

# 2012

# North Carolina Individual Income Tax Instructions for Form D-400



**Make it Easy on  
Yourself...**

**File Your  
Return  
Electronically!**

**DECLARACIÓN  
ELECTRÓNICA  
(EN ESPAÑOL)**

**EASY · CONVENIENT · SAFE**

## New for 2012

- **The starting point for the computation of North Carolina taxable income has changed from federal taxable income to federal adjusted gross income.**
- An addition is required on the 2012 income tax return for taxpayers claiming bonus depreciation. (See Page 13)
- A deduction is allowed for individuals who added back bonus depreciation and section 179 expense deduction on their 2011 income tax return. (See Page 15)
- A \$250 educator expense deduction will be allowed on the North Carolina return for 2012 if the federal deduction for educator expenses is not extended. (See Page 15)
- Certain taxpayers are allowed a deduction of up to fifty thousand dollars (\$50,000) of net business income included in federal adjusted gross income that is not considered passive under the Internal Revenue Code. (See Page 15)
- The tax credit for small businesses that pay N.C. unemployment insurance has expired.

## IMPORTANT

At the time this publication went to print, Congress was considering legislation that may extend certain federal tax provisions along with other possible new tax legislation that may affect North Carolina taxable income. Before filing your 2012 North Carolina income tax return, please check the Department's website to see what action was taken by Congress. You may also call the Department at 1-877-252-3052.

N.C. DEPARTMENT OF REVENUE, P.O. BOX 25000, RALEIGH, NC 27640-0100

[www.dornc.com](http://www.dornc.com)

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**Frequently Asked Questions**      *Call us 24 hours a day, 7 days a week to get recorded information on many frequently asked income tax questions. (See page 32)*

Our NCDOR website offers e-file options and a list of approved e-file vendors. The list is located at <http://www.dornc.com/electronic/individual/developerlist.pdf>




Join over **3 million taxpayers** that filed their North Carolina income taxes **electronically last year** – it improves processing, saves time, and reduces cost.

**You May Be Eligible to E-File for Free!** **Free**

To find out if you qualify for FREE or LOW COST e-filing, we encourage you to click on the NCfreefile logo located on our website at <http://www.dornc.com/electronic/e-file.html>

**Friendly and Confidential Customer Service**

For assistance in e-filing your returns, utilize the "Help" features that are provided by each software product.




**Convenience of Direct Deposit**

Electronic Filing offers the option of having your refund deposited directly into your bank account, thereby, eliminating the possibility of your refund check being lost, stolen, or returned due to an incomplete/incorrect address. The direct deposit option is available only if you E-File your return. **(Please be sure to verify that your bank account information is accurate prior to submitting your return. Incorrect banking information may delay your refund and/or result in you receiving a paper check)**


**Safe and Confidential**

The Department complies with IRS security standards to safe guard your tax data.




**Avoid Long Lines at the Post Office**

Why wait in long lines at the post office? If you e-file your return, you will receive electronic confirmation that your return has been received.



**More Accurate than Paper Returns**

Computerized calculations are automatic and lower the chance of errors on the return.



Make it easy on yourself... File your return electronically

**North Carolina income tax filers are encouraged to file returns electronically and pay taxes online through [www.dornc.com](http://www.dornc.com).**



**Safe and Secure E-Filing Options for Individuals:**

**Free File... You may be eligible to e-file for FREE!!!**

To find out if you qualify for Free File, please review the Quick Guide to Eligibility Requirements for Free File and Low Cost by clicking on the on the NCfreefile logo located on our website at <http://www.dornc.com/electronic/e-file.html>

**Low Cost**

If you do not qualify for free electronic filing, you may be eligible to electronically file your Federal and State returns at a low cost. The software prices are listed from lowest to highest on our website. To access the list of Low Cost options, click on the NCfreefile logo located on our website at <http://www.dornc.com/electronic/e-file.html>

**VITA/TCE**

Volunteer Income Tax Assistance/Tax Counseling for the Elderly (VITA/TCE) programs offer free Federal and State tax preparation and electronic filing for taxpayers with low or moderate income, disabilities, non-English speaking, or the elderly. Call the IRS at 1-800-829-1040 for a location.

**How Do I E-File?**

**Use Your Computer**

Visit our website at [www.dornc.com](http://www.dornc.com) to access E-File services available at no cost to eligible taxpayers or use a commercial tax preparation software for a modest fee. A link to approved software products sites is located on our website.

**Ask Your Tax Preparer to File Your Federal and State Returns Electronically**

**“Where’s my Refund?” and Other Electronic Services**

[www.dornc.com](http://www.dornc.com)

Click **Electronic Services** and select **Individuals**.

**Where’s My Refund?**

Track the status of your current individual income tax refund, amended returns and prior year returns filed late.

**D-400V Individual Income Payment Voucher**

Pay your current year individual income tax.

**Bills and Notices**

Make a payment on a bill or notice that you received from the Department of Revenue.

**NC-40 Individual Estimated Income Tax**

Pay your individual estimated income tax payments online.

**D-410 Application for Extension for Filing Individual Income Tax Return**

File your individual income tax extension and pay the tax electronically.

**D-400V Amended Individual Income Payment Voucher**

Pay the tax on your individual income tax amended return.

**E-Alerts**

Join our Tax Updates Mailing List. Mailings through this list will include bulletins, directives, and other important notices about law changes and related tax matters.

**Before You Begin**

The forms in this booklet are designed for electronic scanning that permits faster processing with fewer errors. To avoid unnecessary delays caused by manual processing, please follow the guidelines below:

**Important:** You must enter your social security number(s) in the appropriate boxes on the forms. Otherwise, we may be unable to process your return.

- Be sure to enter your complete address on your return, including your apartment number, if applicable.
- Make sure you have received all of your W-2s, 1099s, and other tax documents that you need to prepare your return.
- **Do not** submit photocopies of the return. Submit original forms only. **Do not** use any prior year forms.
- **Use black or blue ink only. Do not use red ink or pencil.**
- Write your numbers in the boxes like this: 

		1	7	3	6	0	0	0
--	--	---	---	---	---	---	---	---
- **Do not** use dollar signs (\$), commas, decimal points, or other punctuation marks like this: 

		\$	1	7	3	6	0	0
--	--	----	---	---	---	---	---	---
- **Do not** use brackets to indicate negative numbers. Negative numbers are indicated by filling in the circle next to the number.
- **Do not** enter zeros or draw lines in boxes where no data is required.
- Round off to the nearest whole dollar. Drop amounts under 50 cents and increase amounts from 50 cents to 99 cents to the next whole dollar.
- Use capital letters.
- Print letters and numbers like this: 

A	B	C	D	E	F	G	H	I	J	K	L	M	N	O	P	Q	R	S	T	U	V	W	X	Y	Z
---	---	---	---	---	---	---	---	---	---	---	---	---	---	---	---	---	---	---	---	---	---	---	---	---	---

0	1	2	3	4	5	6	7	8	9
---	---	---	---	---	---	---	---	---	---

- Fill in applicable circles completely. **Example:**

<input checked="" type="radio"/>	Yes	<input type="radio"/>	No
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## Instructions for Filing Form D-400

The information contained in this booklet is to be used as a guide in the preparation of a North Carolina individual income tax return and is not intended to cover all provisions of the law.

### Filing Requirements

The minimum gross income filing requirements under North Carolina law are different from the filing requirements under the Internal Revenue Code because North Carolina law does not adjust the standard deduction and personal exemption for inflation as required by the Internal Revenue Code.

#### Who is required to file a North Carolina individual income tax return?

- Every resident of North Carolina whose income for the taxable year exceeds the amount for his filing status shown in Chart A or B.
- Every part-year resident who received income while a resident of North Carolina or who received income while a nonresident attributable to the ownership of any interest in real or tangible personal property in North Carolina or derived from a business, trade, profession or occupation carried on in North Carolina, or is derived from gambling activities in North Carolina and whose total income for the taxable year exceeds the amount for his

filing status shown in Chart A or B.

- Every nonresident who received income for the taxable year from North Carolina sources that was attributable to the ownership of any interest in real or tangible personal property in North Carolina or derived from a business, trade, profession, or occupation carried on in North Carolina, or is derived from gambling activities in North Carolina and whose total income from all sources both inside and outside of North Carolina equals or exceeds the amount for his filing status shown in Chart A or B.
- If you are eligible to claim the State Earned Income Tax Credit or if you had North Carolina income tax withheld during the year but your income is below the amount required for filing, as shown in Chart A or B, you must still file a return to receive a refund.

If you were not required to file a federal income tax return but your gross income from all sources both inside and outside of North Carolina equals or exceeds the amount for your filing status shown in Chart A or B, you must complete a federal return and attach it to your North Carolina income tax return to show how your federal adjusted gross income, deductions, and exemptions were determined.

You and your spouse must file a joint North Carolina return if you file a joint federal income

tax return, and both of you were residents of North Carolina or both of you had North Carolina taxable income.

If you file a joint federal return and your spouse is a nonresident of North Carolina and had no North Carolina taxable income, you may file a joint State return. Once you file a joint return, you cannot choose to file separate returns for that year after the due date of the return. However, you still have the option of filing your State return as married filing separately. If you choose to file a separate North Carolina return, you must complete either a federal return as married filing separately reporting only your income, deductions, and exemptions or a schedule showing the computation of your separate income, deductions, and exemptions and attach it to your North Carolina return. You must also include a copy of your joint federal return unless your federal return reflects a North Carolina address.

When filing a joint return, include the name and social security number of each spouse on the return. Both spouses are jointly and severally liable for the tax due on a joint return unless one spouse qualifies for innocent spouse relief for federal income tax purposes as a result of the "innocent spouse" rules provided under Internal Revenue Code Section 6015.

### Chart A — For Most Taxpayers (See Chart B for children and other dependents)

<u>Filing Status</u>	<u>A Return is Required if Federal Gross Income Exceeds</u>
(1) Single.....	\$ 5,500
Single (age 65 or over) .....	\$ 6,250
(2) Married - Filing Joint Return .....	\$11,000
Married - Filing Joint Return (one age 65 or over) .....	\$11,600
Married - Filing Joint Return (both age 65 or over) .....	\$12,200
(3) Married - Filing Separate Return .....	\$ 2,500
(4) Head of Household .....	\$ 6,900
Head of Household (age 65 or over) .....	\$ 7,650
(5) Qualifying Widow(er) with dependent child.....	\$ 8,500
Qualifying Widow(er) (age 65 or over).....	\$ 9,100

### Filing Requirements for Children and Other Dependents

If another person (such as your parent) can claim you as a dependent on their federal income tax return, use Chart B on Page 5 to see if you must file a North Carolina income tax return.

**Chart B – For Children and Other Dependents**

<p><b>Single dependents.</b> Were you <b>either</b> age 65 or older <b>or</b> blind?</p> <p><input type="checkbox"/> <b>No.</b> You must file a return if <b>any</b> of the following apply to you.</p> <ul style="list-style-type: none"> <li>• Unearned income was over \$500</li> <li>• Earned income was over \$3,000</li> <li>• Gross income was more than the <b>larger of</b>-             <ul style="list-style-type: none"> <li>• \$500, or</li> <li>• Earned income (up to \$2,700) plus \$300</li> </ul> </li> </ul> <p><input type="checkbox"/> <b>Yes.</b> You must file a return if <b>any</b> of the following apply to you.</p> <ul style="list-style-type: none"> <li>• Unearned income was over \$1,250 (\$2,000 if 65 or older <b>and</b> blind)</li> <li>• Earned income was over \$3,750 (\$4,500 if 65 or older <b>and</b> blind)</li> <li>• Gross income was more than-             <table style="margin-left: 20px;"> <tr> <td style="border-bottom: 1px solid black; width: 100px;">The larger of-</td> <td style="font-size: 2em; vertical-align: middle;">}</td> <td style="border-bottom: 1px solid black;">This amount:</td> </tr> <tr> <td>• \$500, or</td> <td></td> <td><b>\$750 (\$1,500 if 65 or older and blind)</b></td> </tr> </table> </li> <li>• Earned income (up to \$2,700) plus \$300</li> </ul>	The larger of-	}	This amount:	• \$500, or		<b>\$750 (\$1,500 if 65 or older and blind)</b>	<p><b>Married dependents.</b> Were you <b>either</b> age 65 or older <b>or</b> blind?</p> <p><input type="checkbox"/> <b>No.</b> You must file a return if <b>any</b> of the following apply to you.</p> <ul style="list-style-type: none"> <li>• Gross income was at least \$10 and your spouse files a separate return and itemizes deductions.</li> <li>• Unearned income was over \$500</li> <li>• Earned income was over \$3,000</li> <li>• Gross income was more than the <b>larger of</b>-             <ul style="list-style-type: none"> <li>• \$500, or</li> <li>• Earned income (up to \$2,700) plus \$300</li> </ul> </li> </ul> <p><input type="checkbox"/> <b>Yes.</b> You must file a return if <b>any</b> of the following apply.</p> <ul style="list-style-type: none"> <li>• Unearned income was over \$1,100 (\$1,700 if 65 or older <b>and</b> blind)</li> <li>• Earned income was over \$3,600 (\$4,200 if 65 or older <b>and</b> blind)</li> <li>• Gross income was at least \$10 and your spouse files a separate return and itemizes deductions</li> <li>• Gross income was more than-             <table style="margin-left: 20px;"> <tr> <td style="border-bottom: 1px solid black; width: 100px;">The larger of-</td> <td style="font-size: 2em; vertical-align: middle;">}</td> <td style="border-bottom: 1px solid black;">This amount:</td> </tr> <tr> <td>• \$500, or</td> <td></td> <td><b>\$600 (\$1,200 if 65 or older and blind)</b></td> </tr> </table> </li> <li>• Earned income (up to \$2,700) plus \$300</li> </ul>	The larger of-	}	This amount:	• \$500, or		<b>\$600 (\$1,200 if 65 or older and blind)</b>
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The larger of-	}	This amount:											
• \$500, or		<b>\$600 (\$1,200 if 65 or older and blind)</b>											
<p><b>Unearned income</b> includes taxable interest, dividends, capital gains, pensions, annuities, and social security benefits. <b>Earned Income</b> includes salaries, wages, tips, professional fees, scholarships that must be included in income, and other compensation received for personal services. <b>Gross income</b> is the total of your unearned and earned income.</p>													

**The Income Tax Return**

All individuals (including part-year residents and nonresidents) must file their income tax return on Form D-400. If applicable, be sure to read the section entitled **Information for Part-Year Residents and Nonresidents.**

**When to File**

If you file your return on a calendar year basis, it is due on or before April 15 of the following year. A fiscal year return is due on the 15th day of the 4th month following the end of the taxable year. When the due date falls on a Saturday, Sunday, or holiday, the return is due on or before the next business day. A fiscal year return should be filed on a tax form for the year in which the fiscal year begins (For example: A 2012 tax form should be used for a fiscal year beginning in 2012).

**Nonresident Aliens:** Nonresident aliens are required to file returns at the same time they are required to file their federal returns.

**Extensions**

If you cannot file your return by the due date, you may apply for an automatic 6-month extension of time to file the return. **To receive the extension, you must file Form D-410, Application for Extension for Filing Individual Income Tax Return, by the original due date of the return.** You can file Form D-410 online at [www.dorn.com](http://www.dorn.com). Click on **Electronic Services.** You should apply for an extension even if you believe you will be due a refund but cannot file by the due date.

You are not required to send a payment of the tax you estimate as due to receive the extension; however, it will benefit you to pay as much as you can with the extension request. **An extension of time for filing the return does not extend the time for paying the tax.** If you do not pay the amount due by the original due date, you will owe a 10 percent late-payment penalty and interest. The late-payment penalty will not be due

if you pay at least 90 percent of your tax liability through withholding, estimated tax payments, or with Form D-410 by the original due date.

A late-filing penalty may be assessed if your return is filed after the due date (including extensions). The penalty is 5 percent per month (\$5.00 minimum; 25 percent maximum) on the remaining tax due.

If you do not file the application for extension by the original due date of the return, you are subject to both a late-filing penalty and a late-payment penalty.

**Out of the Country:** If you were a U.S. citizen or resident and were out of the country on the regular due date of your return (April 15), you are granted an automatic 4-month extension for filing your North Carolina return if you fill in the "Out of the Country" circle on Page 1 of your return. "Out of the Country" means you live outside the United States and Puerto Rico and your main place of work is outside the United States and Puerto Rico, or you are in military service outside the United States and Puerto Rico. The time for payment of the tax is also extended; however, interest is due on any unpaid tax from the original due date of the return until the tax is paid. If you are unable to file the return within the automatic 4-month extension period, an additional 2-month extension may be obtained by following the provisions in the first paragraph of this section; however, Form D-410 must be filed by the automatic 4-month extended date of August 15.

**General Refund Information**

If you owe another State or local agency, the amount you owe may be deducted from your refund. If you have an outstanding federal income tax liability, the Internal Revenue Service may claim your North Carolina refund.

**Need to Call Us About Your Refund?**

You can check the status of your refund at

[www.dorn.com](http://www.dorn.com). The automated refund inquiry line 1-877-252-4052 (toll-free) will also give you the status of your current refund. You can also obtain amended return refund information. Service is available 24 hours a day seven days a week. You will need the first social security number and the amount of refund shown on your return when you call.

**How to Pay Your Tax**

If you owe additional tax, you can pay online by bank draft or credit or debit card using Visa or MasterCard. To pay online, go to the Department's website at [www.dorn.com](http://www.dorn.com) and click on **Electronic Services.**

You can also pay by check or money order. **Do not send cash.** The Department will not accept a check, money order, or cashier's check unless it is drawn on a U.S. (domestic) bank and the funds are payable in U.S. dollars. Make your check or money order payable to the N.C. Department of Revenue for the full amount due. Write "2012 D-400" and your name, address, and social security number on your payment. If you are filing a joint return, write both social security numbers on your payment in the order that they appear on the return. If you do not pay your tax online, you may go to our website and generate a personalized Form D-400V. Enclose the voucher with your return and payment, and mail to the address listed on page 4 of Form D-400. If you use tax software to prepare your return, be sure to include with your return and payment the Form D-400V generated by the software package.

**Estimated Income Tax**

You are required to pay estimated income tax if the tax shown due on your return, reduced by your North Carolina tax withheld and allowable tax credits, is \$1,000 or more regardless of the amount of income you have that is not subject to withholding. Each payment of estimated tax must be accompanied by **Form NC-40, North Carolina Individual Estimated Income Tax.** If you are filing estimated tax for the first time,

## Instructions for Filing Form D-400

contact any of our offices so that appropriate forms can be mailed to you. You can also pay your estimated tax online at [www.dorn.com](http://www.dorn.com). Click on **Electronic Services**.

You should prepare your estimated tax carefully, both to avoid having to pay a large amount of tax when you file your return, and to avoid owing interest for underpayment of estimated income tax. Payment of estimated tax does not relieve you of your responsibility for filing a return if one is due.

### Statute of Limitations

Generally, to receive a refund, your return must be filed within three years from the date the original return was due or within two years after the tax was paid, whichever date is later. However, special rules extending the time for filing refund claims beyond the normal three-year statute of limitations apply to overpayments attributable to (1) worthless debts or securities, (2) capital loss carrybacks, or (3) net operating loss carrybacks. For overpayments resulting from worthless debts or securities, the period of time for demanding an overpayment is seven years; for overpayments resulting from capital loss or net operating loss carrybacks, the period of time is three years from the due date of the return for the year in which the loss was incurred rather than three years from the due date of the return for the year to which the loss is carried back.

### Amended Returns

To amend returns for tax years 2008 and prior, use Form D-400X, Amended North Carolina Individual Income Tax Return. To amend returns for tax years 2009 through 2011, you must complete a corrected Form D-400, Individual Income Tax Return with the amended indicator filled in for the tax year you are amending. You must also complete Form D-400X-WS, Worksheet for Amending Individual Income Tax Return, and attach it to the front of the corrected D-400, Individual Income Tax Return. Do not send a copy of the original return. **Important: For tax year 2012, use Form D-400X, Amended North Carolina Individual Income Tax Return for filing a 2012 amended return.** Amended returns on which you owe additional tax are required to be filed and the tax paid within three years after the date on which the original return was filed or within three years from the date required by law for filing the return, whichever is later.

If changes are made to your federal return by the Internal Revenue Service, you must report the changes to the State by filing an amended return within six months from the date you receive the report from the Internal Revenue Service. If you do not amend your State return to reflect the federal changes and the Department of Revenue receives the report from the Internal Revenue Service, an assessment may be made by the Department within three years from the date of receipt of the report, and you forfeit your right to any refund which might have been due by reason of the changes.

### Penalties and Interest

**Failure to file penalty.** Returns filed after the due date are subject to a penalty of 5 percent of the tax for each month, or part of a month, the return is late (minimum \$5.00; maximum 25 percent of the additional tax). If you file your return late, figure the amount of the penalty and add it to the tax due.

**Failure to pay penalty.** Returns filed after April 15 without a valid extension are subject to a late-payment penalty of 10 percent of the unpaid tax. If you have an extension of time for filing your return, the 10 percent penalty will apply on the remaining balance due if the tax paid by the original due date of the return is less than 90 percent of the total amount of tax due. If the 90 percent rule is met, any remaining balance due, including interest, must be paid with the income tax return on or before the extended due date to avoid the late-payment penalty. The minimum penalty is \$5.00. If your payment is late, figure the amount of the penalty and add it to the tax due. The late-payment penalty will not be assessed if the amount shown due on an amended return is paid with the return. Proposed assessments of additional tax due are subject to the 10 percent late-payment penalty if payment of the tax is not received within 45 days of the assessment.

**Other penalties.** There are other penalties for negligence, filing a frivolous return, and fraud. Criminal penalties also apply for fraud with intent to evade or defeat the tax and for willful failure to file a return, supply information, or pay the tax.

**Collection Assistance Fee.** Any tax, penalty, and interest not paid within 90 days after the debt becomes collectible is subject to a 20 percent collection assistance fee.

**Interest.** Interest is due on tax not paid by April 15, even though you may have an extension of time for filing your return. You may obtain the current interest rate from any of the Department's offices. If you pay your tax late, figure the amount of interest due and include it with the tax and any applicable penalty.

**Interest on the underpayment of estimated tax.** Compute interest on any underpayment of estimated income tax on **Form D-422, Underpayment of Estimated Tax by Individuals.** Interest is not due if each payment equals 25 percent of the lesser of 90 percent (66 2/3 percent for farmers and fishermen) of the tax due on your current year's return or 100 percent of the tax due on your previous year's return. If interest is applicable, add the interest to the tax due, and include the full payment with your return. If a refund is due, subtract the amount of the interest from the refund.

### N.C. Public Campaign Fund

You may designate \$3.00 of the taxes you pay to this Fund. (Married couples filing a joint return may each make a spousal designation if their income tax liability is \$6.00 or more.) The N.C. Public Campaign Fund provides an alternative source of campaign money to qualified candidates who accept strict campaign spending and fund-raising

limits. The Fund also helps finance a Voter Guide with educational materials about voter registration, the role of the appellate courts, and the candidates seeking election as appellate judges in North Carolina. Three dollars from the taxes you pay will go to the Fund if you mark an agreement. Regardless of what choice you make, your tax will not increase, nor will any refund be reduced.

### N.C. Political Parties Financing Fund

You may designate \$3.00 of the taxes you pay for use by the Democratic, Republican, or Libertarian Party. (Married couples filing a joint return may make a spousal designation only if their income tax liability is \$6.00 or more.) If you do not wish to specify a party but wish to designate \$3.00, fill in the "Unspecified" circle and the amount you designate will be distributed on a prorata basis according to party voter registration. A political party is defined under election laws of this State as either: Any group of voters which, received at least 2 percent of the entire vote cast in the State for Governor or for president; or any group of voters which filed with the State Board of Elections petitions to form a new party equal to 2 percent of the total number of voters who voted in the most recent general election for Governor.

### United States Armed Forces Pay

If you are serving in the United States Armed Forces and your legal residence is North Carolina, you are liable for North Carolina income tax and North Carolina income tax should be withheld from your pay regardless of where you may be stationed. If you are a legal resident of another state stationed in North Carolina on military orders, you are not liable for North Carolina income tax on your military pay, but income from other employment, a business, or tangible property in North Carolina is subject to North Carolina income tax.

### Military Spouses

The Military Spouses Residency Relief Act of 2009 prohibits North Carolina from taxing the income earned for services performed in North Carolina by a spouse of a servicemember stationed in North Carolina if (1) the servicemember is present in North Carolina solely in compliance with military orders; (2) the spouse is in North Carolina solely to be with the servicemember; and (3) the spouse is domiciled in the same state as the servicemember. If all three of the conditions are met, an employer is not required to withhold North Carolina tax from wages paid to such military spouses. A spouse who does not meet these requirements should see "Information for Part-Year Residents and Nonresidents" below regarding the filing of their return. The Act does not apply to military spouses who are domiciled in North Carolina. Withholding from wages paid to military spouses domiciled in North Carolina is still required.

## Death of the Taxpayer

If you are the spouse or personal representative of an individual who died prior to filing a return, you may be required to file a return on the decedent's behalf. If so, enter the date of death in the applicable box on Page 1 of Form D-400 to indicate the return is being filed for a deceased individual.

An Income Tax Return for Estates and Trusts, Form D-407, must be filed for an estate for the period from the date of death to the end of the taxable year if the estate had taxable income from North Carolina sources or income which was for the benefit of a North Carolina resident, and the estate is required to file a federal return for estates and trusts.

If you are filing a return for an unmarried individual who died during the year, enter the date of death in the applicable box and enter the name of the deceased and the address of the executor, administrator, or court-appointed representative. The executor, administrator, or court-appointed representative should fill in the circle above the deceased taxpayer information on Page 1 and sign the return. When filing a separate return for a decedent who was married at the time of death, enter the date of death, the name of the deceased, and the address of the surviving spouse. The surviving spouse should sign the return. In either case, be sure to enter the date of death in the space provided.

If you are a court-appointed representative, attach to the return a copy of the certificate that shows your appointment. A refund due on a return filed for a deceased taxpayer by a person other than a surviving spouse, executor, administrator or a court-appointed representative will be mailed to the Clerk of Superior Court of the county in which the taxpayer resided.

## Information for Part-Year Residents and Nonresidents

If you move your legal residence into or out of North Carolina during the tax year, you are a resident of two different states during two different periods of the tax year.

You are a nonresident if you maintain your legal residence in another state or country even though you may temporarily reside in North Carolina. If you reside in North Carolina for more than 183 days of a tax year, you are presumed to be a resident for income tax purposes in the absence of factual proof of residence in another state. However, your absence from North Carolina for more than 183 days raises no presumption that you are not a resident.

If you file a joint federal return and your spouse is a nonresident of North Carolina and had no North Carolina taxable income, you may file a joint State return. However, you still have the option of filing your State return as married filing separately. If you choose to file a separate North Carolina return, you must complete either a federal return as married filing separately reporting only your income, deductions, and exemptions or a schedule showing the computation of your separate income, deductions, and exemptions and attach it to your North Carolina return. You must also include a copy of your joint federal return unless your federal return reflects a North Carolina address. **Note:** Itemized nonbusiness deductions of a husband and wife may be claimed by a spouse only if that spouse was obligated to pay the items and actually paid the amount during the year. In the case of a joint obligation (such as mortgage interest and real estate taxes), the deduction is allowable to the spouse who actually paid the item.

Part-year residents and nonresidents receiving income from North Carolina sources must determine the portion of their federal gross income, as adjusted, that is subject to North Carolina income tax by completing Lines 51 through 53 on Page 4 of Form D-400. See the instructions for Lines 51 and 52 on Page 15.

A part-year resident receiving partnership income from a partnership doing business in North Carolina and in one or more other states must prorate his share of the partnership's income attributable and not attributable to North Carolina between his periods of residence and nonresidence in accordance with the number of days in each period. Include on Line 51 your share of partnership income determined for the period of residence and your share of the partnership income attributable to North Carolina during the period of nonresidence.

If you have income from sources within another state or country while you are a resident of North Carolina and the other state or country taxes you on such income, you may be eligible to claim a tax credit on your North Carolina return. See "Credit for Tax Paid to Another State or Country" on Page 16 for additional information.

## Line Instructions for Filing Form D-400

**The references to line numbers on federal income tax forms were correct at the time of printing. If they have changed and you are unable to determine the proper line to use, please contact the Department of Revenue.**

### Lines 1 through 5 - Filing Status

Check the same filing status you checked on your federal return. **Important:** If either you or your spouse is a nonresident and had no North Carolina taxable income for the tax year, see page 4.

### Line 6 - Federal Adjusted Gross Income

Enter your federal adjusted gross income

from your federal return. If federal adjusted gross income is a negative number, enter the negative amount and fill in the circle to indicate that the amount is negative. (Note: If you are completing a web fill-in form on the Department's website, enter a minus sign to indicate a negative number.)

### Line 11 - N.C. Standard Deduction or N.C. Itemized Deductions

**IMPORTANT: Do not enter the amount from your federal income tax return on Line 11, Form D-400. You must fill in the applicable circle on Form D-400. Under no circumstances should both circles be filled in.**

You may deduct the N.C. standard deduction or itemized deductions using the itemized

deduction worksheet on Page 9. If you did not itemize your deductions on your federal return, you may take the standard deduction on your North Carolina return. If you itemized on your federal return, you may either itemize or claim the standard deduction. **However, if you are (1) married filing a separate return for federal income tax purposes and your spouse itemizes deductions, or (2) a nonresident alien, or (3) filing a short-year return because of a change in your accounting period, you are not entitled to the standard deduction.** Note: A short-year return does not relate to a taxpayer who files a return as a part-year resident.

#### North Carolina Standard Deduction

You must use the appropriate chart or worksheet on the next page, whichever applies, to determine the amount of your North Carolina standard deduction to enter on line 11.

## Instructions for Filing Form D-400

### Standard Deduction Chart for Most People

**Do Not** use this chart if you or your spouse were 65 or older or blind, **Or** if someone can claim you as a dependent.

**If your filing status is:**

**Your standard deduction is:**

Single	\$3,000
Married filing jointly/Qualifying widow(er)	\$6,000
Married filing separately	
If spouse <u>does not claim</u> itemized deductions	\$3,000
If spouse <u>claims</u> itemized deductions	0
Head of household	\$4,400

### Standard Deduction Chart for People Age 65 or Older or Blind

**Do not** use this chart if someone can claim you, or your spouse. if filing jointly, as a dependent. Instead use the worksheet above.

Check if:    You were                      65 or Older     Blind

                  Your spouse was        65 or Older     Blind

Enter the number of boxes checked above

Note: If married filing separately, include the number of boxes checked for your spouse in the total number only if your spouse had no gross income and was not claimed as a dependent by another taxpayer.

If your filing status is:	And the total number of boxes you have checked is:	Your standard deduction is:
Single	1	\$3,750
	2	\$4,500
Married filing jointly or Qualifying widow(er)	1	\$6,600
	2	\$7,200
	3	\$7,800
	4	\$8,400
Married filing separately	1	\$3,600
	2	\$4,200
	3	\$4,800
	4	\$5,400
Head of household	1	\$5,150
	2	\$5,900

### Standard Deduction Worksheet for Dependents

Use this worksheet **only** if someone can claim you, or your spouse if filing jointly, as a dependent.

1. Add \$300 to your earned income.\* Enter the total ..... 1. \_\_\_\_\_
2. Minimum amount ..... 2.     \$500
3. Enter the larger of Line 1 or Line 2 ..... 3. \_\_\_\_\_
4. Enter on Line 4 the amount shown for your filing status
  - Single, enter \$3,000
  - Married filing jointly/Qualifying widow(er), enter \$6,000
  - Married filing separately, enter \$3,000
  - Head of household, enter \$4,400 ..... 4. \_\_\_\_\_
5. Enter the smaller of Lines 3 or 4. (If under 65 and not blind, stop here and enter this amount on Line 11 of Form D-400 ..... 5. \_\_\_\_\_
6. a. Check if: You were                      65 or Older     Blind
- Your spouse was        65 or Older     Blind
- b. Enter the number of boxes you have checked
- Note: If married filing separately, include the number of boxes checked for your spouse in the total number checked only if your spouse had no gross income and was not claimed as a dependent by another taxpayer.
- c. Multiply \$750 (\$600 if married filing jointly or separately, or qualifying widow(er)) by the number of boxes you entered on Line 6b above and enter the result..... 6c. \_\_\_\_\_
7. Add Lines 5 and 6c. Enter the total here and on Line 11 of Form D-400..... 7. \_\_\_\_\_

\* Earned income includes salaries, wages, tips, professional fees, and other compensation received for personal services you performed. It also includes any amount received as a scholarship that you must report in income.



**North Carolina Itemized Deductions**

You may itemize your deductions on your North Carolina return **ONLY** if you itemized your deductions on your federal return. If, on your federal return, you deduct **state and local taxes** from Line 5 of Federal Schedule A and any **foreign income taxes** included on Line 8 of Federal Schedule A use the worksheet below to calculate your North Carolina itemized deductions. Otherwise, your North Carolina itemized deductions are the same as your federal itemized deductions.

<b>Itemized Deductions Worksheet</b>	
1. Total itemized deductions on Line 29* of federal Schedule A .....	1. _____
2. Enter your N.C. standard deduction from the applicable table on page 8 .....	2. _____
3. Subtract Line 2 from Line 1 and enter the result here, but not less than zero.....	3. _____
4. State and local income taxes on Line 5* of the federal Schedule A and any foreign income taxes included on Line 8* of federal Schedule A .....	4. _____
5. Compare Line 3 with Line 4 and enter whichever is less.....	5. _____
6. Subtract line 5 from line 1 and enter the result here, but not less than zero. <b>Enter this amount on Line 11 of your Form D-400</b> .....	6. _____

\* Federal line number references are subject to change

**Line 13 - N.C. Personal Exemption Allowance**

You are allowed the same personal exemptions allowed under the Internal Revenue Code. You may deduct an exemption amount equal to the amount listed in the chart below based on the your filing status and adjusted gross income. Multiply the total number of exemptions claimed on your federal income tax return by the amount listed in the chart below. Enter the amount on Line 13.

<u><b>Filing Status</b></u>	<u><b>Federal Adjusted Gross Income</b></u>	<u><b>Personal Exemption</b></u>
Single	Up to \$60,000	\$2,500
	Over \$60,000	\$2,000
Married, filing jointly/qualifying Widow(er)	Up to \$100,000	\$2,500
	Over \$100,000	\$2,000
Married, filing separately	Up to \$50,000	\$2,500
	Over \$50,000	\$2,000
Head of Household	Up to \$80,000	\$2,500
	Over \$80,000	\$2,000

**Line 17 - North Carolina Taxable Income**

- If you were a **resident** of North Carolina for the entire year, enter the amount from Line 15 on Line 17.
- If you were a **part-year resident or a nonresident you must complete Lines 51 through 53** and enter on Line 16 the decimal amount from Line 53. Multiply the amount on Line 15 by the decimal amount on Line 16 and enter the result on Line 17.

**Part-year residents and nonresidents should read the instructions listed on Page 7 for additional information and complete the worksheet for Lines 51 and 52 on Page 16.**

**Line 18 - North Carolina Income Tax**

To calculate your tax, use one of the following methods:

**North Carolina Tax Table.** Use the **Tax Table** beginning on Page 22 to determine your tax if your taxable income on Line 17 is less than \$68,000. Be sure to use the correct column in the **Tax Table**. After you have found the correct tax, enter that amount on Line 18.

**Tax Rate Schedule.** Use the **Tax Rate Schedule** on Page 30 to calculate your tax if your taxable income is \$68,000 or more. Enter the amount on Line 18.

**Line 19 - Tax Credits**

See Page 16 for information about tax credits. Complete **Form D-400TC, Individual Tax Credits**, if you are entitled to one or more of the credits.

## Line Instructions for Filing Form D-400

### Line 21 – Consumer Use Tax

North Carolina use tax is due by individuals and businesses on purchases, leases, and rentals of tangible personal property and certain digital property purchased, leased or rented inside or outside this State for storage, use, or consumption in North Carolina. Use tax is due on taxable services sourced to North Carolina. **Individuals and businesses must pay use tax when retailers do not collect tax on taxable transactions.**

Out-of-state retailers that are not “engaged in business” in this State are not required to collect North Carolina’s tax. Some out-of-state retailers voluntarily collect North Carolina tax as a convenience to their customers. Out-of-state retailers include mail-order companies, television shopping networks, firms selling over the internet, and other retailers.

Items subject to sales and use tax include but are not limited to the following:

- Computers and other electronic equipment,
- Prewritten software including electronic downloads of software,
- Books, books on tape, and digital books delivered or accessed electronically,
- Audio compact discs, tapes, and records,
- Digital music delivered or accessed electronically,
- Magazines and newspapers including those delivered or accessed electronically,
- Clothing, appliances, furniture, home furnishings, sporting goods, and jewelry,
- Ringtones,
- Movies delivered or accessed electronically,
- Sales or recharges of prepaid telephone calling cards and phones.

The use tax is calculated at the same rate as the sales tax. For January 1, 2012 through March 31, 2012, the rate was 7.25% in Mecklenburg County, 7% in Alexander, Cabarrus, Catawba, Cumberland, Duplin, Halifax, Haywood, Hertford, Lee, Martin, New Hanover, Onslow, Pitt, Randolph, Robeson, Rowan, Sampson, Surry and Wilkes Counties, and 6.75% in all other counties. For April 1, 2012 through December 31, 2012, the rate was 7.25% in Mecklenburg County, 7% in Alexander, Buncombe, Cabarrus, Catawba, Cumberland, Duplin, Durham, Halifax, Haywood, Hertford, Lee, Martin, Montgomery, New Hanover, Onslow, Orange, Pitt, Randolph, Robeson, Rowan, Sampson, Surry and Wilkes Counties, and 6.75% in all other counties. If you paid another state’s sales or use tax that was legally due on out-of-state purchases, that amount may be credited against the North Carolina use tax due. You may not claim a credit for sales tax or value-added tax paid to another country.

You should report use tax on purchases of food subject to the reduced rate of tax on Form E-554 and use tax on purchases of boats and aircraft on Form E-555.

### Use Tax Table

**NC Taxable Income**  
(D-400, Line 17)

**NC Taxable Income**  
(D-400, Line 17)

<u>At Least</u>	<u>But Less Than</u>	<u>Use Tax Amount</u>	<u>At Least</u>	<u>But Less Than</u>	<u>Use Tax Amount</u>
\$ 0	2,200	\$ 1	\$ 23,000	24,400	\$ 16
2,200	3,700	2	24,400	25,900	17
3,700	5,200	3	25,900	27,400	18
5,200	6,700	4	27,400	28,900	19
6,700	8,100	5	28,900	30,400	20
8,100	9,600	6	30,400	31,900	21
9,600	11,100	7	31,900	33,300	22
11,100	12,600	8	33,300	34,800	23
12,600	14,100	9	34,800	36,300	24
14,100	15,600	10	36,300	37,800	25
15,600	17,000	11	37,800	39,300	26
17,000	18,500	12	39,300	40,700	27
18,500	20,000	13	40,700	42,200	28
20,000	21,500	14	42,200	43,700	29
21,500	23,000	15	43,700	45,200	30
			45,200 and over		Multiply NC

The estimated amount is .0675% (.000675) of North Carolina taxable income. If you believe the estimate from the table is too high for your out-of-state purchases, you may estimate what you think you owe.

Taxable Income  
by .0675% (.000675)

**Line 21 – Consumer Use Tax (continued)**

**Use Tax Worksheet - Taxpayers Who Have Records of All Out-of-State Purchases**

- 1. Enter the total amount of out-of-state purchases, including delivery charges, for 1/1/12 through 3/31/12 ..... 1. \_\_\_\_\_
- 2. Multiply Line 1 by 7.25% (.0725) in Mecklenburg County, 7% (.07) in Alexander, Cabarrus, Catawba, Cumberland, Duplin, Halifax, Haywood, Hertford, Lee, Martin, New Hanover, Onslow, Pitt, Randolph, Robeson, Rowan, Sampson, Surry and Wilkes Counties, and 6.75% (.0675) in all other counties, and enter the amount..... 2. \_\_\_\_\_
- 3. Enter the total amount of out-of-state purchases, including delivery charges, for 4/1/12 through 12/31/12..... 3. \_\_\_\_\_
- 4. Multiply Line 3 by 7.25% (.0725) in Mecklenburg County, 7% (.07) in Alexander, Buncombe, Cabarrus, Catawba, Cumberland, Duplin, Durham, Halifax, Haywood, Hertford, Lee, Martin, Montgomery, New Hanover, Onslow, Orange, Pitt, Randolph, Robeson, Rowan, Sampson, Surry and Wilkes Counties, and 6.75% (.0675) in all other counties, and enter the amount..... 4. \_\_\_\_\_
- 5. Enter the tax legally due and paid to another state on the purchases. This amount may not exceed the total of Lines 2 and 4 ..... 5. \_\_\_\_\_
- 6. Add Lines 2 and 4, then subtract Line 5 and enter the result, rounded to the nearest whole dollar, here and on Form D-400, Line 21 ..... 6. \_\_\_\_\_

**Use Tax Worksheet 2 - Taxpayers Who Do Not Have Records of All Out-of-State Purchases**

- 1. For purchases of items that cost less than \$1,000 See the Use Tax Table on the previous page to estimate the use tax due based on your North Carolina taxable income shown on Form D-400, Line 17 and enter the amount..... 1. \_\_\_\_\_
- 2. For purchases of items that cost \$1,000 or more
  - 2a - Enter the total amount of purchases, including delivery charges, of \$1,000 or more for 1/1/12 through 3/31/12 ..... 2a. \_\_\_\_\_
  - 2b - Multiply Line 2a by 7.25% (.0725) in Mecklenburg County, 7% (.07) in Alexander, Cabarrus, Catawba, Cumberland, Duplin, Halifax, Haywood, Hertford, Lee, Martin, New Hanover, Onslow, Pitt, Randolph, Robeson, Rowan, Sampson, Surry and Wilkes Counties, and 6.75% (.0675) in all other counties, and enter the amount ..... 2b. \_\_\_\_\_
  - 2c - Enter the total amount of purchases, including delivery charges, of \$1,000 or more for 4/1/12 through 12/31/12 ..... 2c. \_\_\_\_\_
  - 2d - Multiply Line 2c by 7.25% (.0725) in Mecklenburg County, 7% (.07) in Alexander, Buncombe, Cabarrus, Catawba, Cumberland, Duplin, Durham, Halifax, Haywood, Hertford, Lee, Martin, Montgomery, New Hanover, Onslow, Orange, Pitt, Randolph, Robeson, Rowan, Sampson, Surry and Wilkes Counties, and 6.75% (.0675) in all other counties, and enter the amount ..... 2d. \_\_\_\_\_
- 3. Add Lines 1, 2b and 2d and enter the total amount of use tax due ..... 3. \_\_\_\_\_
- 4. Enter the tax legally due and paid to another state on the purchases. This amount may not exceed the amount on Line 3 ..... 4. \_\_\_\_\_
- 5. Subtract Line 4 from Line 3 and enter the result, rounded to the nearest whole dollar, here and on Form D-400, Line 21 ..... 5. \_\_\_\_\_

## Line Instructions for Filing Form D-400

### Lines 23a and 23b - N.C. Income Tax Withheld

Enter your North Carolina tax withheld on Line 23a. If you are married and you file a joint return, enter your North Carolina withholding on Line 23a and your spouse's withholding on Line 23b. **Do not** include any income tax withheld by a state other than North Carolina or any other tax amounts that were withheld.

Be sure to attach your original or a copy of the original State wage and tax statements (Form W-2), 1099 statements, or other statements verifying North Carolina tax withheld to your return. It is not necessary to attach 1099 statements on which no North Carolina income tax withheld is reported unless you are claiming a **Bailey** retirement deduction (See Line Instructions for Line 41). Wage and tax statements or 1099 statements generated by tax software programs cannot be used to verify North Carolina tax withholding.

### Line 24 - Other Tax Payments

**a - 2012 Estimated Tax** - Enter any estimated income tax payments for 2012 (including any portion of your 2011 refund that was applied to your 2012 estimated income tax). See Page 5 for additional information about estimated income tax.

**b - Paid with Extension** - If you filed an automatic extension of time, enter the amount of North Carolina income tax paid with the extension.

**c - Partnership** - If you are a nonresident partner, enter your share of the tax paid to North Carolina by the manager of the partnership on your distributive share of the partnership income. Include with your return a copy of Form NC K-1 for Form D-403 provided by the partnership to verify the amount claimed.

**d - S Corporation** - If you are a nonresident shareholder of an S corporation, enter your share of the income tax paid to North Carolina by an S corporation on your distributive share of the S corporation income. Include with your return a copy of Form NC K-1 for Form CD-401S provided by the S corporation to verify the amount claimed.

### Line 25 - N.C. Earned Income Tax Credit

See Page 17 for information about the State Earned Income Tax Credit. Complete Part 5 of Form D-400TC to determine the allowable credit.

### Lines 27a through 27d - Tax, Penalties, and Interest

**a** - If Line 22 is more than Line 26, you owe additional tax. Subtract Line 26 from Line 22 and enter the result on Line 27a.

**b - Penalties** - See "Penalties" on Page 6 to

determine if any other penalties apply to you.

**c - Interest** - See "Interest" on Page 6 to determine if you owe interest.

**d - Interest on the Underpayment of Estimated Income Tax and Exceptions**- You may owe interest if you underpaid your estimated tax for any payment period. You will not owe interest if you had no tax liability in the prior year or if this year's tax liability, less any amount withheld and allowable tax credits, is less than \$1,000. Complete Form D-422 to see if you owe interest. Enter the interest on Line 27d. The interest will increase your tax liability or reduce your overpayment. You do not have to attach Form D-422 or Form D-422A to your return; however, maintain the form for your records.

#### Exception to Underpayment of Estimated Tax:

- Enter an "F" in the box if you are a farmer or fisherman. You will not owe interest if you are a farmer or fisherman and pay the tax due by March 1, 2013. You are a farmer or fisherman if you received at least two-thirds of your gross income for the year from farming and fishing.
- Enter an "A" in the box if you completed Form D-422A, Annualized Income Installment Worksheet, in determining the amount to enter on Line 27d.

### Line 28 - Pay This Amount

Add Lines 27a, 27b, 27c and 27d and enter the total on Line 28. This is the total tax, penalties, and interest due. Mail your return and payment to the **North Carolina Department of Revenue, P. O. Box 25000, Raleigh, North Carolina 27640-0640**. Make your check or money order payable to the NC Department of Revenue. **Important:** The Department will not accept a check, money order, or cashier's check unless it is drawn on a U.S. (domestic) bank and the funds are payable in U.S. dollars.

You may also pay electronically or generate a personalized payment voucher Form D-400V by visiting [www.dornc.com](http://www.dornc.com).

### Line 29 - Overpayment

If Line 26 is more than Line 22, you have overpaid your tax. Subtract Line 22 (and any amount shown on Line 27d) from Line 26 and enter the amount of the overpayment on Line 29.

### Line 30 - Estimated Income Tax

If you have overpaid the tax, you may elect to have your refund applied to your estimated tax for the following year by entering the amount to be applied on Line 30. The election cannot be changed after you file your return. The last allowable date for making a 2013 estimated tax payment is January 15, 2014; therefore, to apply a portion of your refund to 2013 estimated tax, you must file your 2012 return by January 15, 2014.

### Line 31 - N. C. Nongame and Endangered Wildlife Fund

Help keep North Carolina wild by contributing any portion of your refund to the N.C. Nongame and Endangered Wildlife Fund. Your tax deductible contributions are essential to monitoring and managing our wildlife populations, including turtles, flying squirrels, frogs, mussels, salamanders, and hundreds of bird species from terns and pelicans to woodpeckers and warblers. Conserving these species and their habitats is important to our state, our economy, and our quality of life. If wildlife conservation is important to you, please give what you can and help conserve North Carolina's wildlife for future generations to enjoy.

If you wish to contribute to the Fund, enter the amount of your contribution on Line 31. Your election to contribute to the Fund cannot be changed after you file your return. If you are not due a refund, you may still contribute to this Fund by donating online or mailing your donation directly to the North Carolina Wildlife Resources Commission, 1702 Mail Service Center, Raleigh, North Carolina 27699-1702.

Checks should be made payable to the Nongame & Endangered Wildlife Fund. For more information about the Fund or to donate online, check out [www.ncwildlife.org/give](http://www.ncwildlife.org/give).



### Line 33 - Amount to be Refunded

If you are due a refund, mail your return to the **North Carolina Department of Revenue, P.O. Box R, Raleigh, North Carolina 27634-0001**. Refunds of less than \$1.00 are made only upon written request.

### Adjustments to Federal Adjusted Gross Income

You must make certain adjustments to your federal adjusted gross income (Line 6) in arriving at your modified adjusted gross income (Line 10). The law may require other adjustments that are not included in these instructions. Follow the Line Instructions beginning on this page to determine the adjustments that apply to you.

### Additions to Federal Adjusted Gross Income (Lines 34 - 37)

#### Line 34 - Interest Income

Enter the amount of interest received from notes, bonds, and other obligations of states and political subdivisions other than North Carolina if not included in federal adjusted gross income. This includes exempt interest dividends received from regulated investment companies

(mutual funds) to the extent such dividends do not represent interest from obligations of North Carolina or its political subdivisions.

**Line 35 - Adjustment for Bonus Depreciation**

The federal **Small Business Jobs Act of 2010** extended the 50 percent bonus depreciation through 2011. Subsequent to this Act, the federal **Tax Relief Act of 2010** extended the bonus depreciation from 50 percent to 100 percent for qualified property acquired and placed in service after September 8, 2010 and before January 1, 2012. The Act makes 50 percent bonus depreciation available for qualified property placed in service after December 31, 2011 and before January 1, 2013. Certain long-lived property and transportation property is eligible for 100 percent expensing if placed in service before January 1, 2013. North Carolina did not adopt the bonus depreciation provisions under IRC sections 168(k) and 168(n) of these Acts. Therefore, if you deducted the bonus depreciation under IRC sections 168(k) or 168(n) on your 2012 federal return, you must add to federal adjusted gross income 85% of the amount deducted. This adjustment does not result in a difference in basis of the affected assets for State and federal income tax purposes.

Note: Any amount of the bonus depreciation added to federal adjusted gross income on your 2012 State return may be deducted in five equal installments over your first five taxable years beginning with the tax return for taxable year 2013.

**Line 36 - Other Additions to Federal Adjusted Gross Income**

- North Carolina does not allow the domestic production activities deduction. Therefore, if you claimed the deduction on Line 35 of federal Form 1040, the amount claimed must be added to federal adjusted gross income on Line 36, Form D-400.
- If you elected to exclude a lump-sum distribution from a retirement plan from your regular federal income tax computation and computed the tax separately, the amount of the lump-sum distribution must be added to federal adjusted gross income.
- If you carry over a net operating loss from another year to the 2012 return, an addition is required for the amount of net operating loss carried to the 2012 year that is not absorbed and will be carried forward to subsequent years.

*Example:* You incur a net operating loss of \$75,000 in 2011. You carry the net operating loss to the 2012 federal return and deduct the entire loss in arriving at federal adjusted gross income. Only \$50,000 of the loss is absorbed and \$25,000 is carried forward to subsequent years. To determine North Carolina taxable income, you must make an addition to federal adjusted gross income of \$25,000.

- If you are a shareholder in an S Corporation that paid built-in gains tax for federal income tax

purposes, you must add to federal adjusted gross income your share of the built-in gains tax that the S Corporation paid.

- You must add to federal adjusted gross income any amount that was contributed to North Carolina's National College Savings Program (NC 529 Plan) and deducted in a prior year that was later withdrawn and used for purposes other than the qualified higher education expenses of the designated beneficiary unless the withdrawal was due to the death or permanent disability of the designated beneficiary.

- If you qualified and elected to report your child's unearned income on your federal return, you included only the child's unearned income in excess of \$1,900 in your federal adjusted gross income. The difference in the child's standard deduction of \$500 and the amount of his income not included in your federal adjusted gross income must be added to your federal adjusted gross income in figuring your North Carolina taxable income.

**Example**

Susan, age 10, received \$2,000 in interest income in 2012. She had no other income. Her parents include \$100 (\$2,000-\$1,900) of her income in their federal adjusted gross income. In figuring their State taxable income, Susan's parents must add \$1,400 to federal adjusted gross income in figuring their North Carolina taxable income.

Susan's unearned income .....	\$2,000
Amount included in parents' federal income .....	100
Amount not included in parents' federal income .....	\$1,900
Susan's standard deduction .....	500
Addition to federal adjusted gross income on parents' return .....	\$1,400

**Deductions From Federal Adjusted Gross Income (Lines 38 - 50)**

**Line 38 - State Income Tax Refund**

Enter the amount of any state or local income tax refund included on Line 10 of your federal return, Form 1040.

**Line 39 - Interest From United States Obligations**

Enter the amount of interest received from notes, bonds, and other obligations of the United States (such as U.S. savings bonds, treasury notes and bills, etc.) or United States possessions.

**Line 40 - Taxable Portion of Social Security and Railroad Retirement Benefits**

Social security and railroad retirement benefits are not subject to State income tax. Enter

any Title 2 social security benefits received under the Social Security Act and any Tier 1 or Tier 2 railroad retirement benefits received under the Railroad Retirement Act that were included in federal adjusted gross income. Railroad Retirement Act benefits include railroad unemployment insurance benefits and railroad sickness benefits.

**Line 41 - Retirement Benefits Received by Vested Government Retirees (Bailey Settlement)**

As a result of the North Carolina Supreme Court's decision in **Bailey v. State of North Carolina**, North Carolina may not tax certain retirement benefits received by retirees (or by beneficiaries of retirees) of the State of North Carolina and its local governments or by United States government retirees (including military). **The exclusion applies to retirement benefits received from certain defined benefit plans**, such as the North Carolina Teachers' and State Employees' Retirement System, the North Carolina Local Governmental Employees' Retirement System, the North Carolina Consolidated Judicial Retirement System, the Federal Employees' Retirement System, or the United States Civil Service Retirement System, **if the retiree had five or more years of creditable service as of August 12, 1989**. The exclusion also applies to retirement benefits received from the State's §401(k) and §457 plans if the retiree had contributed or contracted to contribute to the plan prior to August 12, 1989. **The exclusion does not apply to local government §457 plans or to §403(b) annuity plans.** Benefits from other State, local, and federal retirement plans may or may not be excluded depending on rulings in the **Bailey** case. **The exclusion does not apply to retirement benefits paid to former teachers and state employees of other states and their political subdivisions.**

A retiree entitled to exclude retirement benefits from North Carolina income tax should claim a deduction on Line 41 for the amount of excludable retirement benefits included in federal adjusted gross income. Even if all your retirement is excludable under **Bailey**, you must still file a North Carolina return if you meet the minimum gross filing requirements on Page 4. **Important:** If you qualify for this deduction, you do not qualify for the deduction for retirement benefits of up to \$4,000 for the same federal, state, and local government retirement benefits. A copy of Form 1099-R or W-2 received from the payer must be attached to the return to support the deduction.

**Line 42 - Other Retirement Benefits**

You may deduct a portion of other retirement benefits included in federal adjusted gross income. Retirement benefits are amounts paid by an employer to a former employee or to a beneficiary of a former employee under a written retirement plan established by the employer to provide payments to an employee or beneficiary

## Line Instructions for Filing Form D-400

after the employee ends employment with the employer where the right to receive the payments is based upon the employment relationship. For self-employed individuals, retirement benefits are amounts paid to an individual (or beneficiary) under a written retirement plan established by the individual to provide payments after self-employment ends.

Retirement benefits also include amounts received from an individual retirement account or from an individual retirement annuity (IRA) and long-term disability benefits received under the Disability Income Plan of North Carolina. Retirement benefits do not include short-term disability benefits from the Disability Income Plan of North Carolina or distributions paid to an employee from an employer's retirement plan because of a change in the structure of a corporate employer.

**Federal, State, and Local Government Retirement Benefits. Important:** The following instructions apply to you if you received retirement benefits as a former employee of the State of North Carolina or any of its local governments or as a former employee of the federal government **and** you did not have five years of service with the government as of August 12, 1989, or if you received retirement benefits as a former employee of any other state or from a local government §457 plan. Otherwise, see the Line 41 instructions on page 13. If you received retirement benefits from one or more federal, state, or local government retirement plans, you may deduct the amount included in federal adjusted gross income or \$4,000, whichever is less. Married individuals filing a joint return where both received such retirement benefits may each deduct up to \$4,000 for a potential deduction of \$8,000.

**Private Retirement Benefits.** If you received retirement benefits from one or more private retirement plans other than federal, state, or local government retirement plans, you may deduct the amount included in federal adjusted gross income or \$2,000, whichever is less. Married individuals filing a joint return where both received such retirement benefits may each deduct up to \$2,000 for a potential deduction of \$4,000.

The total retirement benefits deduction may not exceed \$4,000 per taxpayer. For married couples filing a joint return where both spouses received retirement benefits, the deduction applies separately to each, so that the maximum deduction on a joint return is \$8,000.

**If you included retirement benefits in federal adjusted gross income, complete the Retirement Benefits Worksheet and enter the result on Form D-400, Line 42.**

<b>Retirement Benefits Worksheet</b>		<u>You</u>	<u>Your Spouse</u>
1. Enter the federal, state, or local government retirement benefits included in federal adjusted gross income <u>not to exceed \$4,000 for each taxpayer who received government retirement benefits</u> .....	1.	_____	_____
2. Enter the private retirement benefits included in federal adjusted gross income <u>not to exceed \$2,000 for each taxpayer who received retirement benefits</u> .....	2.	_____	_____
3. Add Lines 1 and 2 and enter the total here <u>not to exceed \$4,000 for each taxpayer</u> .....	3.	_____	_____
4. Add the amounts on Line 3 and enter the total here and on Form D-400, Line 42 .....	4.	_____	_____
<b>Important:</b> If you claim a deduction on Line 41 for retirement benefits received as a result of the <b>Bailey</b> settlement, you cannot claim the deduction of up to \$4,000 for the <b>same</b> federal, state, or local government retirement benefits.			

**Line 43 - Severance Wages**

You may deduct up to \$35,000 of any severance wages you received as a result of your permanent involuntary termination from employment through no fault of your own. The severance wages deducted as a result of the same termination may not exceed \$35,000 for all taxable years in which the wages were received. "Stay on pay" does not qualify for the deduction.

Severance wages do not include payments that represent compensation for past or future services. Compensation for past or future services includes payment for accumulated sick leave, vacation time, other unused benefits, bonuses based on job performance, or payments in consideration of any agreement not to compete.

**Line 44 - Adjustment for Bonus Depreciation Added Back in 2008, 2009, 2010 and 2011**

North Carolina did not adopt the 50 percent bonus depreciation provisions in IRC section 168(k) for tax year 2008 or in IRC sections 168(k) or 168(n) for tax years 2009 and 2010. Similarly, North Carolina did not adopt the provisions of the Small Business Jobs Act of 2010 which extended the 50 percent bonus depreciation through 2011 or the Tax Relief Act of 2010 which doubled and extended bonus depreciation from 50 percent to 100 percent for qualified property acquired and placed in service after September 8, 2010 and before January 1, 2012. The Tax Relief Act makes 50 percent bonus depreciation available for qualified property placed in service after December 31, 2011 and before January 1, 2013. Certain long-lived property and transportation property is eligible for 100 percent expensing if placed in service before January 1, 2013. Any amount added to federal taxable income on the 2008, 2009, 2010, and 2011 State returns may be deducted in five equal installments beginning with the 2009, 2010, 2011, and 2012 State returns, respectively. Therefore, enter 20 percent of the bonus depreciation added back on the 2008, 2009, 2010 and 2011 State returns.

**Line 45 - Adjustment for Section 179 Expense Added Back in 2010 and 2011**

North Carolina did not conform to the increased expense deduction or increased investment limit for section 179 property but rather maintained the expense deduction and investment limit allowed under the Internal Revenue Code as of May 1, 2011. Any amount added to federal taxable income on your 2010 and 2011 returns may be deducted in five equal installments beginning with the 2011 and 2012 State returns, respectively. Therefore, enter 20 percent of the section 179 expense deduction added back on your 2010 and 2011 State returns.

**Line 46 - Contributions to NC College Savings Program**

You may deduct up to \$2,500 (\$5,000 on a joint return) for contributions made during the taxable year to an account in the Parental Savings Trust Fund of the State Education Assistance Authority (North Carolina's National College Savings Program - NC 529 Plan), regardless of your income level.

**Line 47 - Adjustment for Absorbed Non-ESB NOL Added Back in 2003, 2004, 2005, and 2006**

North Carolina did not adopt the federal five year net operating loss (NOL) carry back provision authorized by the **Worker, Homeownership, and Business Assistance Act of 2009**. Relief was to be provided in future years for the portion of the individual's 2008 and 2009 NOL that was not attributable to an Eligible Small Business. An addition to federal taxable income was required for the amount of any 2008 and 2009 NOL claimed under WHBAA beyond the standard two year period. If you made the required addition, you may deduct one-third of the 2008 NOL absorbed on your 2003, 2004, and 2005 federal returns and one-third of the 2009 NOL absorbed on your 2004, 2005, and 2006 federal returns on your 2011, 2012, and 2013 State returns. For additional information see our website [www.dorncc.com](http://www.dorncc.com).

**Line 48 - Adjustment for Net Business Income That is Not Considered Passive Income**

Certain taxpayers are allowed a deduction of up to \$50,000 of net business income included in federal adjusted gross income that is not considered passive under the Internal Revenue Code. In the case of a married couple filing a joint return where both spouses report a net business income, the maximum dollar amount applies separately to each spouse's net business income included in federal adjusted gross income, not to exceed a total of \$100,000 (maximum \$50,000 each). For additional information please refer to our website <http://www.dorncc.com/practitioner/individual/directives/index.html>.

**Line 49 - Other Deductions From Federal Adjusted Gross Income**

You may deduct \$250 if you were an unpaid volunteer firefighter or an unpaid volunteer rescue squad worker who attended at least 36 hours of fire department drills and meetings or 36 hours of rescue squad training and meetings during 2012. An individual may not claim a deduction as both a volunteer firefighter and a volunteer rescue squad worker. In the case of a married couple filing a joint return, each spouse

may qualify separately for the deduction.

- If you itemized your deductions and claimed the mortgage interest tax credit on your federal return because you participated in the mortgage credit certificate (MCC) program, you may deduct the amount shown on Line 3 of Federal Form 8396.

- A \$250 educator expense deduction will be allowed on the North Carolina return for 2012 to the extent a deduction has not been claimed in determining federal adjusted gross income. This deduction is allowed only to the extent the expense has not been claimed under section 162 of the Internal Revenue Code for the taxable year. In the case of a married couple filing a joint return where both spouses are eligible educators, the maximum amount is \$500.

**Lines 51 and 52 - Part-Year Resident/ Nonresident Worksheet**

If you were a part-year resident of North Carolina during the taxable year 2012 OR if you were a nonresident and you received income from North Carolina sources, you must complete the worksheet on Page 16 to determine the portion of federal gross income, as adjusted, that is subject to North Carolina income tax. After you complete the worksheet, enter the amount from Column B, Line 33 on Form D-400, Line 51. Enter the amount from Column A, Line 33 on Form D-400, Line 52.

In Column B, enter only the portion of the North Carolina additions and deductions shown in Column A that are applicable to North Carolina. For example, if you received interest income from United States obligations of \$1,200 evenly during the year and you became a North Carolina resident on July 1, you should enter \$1,200 on Line 22 of Column A and \$600 on Line 22 of Column B.

## Line Instructions for Filing Form D-400

### Part-Year Resident/Nonresident Worksheet

*Please retain this worksheet with your records.*

**Column A**

Income as Shown on  
Federal Return

**Column B**

Income Subject to  
North Carolina Tax

**Income**

1. Wages .....	1.			
2. Taxable interest .....	2.			
3. Taxable dividends .....	3.			
4. State and local income tax refunds .....	4.			
5. Alimony received .....	5.			
6. Schedule C or C-EZ business income or (loss) .....	6.			
7. Schedule D capital gain or (loss).....	7.			
8. Other gains or (losses).....	8.			
9. Taxable amount of IRA distributions .....	9.			
10. Taxable amount of pensions and annuities .....	10.			
11. Schedule E - Rents, royalties, partnerships, S-Corps estates, trusts, etc.....	11.			
12. Schedule F - Farm income or (loss).....	12.			
13. Unemployment compensation.....	13.			
14. Taxable amount of Social Security or Railroad Retirement.....	14.			
15. Other income.....	15.			
16. <b>Add lines 1 through 15.</b> .....	16.			

**North Carolina Additions To Federal Adjusted Gross Income**

17. Interest income from obligations of states other than NC .....	17.			
18. Adjustment for bonus depreciation <i>(Enter in Col. A the amount from Line 35, Form D-400)</i> .....	18.			
19. Other additions to federal adjusted gross income that relate to gross income.....	19.			
20. <b>Add Lines 16, 17, 18, and 19.</b> .....	20.			

**North Carolina Deductions From Federal Adjusted Gross Income**

21. State and local income tax refund <i>(from Line 4 above)</i> .....	21.			
22. Interest from obligations of the United States or United States' possessions .....	22.			
23. Taxable portion of Social Security or Railroad Retirement benefits .....	23.			
24. Bailey retirement benefits <i>(Enter in Col. A the amount from Line 41, Form D-400)</i> .....	24.			
25. Other retirement benefits <i>(Enter in Col. A the amount from Line 42, Form D-400)</i> .....	25.			
26. Severance wages <i>(Enter in Col. A the amount from Line 43, Form D-400)</i> .....	26.			
27. Adjustment for bonus depreciation <i>(Enter in Col. A the total of the amount on Line 44e, Form D-400)</i> .....	27.			
28. Adjustment for 179 expense deduction <i>(Enter in Col. A the amount from Line 45c, Form D-400)</i> ...	28.			
29. Adjustment for absorbed Non-ESB NOL added back in 2003, 2004, 2005 and 2006 <i>(Enter in Col. A the amount from Line 47, Form D-400)</i> .....	29.			
30. Adjustment for net business income that is not considered passive income <i>(Enter in Col. A the amount from Line 48, Form D-400)</i> .....	30.			
31. Other deductions from federal adjusted gross income that relate to gross income.....	31.			
32. <b>Add lines 21 through 31.</b> .....	32.			
33. <b>Line 20 minus line 32.</b> .....	33.			

- Enter the amount from **Column B, Line 33** on Form D-400, Page 4, Line 51.
- Enter the amount from **Column A, Line 33** on Form D-400, Page 4, Line 52.

↑  
*(Enter this amount on  
Form D400, Line 52)*

↑  
*(Enter this amount on  
Form D400, Line 51)*

## General Information for Claiming Tax Credits - Form D-400TC

### ► Credit for Tax Paid to Another State or Country

When income is taxed by North Carolina for a period during which you were a legal resident of North Carolina and the same income is also taxed by another state or country because it was earned in or derived from sources within that state or country, a tax credit may be claimed, but not on the basis of a withholding statement alone. Attach a copy of the return filed with the other state or country and a copy of the check or receipt if a balance of tax was paid with the return.

Complete the North Carolina return and include all income both within and outside the State. Compute the tax as though no credit is to be claimed. Complete Part 1 of Form D-400TC to determine the allowable tax credit. **The amount entered on Line 1, Part 1 of Form D-400TC is total income from all sources received while a resident of North Carolina**, adjusted by the applicable additions and/or deductions to federal adjusted gross income that relate to gross income that you listed on Form D-400, Page 3. The amount of **net tax paid** on Line 6 is any prepayment of tax (tax withheld, estimated tax payments, amount paid with extension, etc.) plus any additional tax paid or **less any refunds** received or expected to be received. Attach a copy of the tax return filed with the other state and proof of the payment.

Include on Line 2, Part 1 of Form D-400TC your share of any S Corporation income that is attributable to and taxed by another state, whether or not the other state taxed the income at the individual or corporate level. Include on Line 6, Part 1, Form D-400TC the net tax you paid another state on your



share of S Corporation income or your pro rata share of the net corporate tax paid by the S Corporation to another state that taxes the corporation rather than the shareholder. Attach a schedule to your return showing the total amount of tax paid to the other state by the S Corporation, and how your pro rata share of the tax was determined.

If you claim credit for tax paid to more than one state or country, use the worksheet below to determine the tax credit allowable for each state or country. Determine the total credits for all states by adding the amount on Line 7 of each worksheet and enter the total on Form D-400TC, Line 7a. Be sure to use separate worksheets to determine the separate credits for each state or country.

Nonresidents are not entitled to this tax credit.

**Out-of-State Tax Credit Worksheet**

1. Total income from all sources (combined for joint filers) from Federal Form 1040, Line 22; 1040A, Line 15; or 1040EZ, Line 4, while a resident of North Carolina, adjusted by the applicable additions shown on Lines 34 through 36 and applicable deductions shown on Lines 38 through 45c and Lines 47, 48, and 49 of Form D-400. Do not make an adjustment for domestic production activities included on Line 36 or for any portion of Line 36 or 49 that does not relate to gross income..... 1. \_\_\_\_\_
2. The portion of Line 1 that was taxed by the other state or country..... 2. \_\_\_\_\_
3. Divide Line 2 by Line 1 and enter the result as a decimal amount (Round to four decimal places) ..... 3. \_\_\_\_\_
4. Enter total North Carolina income tax (From Form D-400, Line 18)..... 4. \_\_\_\_\_
5. Multiply Line 3 by Line 4 ..... 5. \_\_\_\_\_
6. Amount of net tax paid to the other state or country on the income shown on Line 2 (See instructions beginning on Page 16 for definition of net tax paid) ..... 6. \_\_\_\_\_
7. Enter the lesser of Line 5 or Line 6..... 7. \_\_\_\_\_

**► Earned Income Tax Credit (Refundable)**

The State credit is 5% (.05) of the federal earned income tax credit allowed under Section 32 of the Code. If you are eligible for the federal earned income tax credit, complete Part 5 of Form D-400TC to determine your State credit.

A part-year resident or nonresident may claim a prorated credit based on the percentage of income that is subject to North Carolina tax.

**► Credit for Child and Dependent Care Expenses**

If you are entitled to claim an income tax credit for child and dependent care expenses on your federal return, you may claim a tax credit for such expenses on your North Carolina return.

For dependents who were age seven or older and not physically or mentally incapable of caring for themselves, the credit is from 7% to 9% of the federal employment-related expenses, depending on your filing status and federal adjusted gross income. For dependents who were under the age of seven and dependents who were physically or mentally incapable of caring for themselves, the tax credit is from 10% to 13% of the qualified federal employment-related expenses, depending on your filing status and your federal adjusted gross income. The federal employment-related expense is shown on Line 3 of Federal Form 2441. The total amount shown on Line 8, Part 2 of Form D-400TC cannot exceed \$3,000 for one dependent or \$6,000 for two or more dependents.

A part-year resident or nonresident may claim a prorated credit based on the percentage of income that is subject to North Carolina tax.

For a dependent who reaches age seven during the taxable year and who is not physically or mentally incapable of caring for himself, the tax credit for employment-related expenses incurred prior to the dependent's 7th birthday will be calculated using the applicable percentage in **Column A**, and the tax credit for employment related expenses incurred after the dependent becomes age seven will be calculated by using the applicable percentage in **Column B**. You must use the table below to determine the amounts to enter on Lines 10 and 12 of Form D-400TC.

**Child and Dependent Care Credit Table**

Filing Status	Federal Adjusted Gross Income (Form D-400, Line 6)	Column A	Column B
<u>Head of Household</u>	Up to \$20,000	.13	.09
	Over \$20,000 up to \$32,000	.115	.08
	Over \$32,000	.10	.07
<u>Joint Return or Surviving Spouse</u>	Up to \$25,000	.13	.09
	Over \$25,000 up to \$40,000	.115	.08
	Over \$40,000	.10	.07
<u>Single</u>	Up to \$15,000	.13	.09
	Over \$15,000 up to \$24,000	.115	.08
	Over \$24,000	.10	.07
<u>Married Filing Separately</u>	Up to \$12,500	.13	.09
	Over \$12,500 up to \$20,000	.115	.08
	Over \$20,000	.10	.07

# General Information for Claiming Tax Credits - Form D-400TC

**► Credit for Children**

You may claim a child tax credit of \$100 on your State return for each dependent child for whom you are entitled to claim a child tax credit on your federal return if your federal adjusted gross income (Form D-400, Line 6) is less than the following amount shown for your filing status: **Married filing jointly/qualifying widow(er) - \$100,000; Head of household - \$80,000; Single - \$60,000; or Married filing separately - \$50,000.**

The credit for children can be claimed only for a child who was under 17 years of age on the last day of the year. A part-year resident or nonresident may claim a prorated credit based on the percentage of income that is subject to North Carolina tax.

Complete Form D-400TC, Part 3 to determine the allowable credit.

**► Credit for Charitable Contributions by Nonitemizers**

If you claimed the North Carolina standard deduction on your return, you may claim a tax credit for charitable contributions. You may not claim the credit if you claimed North Carolina itemized deductions on your return. The allowable credit equals 7% of the amount by which your charitable contributions for the taxable year exceed 2% of your federal adjusted gross income. The credit may not be claimed for contributions for which credits for certain real property donations, gleaned crops, or recycling oyster shells are claimed. A part-year resident or nonresident may claim a prorated credit based on the percentage of income that is subject to North Carolina tax. The credit may not exceed the tax liability for the tax year, reduced by other tax credits. Complete the following worksheet to determine the allowable credit.

**Worksheet for Determining Tax Credit for Charitable Contributions**

**Note:** You may not claim this credit if you claimed itemized deductions on your federal return.

1. Enter the amount of your charitable contributions for the taxable year .....1. \_\_\_\_\_
2. Multiply your federal adjusted gross income (Form D-400, Line 6) by 2% and enter the result here.  
     (Federal AGI \_\_\_\_\_ X .02) ..... 2. \_\_\_\_\_
3. Subtract Line 2 from Line 1. If Line 2 equals or exceeds Line 1, **STOP HERE**. Enter - 0 - on Form D-400TC, Line 20b .....3. \_\_\_\_\_
4. Multiply Line 3 by 7% (.07) and enter the result. **Full-year residents enter this amount here and on Line 7** .....4. \_\_\_\_\_
5. **Part-year residents and nonresidents** - enter the decimal amount from Line 16 of Form D-400. (If Line 16 is more than 1.0000, skip Lines 5 and 6, and enter the amount from Line 4 on Line 7)..... 5. \_\_\_\_\_
6. Multiply the amount on Line 4 by the decimal amount on Line 5. Enter the result here and on Line 7 .....6. \_\_\_\_\_
7. Credit for charitable contributions (Enter on Form D-400TC, Line 20b) .....7. \_\_\_\_\_

**► Credit for Premiums Paid on Long-Term Care Insurance Contracts**

If your federal adjusted gross income (Form D-400, Line 6) is less than the following amounts for your filing status (**Married filing jointly/qualifying widow(er) - \$100,000; Head of household - \$80,000; Single - \$60,000; or Married filing separately - \$50,000**), a tax credit is allowed for the qualifying premiums you paid during the taxable year on a qualified long-term care insurance contract(s) (as defined in section 7702B of the Internal Revenue Code) that provides insurance coverage for yourself, your spouse, or a dependent for whom you are allowed to claim a personal exemption on your federal return. **Medical insurance premiums that you pay for general health care, hospitalization, or disability insurance do not qualify as premiums paid for a long-term care insurance contract.** A long-term care insurance contract is any insurance contract under which the only insurance protection provided is for coverage of qualified long-term care services as defined in section 7702B of the Internal Revenue Code. Qualified long-term care services are those services required by a chronically ill individual and provided under a plan of care prescribed by a licensed health care practitioner.

The credit is 15% of the premiums paid but may not exceed \$350 for each qualified long-term care insurance contract for which a credit is claimed.

No credit is allowed for payments that are deducted from, or not included in, your federal gross income for the taxable year. For example, payments that are not included in federal gross income are premiums paid through an employer-sponsored plan in which the payments are excluded from taxable wages (pre-taxed dollars). **If you claimed a deduction for medical expenses on Federal Schedule A, Line 4, or if you claimed a deduction for self-employed health insurance premiums on Federal Form 1040, Line 29, you are not entitled to claim this credit. However, you may claim this credit for any premiums paid for long-term care insurance that are not deductible on your federal return because of the age limitations contained in section 213(d)(10) of the Internal Revenue Code.**

A part-year resident or nonresident may claim a prorated credit based on the percentage of income that is subject to North Carolina tax.

Complete the worksheet on Page 19 to determine the allowable credit.

**Worksheet for Determining Tax Credit for Premiums Paid on Long-Term Care Insurance Contracts**

1. Enter the amount of premiums you paid on a long-term care insurance contract(s) for the taxable year. Do not include premiums that you paid through a cafeteria plan or flexible spending arrangement offered by your employer..... 1. \_\_\_\_\_
2. Multiply Line 1 by 15% (.15). **Full-year residents enter the result here and on Line 5.**  
(Do not enter more than \$350 per contract)..... 2. \_\_\_\_\_
3. **Part-year residents and nonresidents** - enter the decimal amount from Line 16 of Form D-400. (If Line 16 is more than 1.0000, skip Lines 3 and 4, and enter the amount from Line 2 on Line 5)..... 3. \_\_\_\_\_
4. Multiply the amount on Line 2 by the decimal amount from Line 3. Enter the result here and on Line 5 ..... 4. \_\_\_\_\_
5. Credit for long-term care insurance premiums (*Enter on Form D-400TC, Line 21*)..... 5. \_\_\_\_\_

**► Credit for Adoption Expenses**

You may claim an adoption tax credit on your State return of 50% of the allowable adoption tax credit claimed on your federal return. A part-year resident or nonresident may claim a prorated credit based on the percentage of income that is subject to North Carolina tax. Any unused portion of this credit may be carried forward for the next succeeding five years. Complete the **Adoption Tax Credit Worksheet** to determine the allowable credit.

**Adoption Tax Credit Worksheet**

1. Enter your federal adoption credit from Federal Form 8839, Line 12 ..... 1. \_\_\_\_\_
2. Multiply Line 1 by 50% (.50) and enter the result  
**(Full year residents - enter this amount here and on Line 5)**..... 2. \_\_\_\_\_
3. **Part-year residents and nonresidents** - enter the decimal amount from Line 16 of Form D-400. (If Line 16 is more than 1.0000, skip Lines 3 and 4, and enter the amount from Line 2 on Line 5)..... 3. \_\_\_\_\_
4. Multiply the amount on Line 2 by the decimal amount from Line 3. Enter the result here and on Line 5 ..... 4. \_\_\_\_\_
5. Credit for Adoption (*Enter on Form D-400TC, Line 22*) ..... 5. \_\_\_\_\_

**► Credit for Children With Disabilities Who Require Special Education**

Certain taxpayers are allowed a tax credit of up to \$3,000 per semester for tuition paid for an eligible dependent child. To determine eligibility for the credit, please refer to our website <http://www.dornc.com/practitioner/individual/directives/pd-12-1.pdf>.

**► Credit for Qualified Business Investments**

A tax credit is allowed for qualifying investments in the equity securities or subordinated debt of a qualified business venture, qualified grantee business, or a qualified licensee business. The credit is 25% of the amount invested or \$50,000, whichever is less. The tax credit is not allowed for the year in which the investment is made but is allowed for the taxable year beginning during the calendar year following the calendar year in which the investment was made. Any unused credit may be carried forward for the next succeeding five years. Your basis in the equity securities or subordinated debt acquired as a result of your investment must be reduced by the amount of allowable credit.

To be eligible for the credit, you must file Form D-499, Application for Tax Credit for Qualified Business Investments, with the Secretary of Revenue. The application should be filed on or before April 15 and no later than October 15 of the year following the calendar year in which the investment was made. An application filed after October 15 will not be accepted. See Page 2 of Form D-499 for additional rules and regulations for claiming the credit. The allowable credit should be shown on Form D-400TC, Line 24. You must attach a copy of the qualified business tax credit approval letter from the Department of Revenue to verify the credit claimed on the return.

**► Credit for Disabled Taxpayer, Dependent, or Spouse**

If you claimed an income tax credit on your federal tax return for being permanently and totally disabled, you are entitled to a tax credit on your North Carolina return equal to one-third (1/3) of the amount of the federal tax credit. Although the federal tax credit is also allowed for being age 65 or older, no portion of the tax credit is allowed on the North Carolina return for being age 65 or older.

You may also be entitled to a tax credit if a dependent or spouse for whom you are allowed an exemption on your federal return is permanently and totally disabled. To qualify for the credit, a statement from a physician or local health department must be attached to your return certifying that the dependent was unable to engage in any substantial gainful activity by reason of a physical or mental impairment that can be expected to result in death or that has lasted or can be expected to last for a continuous period of not less than 12 months.

## General Information for Claiming Tax Credits - Form D-400TC

A part-year resident or nonresident may claim a prorated credit based on the percentage of income that is subject to North Carolina tax. The allowable credit is determined by completing **Form D-429, Worksheet for Determining the Credit for the Disabled Taxpayer, Dependent or Spouse**. The credit should be shown on Form D-400TC, Line 25. You may contact the Department for Form D-429 or you may download it from our website at [www.dornc.com](http://www.dornc.com).

### ▶ Credit for Certain Real Property Donations

A tax credit is allowed for a qualified donation of an interest in real property located in North Carolina that is useful for public beach access or use, public access to public waters or trails, fish and wildlife conservation, forestland or farmland conservation, watershed protection, conservation of natural areas, conservation of natural or scenic river areas, conservation of predominately natural parkland, or historic landscape conservation. An individual is allowed a credit of 25% of the fair market value of the donated property, but may not exceed \$250,000. In the case of property owned by a married couple filing a joint return, the maximum credit for real property donations is increased to \$500,000. Previously, the maximum joint tax credit was \$250,000. To be eligible for the credit, the interest in the property must be donated in perpetuity to and accepted by the State, 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 the Internal Revenue Code. To support the credit, a certification by the Department of Environment and Natural Resources that the donated property is suitable for one or more of the valid public benefits described above and a self-contained or summary appraisal report must be attached to your return.

The credit may not exceed the tax liability for the tax year, reduced by other tax credits. Any unused portion of the credit may be carried forward for the next succeeding five years.

### ▶ Credit for Rehabilitating Historic Structure

**Income-producing** – Generally, a taxpayer who is allowed a federal income tax credit under section 47 of the Internal Revenue Code for making rehabilitation expenditures for a certified historic structure located in North Carolina is allowed a credit equal to 20% of the expenditures that qualify for the federal credit (40% of expenditures if the facility at one time served as a State training school for juvenile offenders).

**Nonincome-producing** – Generally, a taxpayer who is not allowed a federal income tax credit under section 47 of the Internal Revenue Code and who makes rehabilitation expenses for a State-certified historic structure located in North Carolina is allowed a credit equal to 30% of the rehabilitation expenses (40% of expenditures if the facility at one time served as a State training school for juvenile offenders). To qualify for the

credit, the rehabilitation expenses must exceed \$25,000 within a 24-month period. You must attach to the return a copy of the certification obtained from the State Historic Preservation Officer verifying that the historic structure has been rehabilitated in accordance with the Secretary of the Interior's Standards for Rehabilitation.

**Important:** The credit for rehabilitating a historic structure must be claimed in five equal installments beginning with the taxable year in which the property is placed in service. Any unused portion of the credit may be carried forward for the succeeding five years.

### ▶ Credit for Rehabilitating Historic Mill Facility

A tax credit is also allowed for rehabilitating a historic mill facility. The amount of credit depends on the location of the facility and whether it was renovated as income producing or nonincome producing property. Contact the Department of Revenue for additional information about the credit.

### ▶ Credit for Property Taxes Paid by a Farmer on Farm Machinery

An individual engaged in the business of farming is allowed a credit of up to \$1,000 for the amount of property taxes paid on farm machinery or attachments and repair parts for farm machinery. Farm machinery is defined as machinery that is exempt from State sales tax under G.S. 105-164.13(1)b. The credit may not exceed the tax liability for the year, reduced by other tax credits. To support the credit, you must attach a copy of the tax receipt for the property taxes for which the credit is claimed.

### ▶ Credit for Gleaned Crops

You are allowed a credit for unharvested crops which are donated to a qualified charitable organization. The credit is 10% of the season average price of the crop as determined by the North Carolina Crop and Livestock Reporting Service of the North Carolina Department of Agriculture and Consumer Services or the average price of the crop in the nearest local market for the month in which the crop is gleaned if the Crop and Livestock Reporting Service does not determine the season average price. Any unused portion of the credit can be carried forward to the next succeeding five years.

If the credit is claimed, the amount of the market price of the donated crops must be added to federal adjusted gross income in determining North Carolina taxable income.

### ▶ Credit for Construction of Handicapped Dwelling Units

You are allowed a tax credit for constructing

multi-family rental units located in North Carolina which conform to Volume I-C of the North Carolina Building Code. The credit is \$550 for each dwelling unit completed during the taxable year. To support the credit, you must attach to your return a copy of the occupancy permit on which the building inspector has recorded the number of units completed during the year. If the credit exceeds the tax liability for the year reduced by all other credits, the excess may be carried over only to the succeeding tax year.

### ▶ Credit for Construction of Poultry Composting Facility

You are allowed a credit for constructing a poultry composting facility in North Carolina for the composting of poultry carcasses from commercial poultry operations. The credit is 25% of the installation, materials, and equipment costs of construction paid during the taxable year, not to exceed \$1,000 for any single installation. The portion of construction costs represented by State or federal agency provided funds cannot be used in determining the credit. The credit may not exceed the tax liability for the year, reduced by other tax credits and any unused credit may not be carried over to another tax year.

In the case of property owned by the entirety, if both spouses are required to file North Carolina income tax returns, the credit may be claimed only if the spouses file a joint return.

### ▶ Credit for Conservation Tillage Equipment

A credit is allowed for the purchase of certain conservation tillage equipment for use in a farming business, including tree farming. The credit is 25% of the cost of the equipment, not to exceed \$2,500 for any taxable year. Qualifying conservation tillage equipment is (1) a planter designed to minimize disturbance of the soil in planting crops or trees, including equipment that may be attached to equipment that you already own or (2) equipment designed to minimize disturbance of the soil in reforestation site preparation, including equipment that may be attached to equipment that you already own; provided, however this shall include only those items of equipment generally known as a "KG-Blade", and "drumchopper", or a "V-Blade".

The credit may be claimed only if you are the first purchaser of the equipment and may not be claimed if you purchased the equipment for use outside of North Carolina. Any excess credit may be carried forward for the next succeeding five years. The basis in any equipment for which a credit is allowed must be reduced by the amount of the credit.

### ▶ Credit for Recycling Oyster Shells

A tax credit is allowed to a taxpayer who donates oyster shells for recycling to the Division of Marine Fisheries of the Department of Environment and

Natural Resources. The credit is \$1.00 per bushel of oyster shells donated. The credit is limited to the tax liability and any unused portion of the credit can be carried forward for the succeeding five years.

To support the credit, a taxpayer must obtain a certification by the Department of Environment and Natural Resources stating the number of bushels of oyster shells that were donated. A taxpayer who claims the credit must include in other additions any amount deducted for the donation of the oyster shells.

## ► **Business Incentive and Energy Tax Credits (*Limited to 50% of Tax Liability*)**

The following tax credits are available as incentives to new and expanding businesses or for investing in renewable energy property or low-income housing. If you believe you are entitled to one or more of the tax credits, contact the Department for Form NC-478 Series or you may download the forms from our website at [www.dornc.com](http://www.dornc.com). Form NC-478 Series is used to calculate and report tax credits that are limited to 50% of your tax less the sum of all other tax credits that you claim. Complete the form and attach it to the front of your income tax return.

**Do not enter a qualified business investment tax credit on Line 36.** Tax credits for qualified business investments are claimed on Line 24. If you are entitled to one of the following tax credits, enter the amount of the credit on Form D-400TC, Line 36.

- \* Credit for investing in machinery and equipment
- Credit for creating jobs
- \* Credit for business property
- Credit for real property
- Credit for technology development
- Credit for interactive digital media
- Credit for investing in central office or aircraft facility property
- \* Credit for technology commercialization
- \* Credit for development zone projects
- Credit for renewable fuel facility
- Credit for investing in low-income housing
- Credit for use of North Carolina ports
- Credit for investing in renewable energy property
- Credit for work opportunity
- Credit for constructing a railroad intermodal facility
- \* Credit for small business employee health benefits
- \* Credit for biodiesel producers
- Credit for donating funds to a nonprofit organization to enable the nonprofit to acquire renewable energy property.
- Credit for renewable energy property facility

\* **These credits have expired and are only available for future installments and unused carryforwards.**

### Important

**Unless otherwise stated, the tax credits described in these instructions may not exceed the tax liability for the tax year, reduced by other tax credits.**



Tax Table - Continued

Table with multiple columns for income ranges (At least, But less than) and marital status (Single, Married filing jointly, Married filing separately, Head of a household). It includes sub-sections for different tax amounts (5,000 to 14,000) and corresponding tax values.

\* This column must also be used by a qualifying widow(er)

Continued on next page









Tax Table - Continued

Table with multiple columns for tax brackets (e.g., 41,000, 42,000, 43,000, 44,000, 45,000, 46,000, 47,000, 48,000, 49,000, 50,000) and marital status (Single, Married filing jointly, Married filing separately, Head of household). Includes a footnote: \* This column must also be used by a qualifying widow(er).

Continued on next page



Tax Table - Continued

Table with columns for 'If Line 17, Form D-400 taxable income is-' and 'And you are-' (Single, Married filing jointly, Married filing separately, Head of a household). Rows are organized by income brackets from 59,000 to 62,000, 62,000 to 65,000, 65,000 to 66,000, 66,000 to 69,000, 69,000 to 72,000, and 72,000 to 75,000.

\* This column must also be used by a qualifying widow(er)

68,000 or over - use Tax Rate Schedule

# 2012 Tax Rate Schedule

Caution: Use **ONLY** if your taxable income (Form D-400, Line 17) is \$68,000 or more. If less, use the **North Carolina Tax Table** beginning on Page 22.

<u>If your filing status is</u>	<u>And taxable income is more than</u>	<u>But not over</u>	<u>The Tax is</u>
Single	\$ 0	\$ 12,750	6% of the amount on Line 17, D-400
	\$ 12,750	\$ 60,000	\$765 + 7% of the amount over \$12,750
	\$ 60,000	-----	\$4,072.50 + 7.75% of the amount over \$60,000
Head of Household	\$ 0	\$ 17,000	6% of the amount on Line 17, D-400
	\$ 17,000	\$ 80,000	\$1,020 + 7% of the amount over \$17,000
	\$ 80,000	-----	\$5,430 + 7.75% of the amount over \$80,000
Married Filing Jointly or Qualifying Widow(er)	\$ 0	\$ 21,250	6% of the amount on Line 17, D-400
	\$ 21,250	\$100,000	\$1,275 + 7% of the amount over \$21,250
	\$ 100,000	-----	\$6,787.50 + 7.75% of the amount over \$100,000
Married Filing Separately	\$ 0	\$ 10,625	6% of the amount on Line 17, D-400
	\$ 10,625	\$ 50,000	\$637.50 + 7% of the amount over \$10,625
	\$ 50,000	-----	\$3,393.75 + 7.75% of the amount over \$50,000

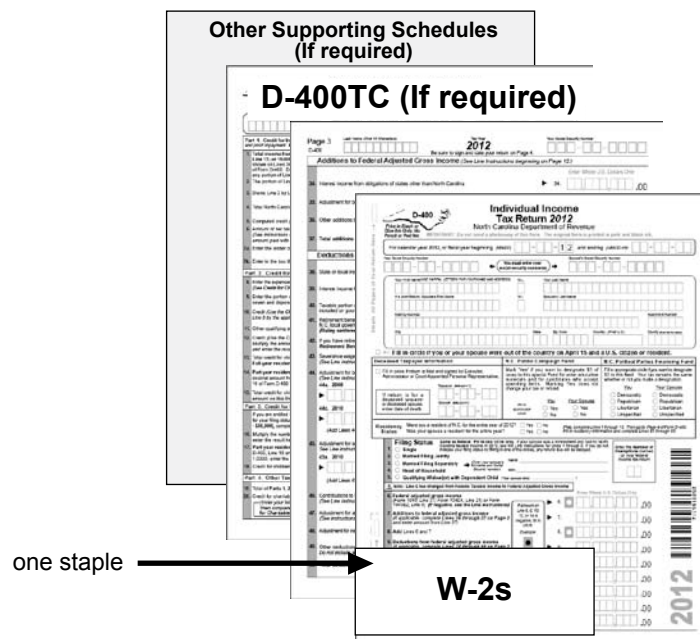
## Important Reminders

- Do not submit photocopies of the return. Submit original forms only. Do not use any prior year forms to file a current year return.
- Double-check your figures, including your social security number. Accuracy speeds processing of your tax return.
- Claim the same filing status you claimed on your federal return. (Nonresidents see instructions on page 7.) If you do not fill in the applicable circle to indicate your filing status, processing of your return will be delayed.
- Sign and date your return on Page 4. If you file a joint tax return, both you and your spouse must sign the return. Staple the originals or copies of the original State wage and tax statements in the lower left-hand corner of the return.
- You must include a copy of your federal return with your North Carolina return unless your federal return reflects a North Carolina address or you file electronically.
- If you owe additional tax, you can pay your tax online by bank draft or credit or debit card using Visa or MasterCard. Go to our website at [www.dornc.com](http://www.dornc.com) and click on **Electronic services** for details. If you do not pay your tax online, go to our website and generate a personalized payment voucher Form D-400V. Enclose the voucher with your return and payment, and mail to the address listed on page 4 of Form D-400. If you do not pay online or by payment voucher, mail a check or money order with your return for the full amount due. Please write "2012 D-400", and your name address, and social security number on the payment. If filing a joint return, write both social security numbers on your payment in the order that they appear on the return. **Note:** The Department will not accept a check, money order, or cashier's check unless it is drawn on a U.S. (domestic) bank and the funds are payable in U.S. dollars.

## What you should send us...

- ✓ Your North Carolina income tax return (Form D-400) along with Form D-400TC if you claimed a tax credit
- ✓ W-2s and 1099s showing North Carolina tax withheld and a 1099R if you claimed a **Bailey** retirement deduction
- ✓ A check or money order payable to "N.C. Department of Revenue" if you have a balance due. (**Note:** The Department will not accept a check, money order, or cashier's check unless it is drawn on a U.S. (domestic) bank and the funds are payable in U.S. dollars.)
- ✓ Other North Carolina forms or supporting schedules that are required according to the instructions (Please do not send copies of completed worksheets from the instruction booklet or other unnecessary attachments.)
- ✓ A copy of the tax return you filed in the other state if you are claiming a tax credit for tax paid to another state

## Assemble your North Carolina return for mailing in the order shown



**Note:** If you are filing Form NC-478 series, be sure to attach the form to the front of your income tax return.

**Important:** If you owe tax, do not staple, tape, or otherwise attach your check or voucher to your return or to each other. Instead, just put them loose in the envelope.

## Frequently Asked Questions

Call **1-877-252-3052 (toll free)** and select the Individual Income Tax option to hear recorded information on many frequently asked individual income tax questions. Some of the questions include information on the following:

- Filing Requirements
- Tax Credits
- Information for Military Personnel
- Bills
- Payments

This service is available **24 hours a day, seven days a week.**

## Important Toll Free Telephone Numbers

Automated Refund Inquiry Line..... **1-877-252-4052**  
 Taxpayer Assistance and Forms..... **1-877-252-3052**

## Tax Assistance

Information about individual income tax and tax forms may be obtained from our website at [www.dornc.com](http://www.dornc.com). You may also call the Taxpayer Assistance and Collection Center at **1-877-252-3052** (toll free) for additional assistance in completing your tax forms or to request forms.

### Property for Sale

Looking for a bargain on good used vehicles, furniture, appliances, tools, and jewelry? Go to [www.dornc.com/taxes/usub/](http://www.dornc.com/taxes/usub/) and click on **Items Available Through State Surplus Property Agency** or call **(919) 854-2160**.

### Maintaining Records

You should keep canceled checks, receipts, or other documentation, including a copy of your federal return, to verify any amount entered on your tax return for a period of at least three years from the due date of the return or three years from the date the return is filed, whichever is later. Lack of adequate records may result in the disallowance of all or part of the deductions. Your canceled check, money order stub, or Departmental receipt showing payment of tax should be kept for at least five years from the due date of the tax return.

### Important Notice Regarding Substitute Returns

Any facsimile or substitute form must be approved by the Department of Revenue prior to its use. If you use computer generated returns, the software company is responsible for requesting approval and receiving an assigned identification number. The Department publishes a list on our website of software developers who have received approval. Photocopies of the return are not acceptable. Returns that cannot be processed by our imaging and scanning equipment will be returned to the taxpayer with instructions to refile on an acceptable form.

### Federal Privacy Act Notice

Disclosing your social security number on your return is required by regulations issued by the Secretary of Revenue under G.S. 105-152, 155, 251, and 252. Social security numbers are used in the administration of the State's tax laws and to exchange tax information with other states and the Internal Revenue Service. Always list your social security number on any attachments to your return and on any correspondence to the Department of Revenue.

### Assistance For Disabled, Low Income, and Senior Citizen Taxpayers

If you are disabled, have a low income, or are a senior citizen, income tax returns can be prepared free of charge through the VITA (Volunteer Income Tax Assistance)/TCE (Tax Counseling for the Elderly) programs. For locations and dates of assistance, taxpayers in North Carolina can call the Internal Revenue Service toll free, **1-800-829-1040**, weekdays.

### Tax Fraud Hotline 1-800-232-4939

(733-6354 in Wake County)

The Department of Revenue provides a toll free number for citizens who wish to report instances of tax fraud. The number is 1-800-232-4939 (8:00 a.m. to 5:00 p.m., Monday through Friday, except holidays) and should be called **only** to report instances of fraud.

### Mailing Addresses

If you are due  
a refund: ⇒ N.C. Department of Revenue  
P.O. Box R  
Raleigh, N.C. 27634-0001

If you are not  
due a refund: ⇒ N.C. Department of Revenue  
P.O. Box 25000  
Raleigh, N.C. 27640-0640

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