025 Application”) must be filed by April 15, 2026. A 2025 Application filed after April 15, 2026, will be rejected.



- The application will be available online via the Department’s website, ncdor.gov, on or around January 1, 2026.
- Because the General Assembly capped the amount of all qualifying tax credits at \$5 million, the amount of tax credit applied for may be reduced as required by law.
- The Department will publish specific guidance on the application process. The guidance will be available on the Department’s website, ncdor.gov, on or around January 1, 2026.



NC Conservation Tax Credit



NCDOR
Web-Fill
9-25

NC-74
Application for NC
Conservation Tax Credit

DOR Use Only

Part 1. Applicant Information

Fill in the circle that describes the applicant that made the donation Individual Other (Select entity type)

Fill in the circle if the applicant is submitting more than one Form NC-74 for a calendar year. (See instructions)

Individual's First Name	M.I.	Individual's Last Name	Individual's Social Security Number
Individual's Phone Number	Individual's Email Address		
Entity's Legal Name		Entity's Federal Employer ID Number	
Entity's Trade Name			
Contact Person's Name		Contact Person's Phone Number	
Contact Person's Email Address			
Applicant's Street Address			
City		State	Zip Code

Part 2. Donation Information

- Did the applicant make a single donation during the calendar year?
(If you answered "no," STOP, see the instructions. If you answered "yes," go to line 2.) 1.
- Was the donation a qualified real property interest as that term is defined in Section 170(h)(2) of the Internal Revenue Code?
(If you answered "no," STOP, you cannot apply for the NC Conservation Tax Credit. If you answered "yes," go to line 3.) 2.
- Was the donation located in North Carolina?
(If you answered "no," STOP, you cannot apply for the NC Conservation Tax Credit. If you answered "yes," go to line 4.) 3.
- Was the donation made in 2025?
(If you answered "no," STOP, you cannot apply for the NC Conservation Tax Credit. If you answered "yes," go to line 5.) 4.
- Was the donation made in perpetuity for a use listed in G.S. 105-153.11 and G.S. 105-130.34A?
(If you answered "no," STOP, you cannot apply for the NC Conservation Tax Credit. If you answered "yes," fill in the circle that corresponds to the specific use for which the donation was made. Then, go to line 6.) 5.
 - Forestland or farmland preservation
 - Fish or wildlife conservation
 - A buffer to limit land-use activities that would restrict, impede, or interfere with military training, testing, or operations on a military installation or training area or otherwise be incompatible with the mission of the installation
 - Floodplain protection in a county that, in the five years preceding the donation, was the subject of Type II or Type III gubernatorial disaster declaration as a result of a natural disaster
 - Historic landscape conservation
 - Public trails or access to public trails

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NC-74
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Applicant's Last Name or Legal Name SSN or FEIN

Part 2. Donation Information (continued)

- Was the donation accepted in perpetuity by the State of North Carolina, a local government, or a body that is both organized to receive and administer lands for conservation purposes and qualified to receive charitable contributions under State law?
(If you answered "no," STOP, you cannot apply for the NC Conservation Tax Credit. If you answered "yes," provide the following information about the recipient of the donation. Then, go to line 7.) 6.

Name of Governmental Entity or Organization

Address of Governmental Entity or Organization

Name of Contact Person at Governmental Entity or Organization

Phone Number or Email Address of Contact Person at Governmental Entity or Organization
- Was the donated land required to be dedicated pursuant to local governmental regulation or ordinance?
(If you answered "yes," STOP, you cannot apply for the NC Conservation Tax Credit. If you answered "no," go to line 8.) 7.
- Did the donated land increase building density levels as permitted under a regulation or ordinance?
(If you answered "yes," STOP, you cannot apply for the NC Conservation Tax Credit. If you answered "no," you can apply for the NC Conservation Tax Credit. Complete Part 3 or Part 4, whichever is applicable.) 8.

Part 3. Qualified Donation for Forestland or Farmland Preservation *(Complete Part 3 only if the donation was made for forestland or farmland preservation.) Important: A copy of the certification by the NC Department of Natural and Cultural Resources identifying the donation's qualifying use MUST be submitted with the application.*

- Fair market value of qualified donation
(An appraisal report MUST be submitted with the application. See instructions.) 1.
- Was the qualified donation owned by a married couple?
(If you answered "no," go to line 3. If you answered "yes," enter the name and social security number of the owner not listed on Part 1. Then, go to line 3.) 2.

Individual's First Name	M.I.	Individual's Last Name	Individual's Social Security Number
- Multiply line 1 by 25% (.25) 3.

Part 4. Qualified Donation for a Use Other Than Forestland or Farmland Preservation *(Complete Part 4 only if the donation was made for a use other than forestland or farmland preservation.) Important: A copy of the certification by the NC Department of Natural and Cultural Resources identifying the donation's qualifying use MUST be submitted with the application.*

- Fair market value of the qualified donation
(An appraisal report MUST be submitted with the application. See instructions.) 1.
- Was the qualified donation owned by a married couple?
(If you answered "no," go to line 3. If you answered "yes," enter the name and social security number of the owner not listed on Part 1. Then, go to line 3.) 2.

Individual's First Name	M.I.	Individual's Last Name	Individual's Social Security Number
- Multiply line 1 by 25% (.25) 3.

Organ and Tissue Donation

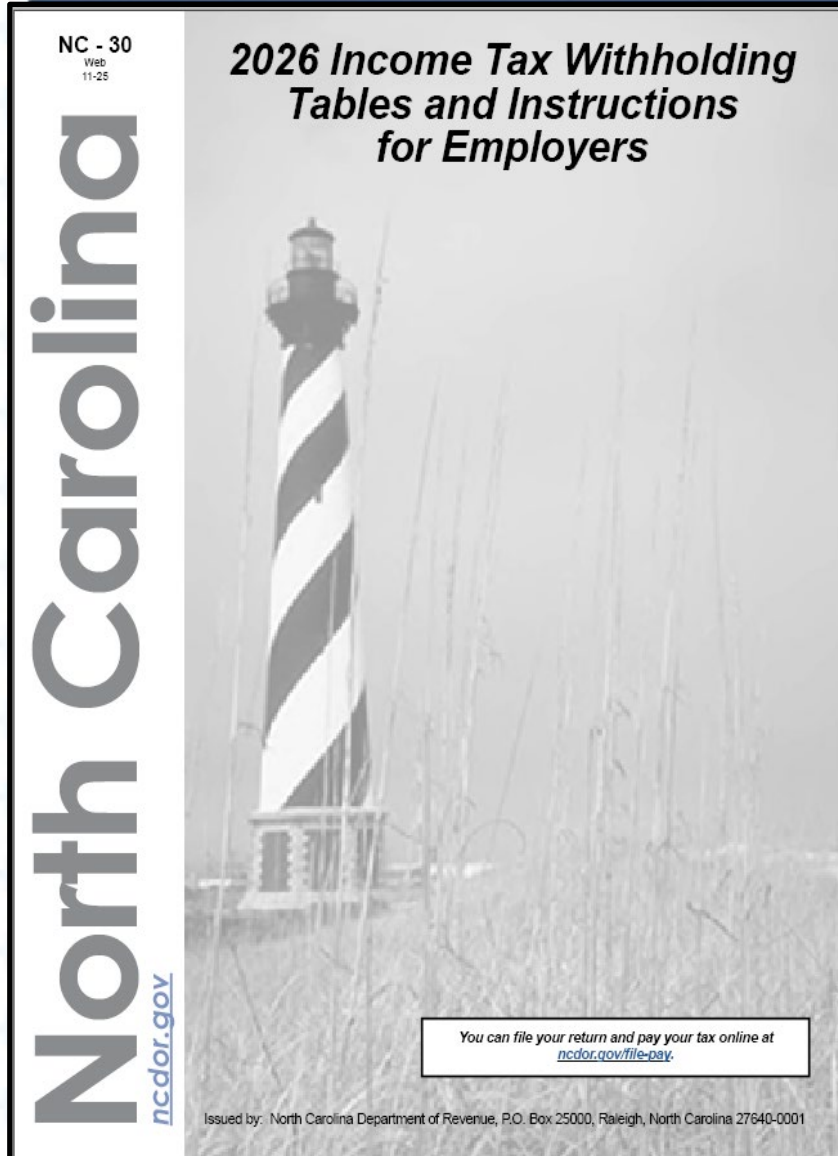


- For **taxable years beginning on or after January 1, 2027**, the individual income tax return, Form D-400, will include a check box to allow a resident taxpayer or their spouse to elect to become an organ or tissue donor.
- The election is optional and is valid upon filing the income tax return. The election remains valid until it is revoked by the donor.
- The Department will coordinate with industry to determine the information needed to make and revoke the election. The Department will provide guidance in the instructions for the 2027 Form D-400.



Yes I donate
ORGAN DONATION

Withholding Tax Rate



- For tax year 2026, **the withholding rate on wages paid in 2026 is 4.09%** (3.99% + 0.1%).
- Publication NC-30 provides the State's wage bracket tables and other alternative methods of computing NC income tax withholding.
- The wage bracket table is broken down by filing status, pay period, amount of pay and number of allowances claimed.
- Publication NC-30 for tax year 2026 will be available on the Department's website, ncdor.gov, on or around December 15, 2025.

Federal Tax Law: What It Means for NC Tax



Internal Revenue Code



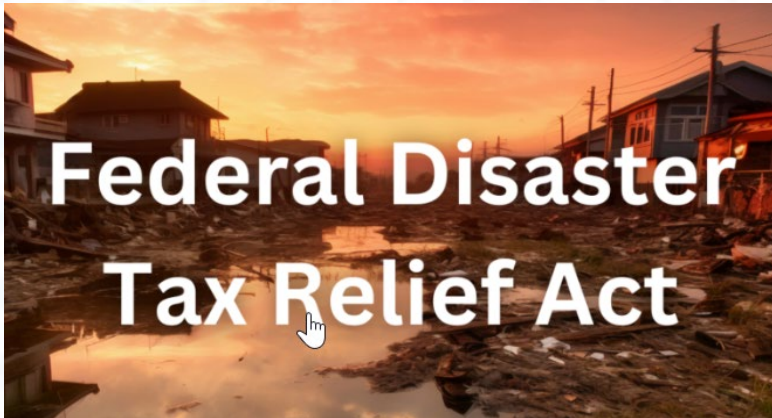
- North Carolina is a **static (or fixed-date conformity)** state. In other words, North Carolina ties its tax law to a specific version of the Internal Revenue Code (“Code”) and the General Assembly must pass legislation to update the State’s conformity to a different (updated) version of the Code.
- North Carolina’s tax law currently references the Code as of **January 1, 2023**. To the extent North Carolina income tax law conforms to federal income tax law, North Carolina follows the Code in effect as of **January 1, 2023**.



Internal Revenue Code



Federal tax law has been updated at least two times since January 1, 2023.



- (1) On December 12, 2024, President Biden signed the **Federal Disaster Relief Act of 2023** (“**Relief Act**”). This Act provided favorable federal tax provisions for eligible disaster victims.



- (2) On July 4, 2025, President Trump signed the **One Big Beautiful Bill Act** (“**OBBBA**”). This Act provided a broad package of federal tax provisions that impacts virtually every individual and business.

Internal Revenue Code

Because of NC's static conformity, any change made to the Code enacted **AFTER** January 1, 2023, including the provisions in the Relief Act and OBBBA, **MUST BE INCLUDED/EXCLUDED** from AGI for NC income tax purposes. (See 2025 Form D-400, Line 6.)

Examples:

- **Include** wildfire relief payments not included in AGI. (See *Relief Act*)
- **Exclude** changes to R&E expensing. (See *OBBBA*)
- **Exclude** changes to depreciation of business assets. (See *OBBBA*)

NCDOR Web-Fill 9-25 **D-400 Individual Income Tax Return** 2025

IMPORTANT: Do not send a photocopy of this form. AMENDED RETURN

For calendar year 2025, or fiscal year beginning (MM-DD) 2 5 and ending (MM-DD-YY)

Your Social Security Number: [] Spouse's Social Security Number: []

Your First Name (USE CAPITAL LETTERS FOR YOUR NAME AND ADDRESS) M.I. Your Last Name

If a Joint Return, Spouse's First Name M.I. Spouse's Last Name

Mailing Address Apartment Number

City State Zip Code Country (if not U.S.) County (enter the full name)

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 31. (See instructions for Form D-400.)

Out of Country Fill in circle if you, or if married filing jointly, your spouse were out of the country on April 15, 2025, for more than 180 days.

Deceased Taxpayer Information Enter date of death of deceased spouse: []

Residency Status Were you a resident of N.C. for the entire year? Yes No
Was your spouse a resident for the entire year? Yes No

Veteran Information Are you a veteran? Yes No
Were you granted an automatic extension of time to file your federal income tax return, e.g., Form 1040? Yes No

Filing Status (Fill in one circle only)

- Single
- Married Filing Jointly
- Married Filing Separately → (Enter your full name and Social Security Number)
- Head of Household
- Qualifying Widow(er) (Year spouse died: [])

6. Federal Adjusted Gross Income ▶ 6. [] Enter Whole U.S. Dollars Only

7. Additions to Federal Adjusted Gross Income (From Form D-400 Schedule S, Part A, Line 16) ▶ 7. []

8. Add Lines 6 and 7 ▶ 8. []

9. Deductions From Federal Adjusted Gross Income (From Form D-400 Schedule S, Part B, Line 41) ▶ 9. []

10. Child Deduction (On Line 10a, enter the number of qualifying children for whom you were allowed a federal child tax credit. On Line 10b, enter the amount of the child deduction. See instructions.) ▶ 10a. [] ▶ 10b. []

11. N.C. Standard Deduction OR N.C. Itemized Deductions (Fill in one circle only. See Form D-400 Schedule A.) ▶ 11. []

12. a. Add Lines 9, 10b, and 11. [] 12b. Subtract Line 12a from Line 8 []

13. Part-year Residents and Nonresidents Taxable Percentage (From Form D-400 Schedule PN, Line 24. Enter amount as decimal.) ▶ 13. []

14. North Carolina Taxable Income Full-year residents enter the amount from Line 12b. Part-year residents and nonresidents multiply amount on Line 12b by the decimal amount on Line 13. ▶ 14. []

15. North Carolina Income Tax Multiply Line 14 by 4.25% (0.0425). If zero or less, enter a zero. ▶ 15. []

OTHER THAN YOUR SIGNATURE, DO NOT HANDWRITE ON THIS FORM

OTHER THAN YOUR SIGNATURE, DO NOT HANDWRITE ON THIS FORM

2025 10102027

Internal Revenue Code



Because NC begins its calculation of NC taxable income with AGI, a taxpayer **CANNOT** deduct **"Below the Line"** adjustments when calculating NC taxable income.

Examples of "Below the Line" adjustments include:

- Deduction for qualified overtime. (See OBBBA)
- Deduction for qualified tips. (See OBBBA)
- Deduction for interest payments for qualified vehicles (See OBBBA)

TREASURY/IRS AND OMB USE ONLY DRAFT

Form **1040** U.S. Individual Income Tax Return **2025** OMB No. 1545-0074 IRS Use Only—Do not write or staple in this space.

For the year Jan. 1-Dec. 31, 2025, or other tax year beginning 2025, ending 2025, See separate instructions.

Filed pursuant to section 301.9100-2 Combat zone Deceased Spouse Other

Your first name and middle initial Last name Your social security number

If joint return, spouse's first name and middle initial Last name Spouse's social security number

Home address (number and street), if you have a P.O. box, see instructions. Apt. no. Check here if your main home, and your spouse's if filing a joint return, was in the U.S. for more than half of 2025.

City, town, or post office, if you have a foreign address, also complete spaces below. State ZIP code Presidential Election Campaign Check here if you, or your spouse if filing jointly, want \$3 to go to this fund. Checking a box below will not change your tax or refund. You Spouse

Foreign country name Foreign province/state/county Foreign postal code

Filing Status Single Head of household (HOH) Qualifying surviving spouse (QSS) Married filing jointly (even if only one had income) Married filing separately (MFS). Enter spouse's SSN above and full name here: If treating a nonresident alien or dual-status alien spouse as a U.S. resident for the entire tax year, check the box and enter their name (see instructions and attach statement if required):

Digital Assets At any time during 2025, did you: (a) receive (as a reward, award, or payment for property or services); or (b) sell, exchange, or otherwise dispose of a digital asset (for a financial interest in a digital asset)? (See instructions.) Yes No

Dependents	Dependent 1	Dependent 2	Dependent 3	Dependent 4
(1) First name				
(2) Last name				
(3) SSN				
(4) Relationship				
(5) Check if lived with you more than half of 2025	(a) <input type="checkbox"/> Yes (b) <input type="checkbox"/> And in the U.S.	(a) <input type="checkbox"/> Yes (b) <input type="checkbox"/> And in the U.S.	(a) <input type="checkbox"/> Yes (b) <input type="checkbox"/> And in the U.S.	(a) <input type="checkbox"/> Yes (b) <input type="checkbox"/> And in the U.S.
(6) Check if	(a) <input type="checkbox"/> Full-time student (b) <input type="checkbox"/> Permanently and totally disabled	(a) <input type="checkbox"/> Full-time student (b) <input type="checkbox"/> Permanently and totally disabled	(a) <input type="checkbox"/> Full-time student (b) <input type="checkbox"/> Permanently and totally disabled	(a) <input type="checkbox"/> Full-time student (b) <input type="checkbox"/> Permanently and totally disabled
(7) Credits	<input type="checkbox"/> Child tax credit <input type="checkbox"/> Credit for other dependents	<input type="checkbox"/> Child tax credit <input type="checkbox"/> Credit for other dependents	<input type="checkbox"/> Child tax credit <input type="checkbox"/> Credit for other dependents	<input type="checkbox"/> Child tax credit <input type="checkbox"/> Credit for other dependents

Check if your filing status is MFS or HOH and you lived apart from your spouse for the last 6 months of 2025, or you are legally separated according to your state law under a written separation agreement or a decree of separate maintenance and you did not live in the same household as your spouse at the end of 2025.

Income	1a	1b	1c	1d	1e	1f	1g	1h	1i	1j	1k	1l	1m	1n	1o	1p	1q	1r	1s	1t	1u	1v	1w	1x	1y	1z
1a Total amount from Form(s) W-2, box 1 (see instructions)																										
1b Household employee wages not reported on Form(s) W-2																										
1c Tip income not reported on line 1a (see instructions)																										
1d Health waiver payments not reported on Form(s) W-2 (see instructions)																										
1e Dependent care benefits from Form 2441, line 26																										
1f Refundable adoption benefits from Form 8839, line 31																										
1g Other income (see instructions)																										
1h Other income (see instructions). Enter type and amount:																										
1i Nontaxable income (see instructions)																										
1j Add lines 1a through 1i																										
2a Tax-exempt interest																										
3a Qualified dividends																										
4a Check if your child's dividends are from an IRA distribution <input type="checkbox"/> 1 <input type="checkbox"/> 2 <input type="checkbox"/> 3																										
4b Taxable amount																										
5a Pensions and annuities																										
6a Social security benefits																										
7a Capital gain or (loss). Attach Schedule D if required																										
8 Additional income from Schedule 1, line 10																										
9 Add lines 1a, 2b, 3b, 4b, 5b, 6b, 7a, and 8. This is your total income																										
Adjusted Gross Income Line 11																										

Form 1040 (2025) Created 9/5/25

TREASURY/IRS AND OMB USE ONLY DRAFT

Form 1040 (2025) Page 2

Tax and Credits

11b Amount from line 11a (adjusted gross income) 11b

12a Someone can claim You as a dependent Your spouse as a dependent Spouse itemizes on a separate return You were a dual-status alien You: Were born before January 2, 1961 Are blind Spouse: Was born before January 2, 1961 Is blind

"Below the Line" Adjustments - Line 13

15 Subtract line 14 from line 11b. If zero or less, enter -0-. This is your taxable income 15

16 Tax (see instructions). Check if any from Form(s): 1 8814 2 4972 3 16

17 Amount from Schedule 2, line 3 17

18 Add lines 16 and 17 18

19 Child tax credit or credit for other dependents from Schedule 8812 19

20 Amount from Schedule 3, line 8 20

21 Add lines 19 and 20 21

22 Subtract line 21 from line 18. If zero or less, enter -0- 22

23 Other taxes, including self-employment tax, from Schedule 2, line 23 23

24 Add lines 22 and 23. This is your total tax 24

25 Federal income tax withheld from:

a Form(s) W-2 25a

b Form(s) 1099 25b

c Other forms (see instructions) 25c

d Add lines 25a through 25c 25d

26 2025 estimated tax payments and amount applied from 2024 return 26

If you made estimated tax payments with your former spouse in 2025, enter their SSN (see instructions):

27a Earned income credit (EIC) 27a

b Clergy filing Schedule SE (see instructions)

c If you do not want to claim the EIC, check here

28 Additional child tax credit (ACTC) from Schedule 8812. If you do not want to claim the ACTC, check here

29 American opportunity credit from Form 8863, line 8 29

30 Refundable adoption credit from Form 8839, line 13 30

31 Amount from Schedule 3, line 15 31

32 Add lines 27a, 28, 29, 30, and 31. These are your total other payments and refundable credits 32

33 Add lines 25d, 26, and 32. These are your total payments 33

Refund

34 If line 33 is more than line 24, subtract line 24 from line 33. This is the amount you overpaid 34

35a Amount of line 34 you want refunded to you. If Form 8888 is attached, check here 35a

b Routing number c Type: Checking Savings

d Account number

36 Amount of line 34 you want applied to your 2026 estimated tax 36

Amount You Owe

37 Subtract line 33 from line 24. This is the amount you owe. For details on how to pay, go to www.irs.gov/Payments or see instructions. 37

38 Estimated tax penalty (see instructions) 38

Third Party Designee

Do you want to allow another person to discuss this return with the IRS? See instructions. Yes. Complete below. No

Designee's name Phone no. Personal identification number (PIN)

Sign Here

Your signature Date Your occupation If the IRS sent you an Identity Protection PIN, enter it here (see inst.)

Spouse's signature, if a joint return, both must sign. Date Spouse's occupation If the IRS sent your spouse an Identity Protection PIN, enter it here (see inst.)

Phone no. Email address

Paid Preparer Use Only

Preparer's name Preparer's signature Date PTIN Check if: Self-employed

Firm's name Phone no. Firm's address Firm's EIN

Go to www.irs.gov/Form1040 for instructions and the latest information. Form 1040 (2025)

Internal Revenue Code



- A taxpayer **CAN DEDUCT** “Above the Line” adjustments when calculating NC taxable income **to the extent NC follows** (does not decouple) from the Code for that particular adjustment.
- Decoupling adjustments equal NC modifications to AGI
- **ALL** NC modifications required (or allowed) for tax year 2025 are listed on **Form D-400 Schedule S**.

TREASURY/IRS AND OMB USE ONLY DRAFT

Form 1040 (2025) U.S. Individual Income Tax Return 2025

Department of the Treasury—Internal Revenue Service

OMB No. 1545-0074 IRS Use Only—Do not write or staple in this space.

For the year Jan. 1–Dec. 31, 2025, or other tax year beginning 2025, ending 2025

Filed pursuant to section 301.9100-2 Combat zone Deceased / / Spouse / /

Your first name and middle initial Last name Your social security number

If joint return, spouse's first name and middle initial Last name Spouse's social security number

Home address (number and street), if you have a P.O. box, see instructions. Apt. no. Check here if your main home, and your spouse's if filing a joint return, was in the U.S. for more than half of 2025.

City, town, or post office, if you have a foreign address, also complete spaces below. State ZIP code Presidential Election Campaign Check here if you, or your spouse if filing jointly, want \$3 to go to this fund. Checking a box below will not change your tax or refund.

Foreign country name Foreign province/state/county Foreign postal code You Spouse

Filing Status Single Head of household (HOH) Qualifying surviving spouse (QSS) Married filing jointly (even if only one had income) Married filing separately (MFS). Enter spouse's SSN above and full name here: If you checked the HOH or QSS box, enter the child's name and full name here: If treating a nonresident alien or dual-status alien spouse as a U.S. resident for the entire tax year, check the box and enter their name (see instructions and attach statement if required):

Digital Assets At any time during 2025, did you: (a) receive (as a reward, award, or payment for property or services); or (b) sell, exchange, or otherwise dispose of a digital asset for a financial interest? (See instructions.) Yes No

Dependent 1	Dependent 2	Dependent 3	Dependent 4
(1) First name			
(2) Last name			
(3) SSN			
(4) Relationship			
(5) Check if lived with you more than half of 2025	(a) <input type="checkbox"/> Yes (b) <input type="checkbox"/> And in the U.S.	(a) <input type="checkbox"/> Yes (b) <input type="checkbox"/> And in the U.S.	(a) <input type="checkbox"/> Yes (b) <input type="checkbox"/> And in the U.S.
(6) Check if	<input type="checkbox"/> Full-time student <input type="checkbox"/> Permanently and totally disabled	<input type="checkbox"/> Full-time student <input type="checkbox"/> Permanently and totally disabled	<input type="checkbox"/> Full-time student <input type="checkbox"/> Permanently and totally disabled
(7) Credits	<input type="checkbox"/> Child tax credit <input type="checkbox"/> Credit for other dependents	<input type="checkbox"/> Child tax credit <input type="checkbox"/> Credit for other dependents	<input type="checkbox"/> Child tax credit <input type="checkbox"/> Credit for other dependents

Income

1a Total amount from Form(s) W-2, box 1 (see instructions) 1a

1b Household employee wages not reported on Form(s) W-2 1b

1c Tip income not reported on line 1a (see instructions) 1c

1d Social Security benefits not reported on Form(s) W-2 (see instructions) 1d

1e Taxable Social Security benefits from Form 2441, line 26 1e

1f Refundable adoption benefits from Form 8839, line 31 1f

1g Other income (see instructions), line 6 1g

1h Other income (see instructions). Enter type and amount. 1h

1i Nontaxable interest (see instructions) 1i

2a Tax-exempt interest 2a

2b Taxable interest 2b

3a Qualified dividends 3a

3b Ordinary dividends 3b

3c Check if your child's dividends are taxable 2 Line 3b 4b

4a IRA distributions 4a

4b Taxable amount 4b

5a Pensions and annuities 5a

5b Taxable amount 5b

6a Social security benefits 6a

6b Taxable amount 6b

7a Capital gain or (loss). Attach Schedule D if required 7a

7b Check if: Schedule D not required Includes child's capital gain or (loss) 7b

8 Additional income from Schedule 1, line 10 8

9 Add lines 1a, 2b, 3b, 4b, 5b, 6a, 7a, and 8. This is your total income 9

10 Adjusted Gross Income Line 10 10

11 Add lines 9 and 10. This is your taxable income 11

Form 1040 (2025) Created 9/5/25

TREASURY/IRS AND OMB USE ONLY DRAFT

Form 1040 (2025) Page 2

11b Amount from line 11a (adjusted gross income) 11b

12a Someone can claim You as a dependent Your spouse as a dependent Spouse itemizes on a separate return You were a dual-status alien Are blind Are blind Is blind Spouse: Was born before January 2, 1961 Is blind

12e 12e

13a 13a

13b 13b

14 14

15 Subtract line 14 from line 11b. If zero or less, enter -0-. This is your taxable income 15

16 Tax (see instructions). Check if any from Form(s): 1 8614 2 4972 3 16

17 Amount from Schedule 2, line 3 17

18 Add lines 16 and 17 18

19 Child tax credit or credit for other dependents from Schedule 8812 19

20 Amount from Schedule 3, line 8 20

21 Add lines 19 and 20 21

22 Subtract line 21 from line 18. If zero or less, enter -0- 22

23 Other taxes, including self-employment tax, from Schedule 2, line 23 23

24 Add lines 22 and 23. This is your total tax 24

25 Federal income tax withheld from: 25

a Form(s) W-2 25a

b Form(s) 1099 25b

c Other forms (see instructions) 25c

d Add lines 25a through 25c 25d

26 2025 estimated tax payments and amount applied from 2024 return 26

If you made estimated tax payments with your former spouse in 2025, enter their SSN (see instructions):

27a Earned income credit (EIC) 27a

b Clergy filing Schedule SE (see instructions)

c If you do not want to claim the EIC, check here

28 Additional child tax credit (ACTC) from Schedule 8812. If you do not want to claim the ACTC, check here 28

29 American opportunity credit from Form 8863, line 8 29

30 Refundable adoption credit from Form 8839, line 13 30

31 Amount from Schedule 3, line 15 31

32 Add lines 27a, 28, 29, 30, and 31. These are your total other payments and refundable credits 32

33 Add lines 25d, 26, and 32. These are your total payments 33

34 If line 33 is more than line 24, subtract line 24 from line 33. This is the amount you overpaid 34

35a Amount of line 34 you want refunded to you. If Form 8888 is attached, check here 35a

b Routing number Type: Checking Savings

d Account number

36 Amount of line 34 you want applied to your 2026 estimated tax 36

37 Subtract line 33 from line 24. This is the amount you owe. For details on how to pay, go to www.irs.gov/Payments or see instructions. 37

38 Estimated tax penalty (see instructions) 38

Third Party Designee Do you want to allow another person to discuss this return with the IRS? See instructions. Yes. Complete below. No

Designee's name Phone no. Personal identification number (PIN)

Under penalties of perjury, I declare that I have examined this return and accompanying schedules and statements, and to the best of my knowledge and belief, they are true, correct, and complete. Declaration of preparer (other than taxpayer) is based on all information of which preparer has any knowledge.

Sign Here Your signature Date Your occupation If the IRS sent you an Identity Protection PIN, enter it here (see inst.)

Joint return? See instructions. Keep a copy for your records. Spouse's signature. If a joint return, both must sign. Date Spouse's occupation If the IRS sent your spouse an Identity Protection PIN, enter it here (see inst.)

Phone no. Email address

Paid Preparer Use Only Preparer's name Preparer's signature Date PTIN Check if: Self-employed

Firm's name Phone no. Firm's address Firm's EIN

Go to www.irs.gov/Form1040 for instructions and the latest information. Form 1040 (2025)

NC Decoupling Adjustments for Individuals



Additions to AGI

Deductions from AGI

NCDOR | **D-400 Schedule S**
Web-Fill 9-25 | 2025 N.C. Adjustments for Individuals

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Part A. Additions to Federal Adjusted Gross Income (Only add items that are not included in federal adjusted gross income)

1. Interest Income From Obligations of States Other Than N.C.	▶ 1.	
2. Deferred Gains Reinvested Into an Opportunity Fund	▶ 2.	
3. Bonus Depreciation	▶ 3.	
4. IRC Section 179 Expense	▶ 4.	
5. S-Corporation Shareholder Built-in Gains Tax	▶ 5.	
6. Amount by Which Federal Basis Exceeds State Basis for Property Disposed of in 2025	▶ 6.	
7. Federal Net Operating Loss Deduction	▶ 7.	
8. State, Local, or Foreign Income Tax Deducted by an S Corporation, Partnership, or Estate and Trust	▶ 8.	
9. Withdrawal of 529 Plan Contributions Not Used for Permissible Purpose	▶ 9.	
10. Discharge of Qualified Principal Residence Indebtedness	▶ 10.	
11. Qualified Education Loan Payments Paid by Employer	▶ 11.	
12. Expenses Allocable to Income Exempt or Excluded From Gross Income	▶ 12.	
13. Discharge of Certain Student Loan Debt	▶ 13.	
14. Taxed Pass-Through Entity Loss	▶ 14.	
15. Reserved for Future Use	▶ 15.	
16. Total Additions - Add Lines 1 through 15 (Enter the total here and on Form D-400, line 7)	▶ 16.	

Part B. Deductions From Federal Adjusted Gross Income (Only deduct items that are included in federal adjusted gross income)

17. State or Local Income Tax Refund	▶ 17.	
18. Interest Income From Obligations of the United States or United States' Possessions	▶ 18.	

Barcode: 70208014027

Vertical text: DO NOT HANDWRITE ON THIS FORM

Page 2
D-400 Sch. S
Web-Fill 9-25

Last Name (First 10 Characters) [] Tax Year **2025** Your Social Security Number []

Part B. Deductions From Federal Adjusted Gross Income (Only deduct items that are included in federal adjusted gross income)

23. Bonus Depreciation	▶ 23a. 2020	▶ 23b. 2021	▶ 23c. 2022	▶ 23f.
▶ 23d. 2023	▶ 23e. 2024			
24. IRC Section 179 Expense	▶ 24a. 2020	▶ 24b. 2021	▶ 24c. 2022	▶ 24f.
▶ 24d. 2023	▶ 24e. 2024			
25. Recognized IRC Section 1400Z-2 Gain				▶ 25.
26. Gain From the Disposition of Exempt N.C. Obligations Issued Before July 1, 1995				▶ 26.
27. Exempt Income Earned or Received by a Member of a Federally Recognized Indian Tribe				▶ 27.
28. Amount by Which State Basis Exceeds Federal Basis for Property Disposed of in 2025				▶ 28.
29. Ordinary and Necessary Business Expense Reduced or not Allowed Due to Claiming a Federal Tax Credit in Lieu of a Deduction				▶ 29.
30. Personal Education Student Account Deposits				▶ 30.
31. Certain State Emergency Response and Disaster Relief Reserve Fund Payments				▶ 31.
32. Certain Economic Incentive Payments				▶ 32.
33. Certain N.C. Grant Payments				▶ 33.
34. Certain Net Operating Loss Carrybacks (Limited to 20% of amount added to AGI in tax years 2013 through 2019)				▶ 34.
35. Excess Net Operating Loss Carryforward (Limited to 20% of amount added to AGI in 2019 and 2020)				▶ 35.
36. Excess Business Loss (Limited to 20% of amount added to AGI in 2018, 2019, and 2020)				▶ 36.
37. Business Interest Limitation (Limited to 20% of amount added to AGI in 2019 and 2020)				▶ 37.
38. Taxed Pass-Through Entity Income	▶ 38a. N.C. Sourced	▶ 38b. Non-N.C. Sourced		▶ 38c.
39. N.C. Net Operating Loss				▶ 39.
40. Reserved for Future Use				▶ 40.
41. Total Deductions - Add Lines 17 through 22, 23f, 24f, 25 through 37, 38c, 39, and 40 (Enter the total here and on Form D-400, Line 9)				▶ 41.

Barcode: 70208014027

As of November 1, 2025, there are **No New NC Adjustments** that impact Tax Year 2025

If additional NC adjustments are enacted and the adjustments impact tax year 2025, the "reserved lines" will be used. Check the DOR website often!!



ncdor.gov

Reserved

Reserved

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NC Decoupling Adjustments for Individuals



The General Assembly **decoupled from** the following federal tax provisions that require an **addition** to AGI:

Federal Tax Provision	State Tax Provision
<p>The exclusion from gross income for cancellation of qualified principal residence debt.</p>	<p>Cancellation of qualified principal residence debt is generally included in the calculation of NC taxable income.</p> <p>For tax year 2025, see Form D-400 Schedule S, Part A, Line 10</p>
<p>The exclusion from gross income for payment of a qualified education loan by an employer.</p>	<p>Qualified education loans repaid by an employer (whether paid to the taxpayer or to a lender) is included in the calculation of NC taxable income.</p> <p>For tax year 2025, see Form D-400 Schedule S, Part A, Line 11</p>



NC Decoupling Adjustments for Individuals



The General Assembly **decoupled from** the following federal tax provisions that require an **addition** to AGI:

Federal Tax Provision	State Tax Provision
<p>The exclusion from gross income of student loan forgiveness to the extent of the loan was forgiven under IRC section 108(f)(5), as amended by ARPA.</p>	<p>Student loan forgiveness not included in gross income is generally included in the calculation of NC taxable income to the extent the loan was forgiven under IRC section 108(f)(5), as amended by ARPA.</p> <p>For tax year 2025, see Form D-400 Schedule S, Part A, Line 13</p> <p>Important Reminder: DOR issued an Important Notice dated December 14, 2022, that provides information on the State’s tax treatment of federal student loan forgiveness.</p>



NC Decoupling Adjustments for Individuals



The General Assembly **decoupled from** the following federal tax provisions that require an **addition** to AGI:

Federal Tax Provision	State Tax Provision
<p>The amount of expenses not included in AGI to the extent the expenses are allocable to income not taxed by NC.</p>	<p>For tax years beginning January 1, 2023, expenses not included in AGI that are allocable to income not taxed by NC are included in the calculation of NC taxable income.</p> <p>For tax year 2025, see Form D-400 Schedule S, Part A, Line 12</p>



NC Decoupling Adjustments for Individuals

The General Assembly **decoupled from** the federal bonus depreciation and section 179 expense. A taxpayer is required to add to AGI 85% of the amount taken under the Code. NC allows **THE** taxpayer who added back the expense to **deduct** from AGI 20% of the add-back in each of the first five taxable years following the year **THE** taxpayer is required to include the add-back in income.

Federal Tax Provision	State Tax Provision
<p>Accelerated depreciation expensed on qualifying assets (deducted from AGI) under IRC section 168(k) or IRC section 168(n).</p>	<p>85% of the expense deducted from AGI is included in calculation of NC taxable income , i.e., the add-back.</p> <p>For tax year 2025, see Form D-400 Schedule S, Part A, Line 3</p> <p>20% of the add-back can be deducted from AGI in calculation of NC taxable income in each of first 5 years after the add-back in income.</p> <p>For tax year 2025, see Form D-400 Schedule S, Part B, Line 23</p>
<p>Cost of certain qualifying property expensed (deducted from AGI) under IRC section 179.</p>	<p>85% of the expense deducted from AGI is included in calculation of NC taxable income , i.e., the “add-back”.</p> <p>For tax year 2025, see Form D-400 Schedule S, Part A, Line 4</p> <p>20% of the add-back can be deducted from AGI in calculation of NC taxable income in each of first 5 years after the add-back in income.</p> <p>For tax year 2025, see Form D-400 Schedule S, Part B, Line 24</p>

NC Decoupling Adjustments for Individuals



The General Assembly **decoupled from** the following federal tax provisions that allows a **deduction** from AGI:

Federal Tax Provision	State Tax Provision
<p>The inclusion of retirement pay in gross income when received by a qualified member of the US Uniformed Services.</p>	<p>Retirement pay received by a qualified member of the US Uniformed Services is not included in the calculation of NC taxable income.</p> <p>For tax year 2025, see Form D-400 Schedule S, Part B, Line 21</p> <p>Important Reminders: DOR issued an important notice dated May 2, 2022, (updated August 5, 2022) that provides responses to frequently asked questions related to the deduction.</p> <p>DO NOT commingle military retirement deduction with the Bailey retirement deduction</p>



NC Decoupling Adjustments for Individuals

The General Assembly **decoupled from** the federal NOL. This requires an addition to AGI. NC allows a **deduction** from AGI for the NC NOL.

Federal Tax Provision	State Tax Provision
<p>The amount of net operating loss (“federal NOL”) deducted in arriving at adjusted gross income (“AGI”).</p>	<p>The federal NOL is added to AGI in the calculation of NC taxable income. For tax year 2025, see Form D-400 Schedule S, Part A, Line 13</p> <p>The NC NOL is deducted from AGI in the calculation of NC taxable income. For tax year 2025, see Form D-400 Schedule S, Part A, Line 13</p> <p>Important Reminders</p> <p>If taxpayer claims a NC net operating loss on Form D-400 Schedule S, Line 39, attach Form NC NOL</p> <p>Use Form NC-NOL to determine the amount of NC NOL created in 2025 and to determine the amount of NC NOL available for use in tax year 2025.</p>

2025 NC NOL Worksheet

Page 1

Page 2

Page 3



NC-NOL 2025 Net Operating Loss Worksheet

Read the instructions before completing this worksheet. Failures to read the instructions in their entirety will result in an incorrect N.C. NOL calculation.

Name (First 10 Characters)

Federal Tax ID Number

Do not send a photocopy of this form.

Part 1. Net Operating Loss Calculation (Complete Part 1 to determine if you have an N.C. NOL for the tax year 2025)

1a. Federal Adjusted Gross Income	1a.		
1b. Additions to Federal Adjusted Gross Income	1b.		
1c. Add Lines 1a and 1b	1c.		
1d. Deductions from Federal Adjusted Gross Income	1d.		
1e. N.C. Standard Deduction Amount or N.C. Itemized Deduction Amount	1e.		
1f. Excess Business Loss Included as Other Income on your 2025 Federal Income Tax Return	1f.		
1g. Add Lines 1d through 1f	1g.		
1. Subtract Lines 1g from Line 1c		1.	
2. Nonbusiness Capital Losses (Enter as a positive number)	2.		
3. Nonbusiness Capital Gains (Without regard to any IRC section 1202 exclusion)	3.		
4. If Line 2 is greater than Line 3, subtract Line 3 from Line 2 and enter the difference. Otherwise, enter zero	4.		
5. If Line 3 is greater than Line 2, subtract Line 2 from Line 3 and enter the difference. Otherwise, enter zero	5.		
6. Nonbusiness Deductions (Enter as a positive number)	6.		
7. Nonbusiness Income Other than Capital Gains	7.		
8. Add Line 5 and Line 7	8.		
9. If Line 6 is greater than Line 8, subtract Line 8 from Line 6 and enter the difference. Otherwise, enter zero			9.
10. If Line 8 is greater than Line 6, subtract Line 6 from Line 8 and enter the difference. Otherwise, enter zero (Amount cannot exceed the amount entered on Line 5)	10.		
11. Business Capital Losses Before Limitations (Enter as a positive number)	11.		
12. Business Capital Gains (Without regard to any IRC section 1202 exclusion)	12.		
13. Add Line 10 and Line 12	13.		
14. Subtract Line 13 from Line 11. (If zero or less, enter zero)	14.		
15. Add Line 4 and Line 14	15.		
16a. Enter the amount of your Net Short-Term Capital Gain (Loss)	16a.		
16b. Enter the amount of your Net Long-Term Capital Gain (Loss)	16b.		
16c. Add Lines 16a and 16b	16c.		
16. Amount of Line 16c (Enter the amount as a positive number.) Important: If you do not have a loss on Line 16c (and do not have an IRC section 1202 exclusion), skip Lines 16 through 21 and enter the amount of Line 15 on Line 22.	16.		

Part 1. Net Operating Loss Calculation

17. IRC Section 1202 Exclusion from your 2025 Federal Income Tax Return		17.
18. Subtract Line 17 from Line 16. (If zero or less, enter zero)	18.	
19. Enter the smaller of Line 16 or \$3,000, or if you filed your N.C. tax return married filing separately, enter the smaller of Line 16 or \$1,500	19.	
20. If Line 18 is greater than Line 19, subtract Line 19 from Line 18 and enter the difference. Otherwise, enter zero.	20.	
21. If Line 19 is greater than Line 18, subtract Line 18 from Line 19 and enter the difference. Otherwise, enter zero.		21.
22. Subtract Line 20 from Line 15. (If zero or less, enter zero) Important: If you were not required to complete Lines 16 through 21, enter the amount from Line 15.		22.
23. N.C. NOL Deduction for Losses from Prior Years (Enter as a positive number)		23.
24. N.C. NOL (Add Lines 1, 9, 17, 21, 22, and 23. If the result is less than zero, enter the amount here. If the result is zero or more, you do not have an N.C. NOL.)		24.

Part 2A. Federal Net Operating Loss Carryover Deduction (Complete Part 2A to determine the amount of your Federal Net Operating Loss Carryover to deduct for tax year 2025)

Tax Year	Column A Federal NOL Incurred and not Absorbed by January 1, 2022	Column B Federal NOL Carryover Deducted as N.C. NOL in Tax Year 2025	Column C Federal NOL Carryover Remaining (Column A minus Column B)
1. 2010			
2. 2011			
3. 2012			
4. 2013			
5. 2014			
6. 2015			
7. 2016			
8. 2017			
9. 2018			
10. 2019			
11. 2020			
12. 2021			
	13. Federal NOL Carryover Deduction (Add Lines 1 through 12, Column B and enter the result here)		

Part 2B. North Carolina Net Operating Loss Carryover Deduction (Complete Part 2B to determine the amount of your N.C. Net Operating Loss Carryover to deduct for tax year 2025)

Tax Year	Column A N.C. NOL Carryover	Column B N.C. NOL Carryover Deducted as N.C. NOL in Tax Year 2025	Column C N.C. NOL Carryover Remaining (Column A minus Column B)
14. 2022			
15. 2023			
16. 2024			
	17. N.C. NOL Carryover Deduction (Add Lines 14 through 16, Column B and enter the result here)		

Part 2C. North Carolina Net Operating Loss Deduction (Complete Part 2C to determine the amount of your N.C. NOL Deduction for tax year 2025)

18. Federal NOL Carryover Deduction Amount (Enter the Federal NOL Carryover Deduction amount from Part 2A, Line 13)	18.
19. N.C. NOL Carryover Deduction Amount (Enter the N.C. NOL Carryover Deduction amount from Part 2B, Line 17)	19.
20. Total N.C. NOL Deduction (Add Lines 18 and 19 and enter the result here and on Form D-400, Schedule S, Line 30)	20.



**FASTEN YOUR SEAT BELTS, IT'S GOING TO
BE A BUMPY NIGHT! - AS MARGO
CHANNING IN ALL ABOUT EVE**

- BETTE DAVIS -



- The General Assembly is scheduled to convene for the 2026 Short Session on **April 21, 2026**.
- Even if the General Assembly enacts legislation to update the Code from January 1, 2023, to July 5, 2024, or later, the General Assembly may elect to continue to decouple from certain federal provisions.
- In that case, taxpayers will be required to adjust AGI (up or down) by using Form D-400 Schedule S.
- Individuals required to file a 2025 North Carolina income tax return and whose 2025 AGI is impacted by the changes to federal law included in the **Relief Act** or the **OBBBA** should check the Department's website for updates that will be posted as they become available.



- Individuals whose 2025 AGI is impacted by the changes to federal law may choose to wait to file their 2025 North Carolina income tax return until the General Assembly makes their determination.
- Individuals who choose to wait to file their 2025 NC tax return **must**:
 - (1) Be granted an automatic federal extension for tax year 2025, **or**
 - (2) File a NC application for extension, Form D-410, by the due date of the 2025 NC tax return.

Pending North Carolina Legislation





Significant Pending Legislation

Senate Bill 595 – Various Revenue Law Changes

- IRC Conformity (*Section 5.1*)
- Estate and Trust Changes Post Kaestner (*Section 1.3*)
- Withholding Updates (*Section 1.4*)
- Partnership Changes to Conform to Federal System for Auditing Partnerships (*Section 2*)



2025 Taxed Pass-Through Entities (PTEs) in NC Update

November 2025

NCDOR



- Background: What does a SALT Workaround do?
 - The TCJA, passed in 2017, limited the federal deduction for the amount of state and local taxes paid to \$10,000 for tax years 2018-2025.
 - IRS Notice 2020-75, permitted state pass-through entity taxes as a workaround to the SALT cap for individual taxpayers.
 - In general, these structures allow a pass-through entity to directly pay state taxes on business income and claim the corresponding federal deduction at the entity level (no SALT cap).
 - This allows individual owners to maximize their SALT deduction for that income.





- Background: NC Legislation
 - Session Law 2021-180, enacted November 18, 2021, created North Carolina's first SALT Workaround structure. This law contained a provision that allows certain pass-through entities ("PTEs") to elect to pay North Carolina income tax at the entity level (a "Taxed PTE").
 - Several other Session Laws updated and revised NC's SALT provisions (S.L. 2023-12, S.L. 2023-134, S.L. 2024-1, S.L. 2024-28 and S.L. 2024-51).





- Taxed PTE Summary

- North Carolina law allows eligible S Corporations and eligible partnerships to elect to be taxed for North Carolina income tax purposes at the entity level.
- This is a different taxation structure than the pre-existing S corporation composite returns and partnership payments made on behalf of nonresident partners (both of which are still available).
- If a PTE makes a timely election to pay North Carolina income tax as a Taxed PTE, the Taxed PTE pays income tax on the income of its shareholders or qualifying partners that is attributable to North Carolina.
- The tax on the Taxed PTE is imposed at the individual income tax rate for the applicable taxable year.
- Each Owner of the Taxed PTE is allowed to deduct the Owner's share of the Taxed PTE's income attributable to North Carolina on the Owner's North Carolina Tax Return.





- What type of entity is eligible to make the Taxed PTE Election?
 - An eligible S Corporation required to file an NC Tax Return under G.S. 105-131.7, and
 - An eligible partnership required to file an NC Tax Return under G.S. 105-154(c).
- NOTE: An entity that is not a PTE (for example, a sole proprietorship) is not eligible to make the Taxed PTE Election.





- How does an eligible PTE make the Taxed PTE Election?
 - An eligible PTE must make the Taxed PTE Election on its timely filed annual NC Tax Return.
 - The Taxed PTE Election is for the tax year covered by the return.
 - The Taxed PTE Election must be made by the due date of the PTE's annual return, including extensions.

- Can the Election be Changed or Revoked?
 - No. A PTE may not make or revoke the election after the original return is filed.





- Calculating Taxed PTE Tax
 - North Carolina taxable income of a Taxed PTE is determined by adding the following:
 - Each Owner's share of the Taxed PTE's income or loss, subject to the adjustments provided in G.S. 105-153.5 and 105-153.6, attributable to North Carolina.
 - Note: Resident Owners' shares of the Taxed PTE's income or loss not attributable to North Carolina are not included in the Taxed PTE's taxable income beginning with 2023.
 - Income attributable to North Carolina is defined as:
 - With respect to a partnership, all items of income, loss, deduction, or credit of the partnership apportioned and allocated to this State pursuant to G.S. 105-130.4.
 - With respect to an S Corporation, all items of income, loss, deduction, or credit of the S Corporation apportioned and allocated to this State pursuant to G.S. 105-130.4.



- Calculating Taxed PTE Tax
 - Taxed Partnerships with partnerships or corporations as partners do NOT include the income from these partners in the calculation of Taxed PTE tax. These partners are still subject to the provisions of G.S. 105-154(d).
 - A Taxed PTE calculates its North Carolina income tax by multiplying its North Carolina taxable income by the tax rate imposed on individuals.

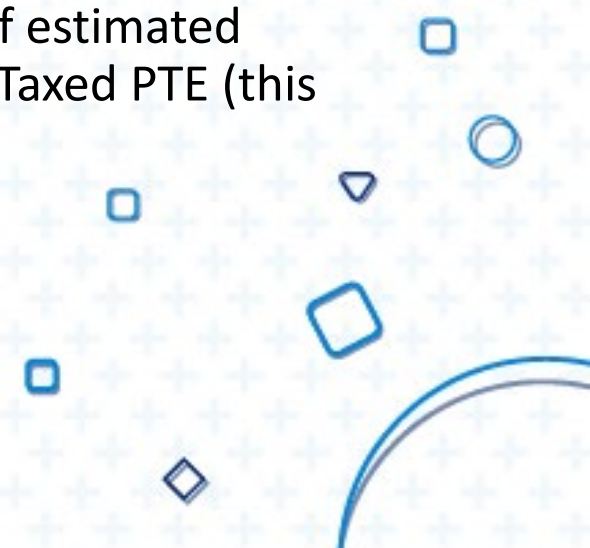


- FAQ: Is the federal deduction for _____ included in the taxable income of a Taxed PTE?
 - It depends. A deduction is included in the calculation of the Taxed PTE's North Carolina taxable income to the extent the deduction is included in the Taxed PTE's calculation of total income (loss). See federal Form 1065, Schedule K, Lines 1-11.





- Is a Taxed PTE required to pay estimated income tax payments?
 - Yes. A Taxed PTE that can reasonably expect to have a North Carolina income tax liability of at least five hundred dollars (\$500) is required to pay estimated tax payments in the same manner as a C corporation.
 - A Taxed PTE required to pay estimated income tax generally must make estimated tax payments in four equal installments.
 - Note: The Taxed PTE will not be subject to interest for underpayment of estimated income tax for the first tax year for which it makes the election to be a Taxed PTE (this includes all Taxed PTEs for the 2022 tax year).





- Taxed PTE Payments of Tax (Continued)

- Apart from any required estimated tax payments, the full amount of tax shown due on the Taxed PTE's North Carolina income tax return must be paid within the time allowed for filing the return. An extension of time to file is not an extension of time to pay.
- The Taxed PTE will be subject to interest and the failure to pay penalty if it fails to pay the tax due by the original due date of the return even if it is not required to make estimated tax payments.
- Note: The Department cannot transfer estimated income tax payments made by an individual to a Taxed PTE. Estimated income tax payments made by an individual that result in an overpayment of N.C. income tax can only be refunded to the individual.



- FAQ: When is my NC Taxed PTE payment claimed as a deduction for federal purposes?
 - Note: Section 164(a) of the Internal Revenue Code provides a deduction for state and local income taxes “paid or accrued.”
 - When a tax payment must be submitted to the Department in order for the payment to qualify as a deduction for federal income tax purposes is a federal tax question.





- Taxed PTE Owners

- Taxed PTEs only include income attributable to North Carolina in the calculation of Taxed PTE tax.
- A taxpayer that is an Owner of a Taxed PTE may deduct the amount of the taxpayer's share of income from the Taxed PTE to the extent it was included in the Taxed PTE's North Carolina taxable income and the taxpayer's adjusted gross income.
- Note this will only encompass income attributable to North Carolina beginning with tax year 2023.
- Resident owners are now also allowed a separate deduction for PTE income not attributable to North Carolina. See G.S. 105-153.5(c3)(1a) (for S corporation shareholders) and (3a) (for partnership partners).





- Taxed PTE Owners

- Taxed PTEs only include income attributable to North Carolina in the calculation of Taxed PTE tax.
- A taxpayer that is an Owner of a Taxed PTE may deduct the amount of the taxpayer's share of income from the Taxed PTE to the extent it was included in the Taxed PTE's North Carolina taxable income and the taxpayer's adjusted gross income.
- Note this will only encompass income attributable to North Carolina beginning with tax year 2023.
- Resident owners are now also allowed a separate deduction for PTE income not attributable to North Carolina. See G.S. 105-153.5(c3)(1a) (for S corporation shareholders) and (3a) (for partnership partners).



- **Bonus Depreciation**

- Except as specifically excluded by statute, the adjustments provided in G.S. 105-153.5 and 105-153.6 are included in the calculation of the tax imposed on Taxed PTEs.
- The required North Carolina adjustments, even when included in the amount of tax calculated for the Taxed PTE, must also be passed-through and reported on the Owners' NC Tax returns.
- The addition for bonus depreciation pursuant to G.S. 105-153.6 must be included in the calculation of the Taxed Pass-Through Entity's (Taxed PTE's) NC taxable income.
- Note: a deduction is included in the calculation of the Taxed PTE's North Carolina taxable income to the extent the deduction is included in the Taxed PTE's calculation of total income (loss). See federal Form 1065, Schedule K, Lines 1-11



- **Bonus Depreciation (Continued)**

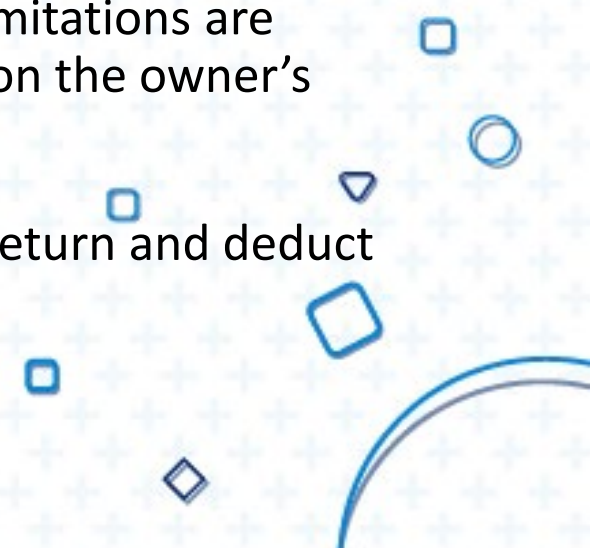
- Generally, the deduction for bonus depreciation allowed under G.S. 105-153.6 can be included in the calculation of the Taxed PTE's taxable income.
- Importantly, the Taxed PTE can only deduct bonus depreciation for partners who were partners in the partnership in the year the bonus depreciation addback was allocated to the partners and who are still partners in the partnership in the year of the deduction.





- **Section 179**

- Section 179 expense deduction is not included in the calculation of the Taxed PTE's total income (loss). See Form 1065, Schedule K, Line 12.
- Because the section 179 expense deduction is not included in the Taxed PTE's calculation of income (loss), no adjustment under G.S. 105-153.6(c) is required.
- Note: If the Taxed PTE has allocated a Code section 179 expense to its owners for federal income tax purposes, the Taxed PTE must provide a statement on each North Carolina K-1 that notifies the owner that North Carolina's dollar and investment limitations are different than the federal limitations and an addition may be required on the owner's North Carolina income tax return.
- The individual partner may choose to file a North Carolina income tax return and deduct the section 179 expense on their North Carolina income tax return.





- In 2015, Congress passed the Bipartisan Budget Act. Provisions in the BBA allow the IRS to conduct partnership-level audits and to assess the partnership, if necessary, as part of a centralized partnership audit regime. The BBA also impacts the reporting of partnership adjustments made on amended returns.
- The federal statutes and regulations allow, and in some cases require, certain adjustments resulting from partnership audits or amended returns to be “pushed out” to partners. If they are pushed out, partners will compute the tax difference for the reviewed year and will report the under- or over-paid amount either as “other tax” or a nonrefundable credit on their returns in the year of the adjustment.

BBA Adjustments and Audits



- Under the Code, these adjustments are generally not included in the calculation of a partner's adjusted gross income.
- North Carolina currently does not provide a mechanism to include these adjustments in North Carolina taxable income.
- Consequently, partners required to pay additional federal tax under the BBA will not have a corresponding North Carolina liability.
- Partners due a federal refund under the BBA will not have a mechanism to claim a corresponding North Carolina tax refund.



- S595, introduced in the 2025 session of the General Assembly, contained provisions addressing these adjustments for NC tax purposes.
- These provisions have not been enacted into law.





- In *North Carolina Department of Revenue v. Kimberly Rice Kaestner 1992 Family Trust*, the United States Supreme Court held that the presence of “in-state beneficiaries alone does not empower a state to tax trust income that has not been distributed to the beneficiaries where the beneficiaries have no right to demand that income and are uncertain ever to receive it.”
- However, while the Court held that North Carolina’s statute was unconstitutional as applied in the *Kaestner* decision, the Court did not fully define the circumstances under which the statute would be constitutional.



- Rather than define a subset of estates and trusts which are taxed on income regardless of the source of the income (and thus continuing to implicate the ambiguity of the *Kaestner* decision), S595 proposed limiting the taxation of undistributed trust income to income that is derived from North Carolina sources and is attributable to the ownership of any interest in real or tangible personal property in this State or is derived from a business, trade, profession, or occupation carried on in this State.
- These provisions have not been enacted into law.



Individual Income Tax Guidance



- 2024 Personal Taxes Bulletin (includes information about partnership, Taxed Partnerships, estates, trust, and withholding tax)
- 2024 Law Change Document
- Directives Impacting Personal Tax
- Important Notices Impacting Personal Tax
- 2025 Personal Taxes Bulletin should be available early 2026

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