

Thinking of making North Carolina your new home?

You will want to take North Carolina taxes into consideration

I. North Carolina Individual Income Tax

Who Must File A North Carolina Income Tax Return?

Residents and part-year residents of North Carolina who are required to file a federal income tax return are generally also required to file a North Carolina income tax return.

When Do You Become A Resident Of The State Of North Carolina?

If you are domiciled in North Carolina at any time during the taxable year for other than a temporary or transitory purpose, then you are a resident for tax purposes. Furthermore, any individual who lives in North Carolina for more than 183 days of a tax year is presumed to be a resident in absence of proof to the contrary. However, living in the state for less than 183 days does not provide the presumption that an individual is not a resident. The sale of a residence in one state and the purchase of a residence in North Carolina would ordinarily establish residency. Determination of residency must be decided based upon the facts and circumstances of each case.

Important Definitions Are:

Domicile: The place in which an individual has a true fixed permanent home or establishment. If the individual leaves (including foreign military duty), and he or she has the intention of returning, you may still be considered a resident of the state.

Part-Year Resident: An individual who moves his domicile into or out of North Carolina during any part of the year.

How Is Taxable Income For North Carolina Determined?

Your federal adjusted gross income is the starting point for determining North Carolina taxable income. Federal adjusted gross income is then adjusted for a variety of items. Some common examples follow:

Additions to federal adjusted gross income include:

1. Interest received from obligations of states other than North Carolina.
2. Any deduction claimed on your federal return for domestic production activities.

Deductions from federal adjusted gross income include, but are not limited to:

1. Interest received from obligations of the United States, such as treasury bills.
2. Taxable portion of social security and railroad retirement benefits.
3. Refunds of state income taxes.
4. Exclusions for government retirement benefits vested as of August 12, 1989.
5. Adjustments for bonus and Section 179 expenses added back to taxable income in prior years.

N.C. itemized deductions are not identical to federal itemized deductions. The only itemized deductions allowed for NC purposes are as follows:

1. Qualified home mortgage interest and real estate property taxes up to a maximum of \$20,000.
2. Charitable contributions allowed as a deduction on the federal return are allowed without limitation.
3. Medical and dental expenses are allowed as a deduction to the extent that they are allowed on the federal return.

How Does North Carolina Compute Taxable Income For A Part-Year Resident?

The calculation for NC taxes begins with the federal adjusted gross income and is adjusted by certain additions and subtractions to arrive at NC taxable income. Part-year residents will calculate the percentage of income that was received during their NC residency to their NC taxable income for the entire year. This percentage is utilized to compute the tax due for a North Carolina part-year resident.

What Is The Tax Rate For The North Carolina Tax Return?

The individual income tax rate is a flat 4.75% for 2023.

There is no alternative minimum tax for North Carolina tax purposes.

North Carolina also has a variety of tax credits including:

1. A credit for income tax paid to another state or country.
2. A \$125 credit for dependent children under age 17, and for certain income levels.
3. Business incentive and energy tax credits.

Does North Carolina Require The Payment Of Estimated Taxes?

Generally, if you are required to make estimated federal payments, your tax situation probably mandates state estimated payments. The amount of tax and the nature of the income determine the need for estimated payments. If required, North Carolina estimated payment dates are the same as the federal due dates.

How Are Retirement Distributions Taxed?

Retirement distributions from pension plans for federal and North Carolina governmental retirees are fully exempt from North Carolina tax if the retiree had five or more years of credible service as of August 12, 1989. Distributions to retirees with less than the required five years of credible service, and distributions from other states, IRAs, and private industries are subject to North Carolina tax. A pension payer required to withhold federal tax on a pension payment to a North Carolina resident must also withhold state income tax from the pension payment, unless the recipient elects otherwise.

How Does North Carolina Tax Handle A Trust?

North Carolina's trust and estate tax is based on the state of residence of the trust's income beneficiaries and not on the situs of the trust's trustees or where the trust is created. North Carolina law requires the tax to be computed on the taxable income of the trust that is for the benefit of a resident of this State, or for the benefit of a nonresident to the extent that the income (1) is derived from North Carolina sources and is attributable to the ownership of any interest in real or tangible personal property in NC or (2) is derived from a business, trade,

profession, or occupation carried on in the State. The beneficiaries of the trust pay tax on the distributable income received from the trust. The trust tax rate is 4.75% for taxable income.

II. North Carolina Estate and Gift Tax

North Carolina Estate Tax

North Carolina does not impose an estate tax on the estate of a decedent.

North Carolina Gift Tax

North Carolina does not impose a gift tax.

III. Other Miscellaneous Tax Areas

Property Taxes

Property tax in North Carolina is assessed on all real property, including your personal residence, and on vehicles and business personal property. Furniture and personal belongings that are not used in a business are not subject to property tax. The bill for tax on real estate will be issued by the county at the end of August and must be paid by January 5th.

The 2022 property tax rate for Orange County varies from \$0.8915 to \$1.6186 per \$100 of assessed value, depending on the area in the county where the property is located (based on town districts, fire districts, school districts, etc.). Currently, the combined property tax for the Town of Chapel Hill is \$1.6002 per \$100 of assessed value. Purchasing a house with an assessed tax value of \$300,000 in Chapel Hill would result in a property tax of \$4,800.

The 2022 property tax rate for Chatham County varies from \$0.665 to \$1.205 per \$100 of assessed value, depending on the area in the county where the property is located (based on town districts, fire districts, sanitary districts, etc.).

In Durham County, the 2022 property tax rate varies from \$0.7222 to \$1.3499 per \$100 of assessed value, depending on where the property is located within the county.

In Wake County, the 2022 property tax rate varies from \$0.6195 to \$1.2972 per \$100 of assessed value, depending on where the property is located within the county.

Annual vehicle inspection, registration renewal and vehicle property tax is due the same month each year. A notice is issued 60 days prior to the vehicle registration expiration.

Each year, by January 31st, a property tax listing must be filed with the county in which you have business personal property or unlicensed vehicles, such as boats, trailers, etc. In addition, improvements to real property have to be reported. Tax bills are issued in August and are generally due by December 31st.

School Tax

The towns of Chapel Hill and Carrboro assess a separate school tax in the amount of 18.3 cents per \$100 of personal property. This additional tax applies to all residents of these towns, regardless of whether the resident has children. The school tax is included in the property tax bill and is also included in the Orange County tax rates as noted above.

Sales Tax

Sales tax rates vary from county to county in North Carolina and range from 6.75% to 7.5%. Sales tax is applied to essentially all tangible merchandise. Sales tax rates for Durham, Orange, and Chatham counties are 7.5% and Wake county is 7.25%. Prescription medicine is exempt from sales tax. All telecom services, including mobile and prepaid calling cards are subject to sales tax. Although there is no state sales tax on most food, there is still a local tax which is generally 2%.

Consumer Use Tax

Like all states that have a sales tax, North Carolina has a use tax on out-of-state purchases. The use tax applies to purchases made outside the State for use inside the State, such as ordering through a catalog or through the internet. North Carolina residents are responsible for paying this use tax on their individual income tax return. The use tax is calculated at the same rate as the sales tax.

QUESTIONS OR COMMENTS?

Call us to discuss how Blackman & Sloop, CPAs, PA can help you with your tax questions at 919-942-8700.

Information effective 12/13/2022. Visit our website www.b-scpa.com for updates.
Please consult your tax advisor regarding your financial situation.

