

GENERAL ASSEMBLY OF NORTH CAROLINA

SESSION 1993

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HOUSE BILL 77

Short Title: Individual Income Tax Adjustments.

(Public)

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Sponsors: Representatives Gamble, Jarrell, Justus, Luebke, and Tallent.

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Referred to: Finance.

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February 9, 1993

A BILL TO BE ENTITLED

1 AN ACT TO MAKE CONFORMING CHANGES TO THE LAW PROVIDING FOR  
2 INDIVIDUAL INCOME TAX ADJUSTMENTS AND TO PROVIDE THAT  
3 EXPENSES PAID IN CONNECTION WITH INTEREST EARNED ON  
4 OBLIGATIONS ARE DEDUCTIBLE FROM AN INDIVIDUAL'S TAXABLE  
5 INCOME TO THE EXTENT THE INTEREST IS TAXABLE.  
6

7 The General Assembly of North Carolina enacts:

8 Section 1. G.S. 105-134.6 reads as rewritten:

9 **"§ 105-134.6. Adjustments to taxable income.**

10 (a) S Corporations. – The pro rata share of each shareholder in the income  
11 attributable to the State of an S Corporation shall be adjusted as provided in G.S. 105-  
12 130.5. The pro rata share of each resident shareholder in the income not attributable to  
13 the State of an S Corporation shall be subject to the adjustments provided in subsections  
14 ~~(b) and (c)~~ (b), (c), and (d) of this section.

15 (b) Deductions. – The following deductions from taxable income shall be  
16 made in calculating North Carolina taxable income, to the extent each item is included  
17 in ~~gross taxable~~ taxable income:

- 18 (1) Interest upon the obligations of (i) the United States or its possessions,  
19 (ii) this State or a political subdivision of this State, or (iii) a nonprofit  
20 educational institution organized or chartered under the laws of this  
21 State.  
22 (2) Interest upon obligations and gain from the disposition of obligations  
23 to the extent the interest or gain is exempt from tax under the laws of  
24 this State.

- 1 (3) Benefits received under Title II of the Social Security Act and amounts  
2 received from retirement annuities or pensions paid under the  
3 provisions of the Railroad Retirement Act of 1937.
- 4 (4) Repealed by Session Laws 1989 (Reg. Sess., 1990), c. 1002, s. 2.
- 5 (5) Refunds of state, local, and foreign income taxes included in the  
6 taxpayer's gross income.
- 7 (6) a. An amount, not to exceed four thousand dollars (\$4,000), equal to  
8 the sum of the amount calculated in subparagraph b. plus the amount  
9 calculated in subparagraph c.
- 10 b. The amount calculated in this subparagraph is the amount  
11 received during the taxable year from one or more state, local,  
12 or federal government retirement plans.
- 13 c. The amount calculated in this subparagraph is the amount  
14 received during the taxable year from one or more retirement  
15 plans other than state, local, or federal government retirement  
16 plans, not to exceed a total of two thousand dollars (\$2,000) in  
17 any taxable year.
- 18 d. In the case of a married couple filing a joint return where both  
19 spouses received retirement benefits during the taxable year, the  
20 maximum dollar amounts provided in this subdivision for  
21 various types of retirement benefits apply separately to each  
22 spouse's benefits.
- 23 (7) ~~The amount of inheritance tax attributable to an item of income in~~  
24 ~~respect of a decedent required to be included in gross income under the~~  
25 ~~Code, adjusted as provided in G.S. 105-134.5, 105-134.6, and 105-~~  
26 ~~134.7. The amount of inheritance tax attributable to an item of income~~  
27 ~~in respect of a decedent is (i) the amount by which the inheritance tax~~  
28 ~~paid under Article 1 of this Chapter on property transferred to a~~  
29 ~~beneficiary by a decedent exceeds the amount of inheritance tax that~~  
30 ~~would have been payable by the beneficiary if the item of income in~~  
31 ~~respect of a decedent had not been included in the property transferred~~  
32 ~~to the beneficiary by the decedent, (ii) multiplied by a fraction, the~~  
33 ~~numerator of which is the amount required to be included in gross~~  
34 ~~income for the taxable year under the Code, adjusted as provided in~~  
35 ~~G.S. 105-134.5, 105-134.6, and 105-134.7, and the denominator of~~  
36 ~~which is the total amount of income in respect of a decedent~~  
37 ~~transferred to the beneficiary by the decedent. For an estate or trust,~~  
38 ~~the deduction allowed by this subdivision shall be computed by~~  
39 ~~excluding from the gross income of the estate or trust the portion, if~~  
40 ~~any, of the items of income in respect of a decedent that are properly~~  
41 ~~paid, credited, or to be distributed to the beneficiaries during the~~  
42 ~~taxable year.~~
- 43 ~~The Secretary of Revenue may provide to a beneficiary of an item~~  
44 ~~of income in respect of a decedent any information contained on an~~

1 ~~inheritance tax return that the beneficiary needs to compute the~~  
2 ~~deduction allowed by this subdivision. Recodified as G.S. 105-~~  
3 ~~134.6(d)(2).~~

- 4 (8) ~~The amount by which the taxpayer's deductions allowed under the~~  
5 ~~Code were reduced, and the amount of the taxpayer's deductions that~~  
6 ~~were not allowed, because the taxpayer elected a federal tax credit in~~  
7 ~~lieu of a deduction, to the extent that a similar credit is not allowed by~~  
8 ~~this Division for the amount. Recodified as G.S. 105-134.6(d)(3).~~

9 (c) Additions. – The following additions to taxable income shall be made in  
10 calculating North Carolina taxable income, to the extent each item is not included in  
11 gross-taxable income:

- 12 (1) Interest upon the obligations of states, other than this State, and their  
13 political subdivisions.
- 14 (2) Any amount allowed as a deduction from gross income under the Code  
15 that is taxed under the Code by a separate tax other than the tax  
16 imposed in section 1 of the Code.
- 17 (3) Any amount deducted from gross income under section 164 of the  
18 Code as state, local, or foreign income tax to the extent that the  
19 taxpayer's total itemized deductions deducted under the Code for the  
20 taxable year exceed the standard deduction allowable to the taxpayer  
21 under the Code reduced by the amount by which the taxpayer's  
22 allowable standard deduction has been increased under section  
23 63(c)(4) of the Code.
- 24 (4) The amount by which the taxpayer's standard deduction has been  
25 increased for inflation under section 63(c)(4) of the Code and the  
26 amount by which the taxpayer's personal exemptions have been  
27 increased for inflation under section 151(d)(4) of the Code. For the  
28 purpose of this subdivision, if the taxpayer's personal exemptions have  
29 been reduced by the applicable percentage under section 151(d)(3) of  
30 the Code, the amount by which the personal exemptions have been  
31 increased for inflation is also reduced by the applicable percentage.
- 32 (5) The fair market value, up to a maximum of one hundred thousand  
33 dollars (\$100,000), of the donated property interest for which the  
34 taxpayer claims a credit for the taxable year under G.S. 105-151.12  
35 and the market price of the gleaned crop for which the taxpayer claims  
36 a credit for the taxable year under G.S. 105-151.14.
- 37 (6) Expenses paid in connection with income deducted from taxable  
38 income under subdivision (b)(1) or (2) of this section.

39 (d) Other Adjustments. – The following adjustments to taxable income shall be  
40 made in calculating North Carolina taxable income:

- 41 (1) Expenses paid in connection with income added to taxable income  
42 under subdivision (c)(1) of this section may be deducted.
- 43 (2) The amount of inheritance tax attributable to an item of income in  
44 respect of a decedent required to be included in gross income under the

1 Code, adjusted as provided in G.S. 105-134.5, 105-134.6, and 105-  
2 134.7, may be deducted in the year the item of income is included.  
3 The amount of inheritance tax attributable to an item of income in  
4 respect of a decedent is (i) the amount by which the inheritance tax  
5 paid under Article 1 of this Chapter on property transferred to a  
6 beneficiary by a decedent exceeds the amount of inheritance tax that  
7 would have been payable by the beneficiary if the item of income in  
8 respect of a decedent had not been included in the property transferred  
9 to the beneficiary by the decedent, (ii) multiplied by a fraction, the  
10 numerator of which is the amount required to be included in gross  
11 income for the taxable year under the Code, adjusted as provided in  
12 G.S. 105-134.5, 105-134.6, and 105-134.7, and the denominator of  
13 which is the total amount of income in respect of a decedent  
14 transferred to the beneficiary by the decedent. For an estate or trust,  
15 the deduction allowed by this subdivision shall be computed by  
16 excluding from the gross income of the estate or trust the portion, if  
17 any, of the items of income in respect of a decedent that are properly  
18 paid, credited, or to be distributed to the beneficiaries during the  
19 taxable year.

20 The Secretary of Revenue may provide to a beneficiary of an item  
21 of income in respect of a decedent any information contained on an  
22 inheritance tax return that the beneficiary needs to compute the  
23 deduction allowed by this subdivision.

24 (3) The taxpayer may deduct the amount by which the taxpayer's  
25 deductions allowed under the Code were reduced, and the amount of  
26 the taxpayer's deductions that were not allowed, because the taxpayer  
27 elected a federal tax credit in lieu of a deduction. This deduction is  
28 allowed only to the extent that a similar credit is not allowed by this  
29 Division for the amount."

30 Sec. 2. G.S. 105-131.2(a) reads as rewritten:

31 "(a) Adjustment. The pro rata share of each shareholder in the income attributable  
32 to the State of an S Corporation shall be ~~subject to the adjustments~~ adjusted as provided in  
33 G.S. 105-130.5. The pro rata share of each resident shareholder in the income not  
34 attributable to the State of an S Corporation shall be ~~subject to the adjustments~~ provided in  
35 ~~G.S. 105-134.6(b) and (c)~~ adjusted as provided in G.S. 105-134.6(b), (c), and (d)."

36 Sec. 3. This act is effective for taxable years beginning on or after January 1,  
37 1993.