



Thinking of making

North Carolina

your new home?

*You will want to take North Carolina
taxes into consideration*

Blackman & Sloop, CPAs, P.A.
The Exchange West at Meadowmont
1414 Raleigh Road, Suite 300
Chapel Hill, NC 27517
919-942-8700
www.BlackmanSloop.com

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

Additions to federal taxable income include:

1. State income tax deducted on the federal return.
2. Interest received from obligations of states other than North Carolina.
3. The difference in the standard deduction and personal exemptions between North Carolina and federal tax law.

I. North Carolina Individual Income Tax (continued)

Deductions from federal taxable 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 benefits.
3. Refunds of state income taxes.
4. Various exclusions for retirement benefits.
5. Contributions, within certain limits, to North Carolina's college savings plan.

HOW DOES NORTH CAROLINA COMPUTE TAXABLE INCOME FOR A PART-YEAR RESIDENT?

The calculation for NC taxes begins with the federal taxable income and is adjusted by certain additions and subtractions to arrive at NC taxable income and the total taxes due. Part-year residents will calculate the percentage of income (before adjustments and deductions) that was received during their NC residency to their overall income. This percentage is applied to the total taxes to arrive at the amount due for NC part-year resident status.

WHAT IS THE TAX RATE FOR THE NORTH CAROLINA TAX RETURN?

The rate for married filing jointly is 6% of the first \$21,250 of taxable income, plus 7% of the amount over \$21,250 up to \$100,000, plus 7.75% of the amount over \$100,000. Therefore, the tax for married filing jointly on \$100,000 would be \$6,788.

The rate for single filing status is 6% of the first \$12,750 of taxable income, plus 7% of the amount over \$12,750 up to \$60,000, plus 7.75% of the amount over \$60,000. Therefore, the tax for single filing status on \$60,000 would be \$4,073.

In 2009 and 2010, North Carolina has imposed a 2-3% surtax for taxpayers exceeding certain taxable income amounts.

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 child and dependent care expense credit.
3. A \$100 credit for dependent children under age 17, and for certain income levels.
4. A credit for qualified business investments.
5. A credit for some charitable contributions for taxpayers taking standard deductions.
6. A credit for long-term care insurance premiums for certain income levels.
7. Business incentive and energy tax credits.

I. North Carolina Individual Income Tax (continued)

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 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 are subject to North Carolina tax with an exemption allowance of \$4,000. Other pension distributions (such as IRAs and private industries) are allowed a \$2,000 exemption. However, the total annual exemption for all distributions, excluding the fully exempt distributions described above, cannot exceed \$4,000. 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?

A trust return must be filed within the state of North Carolina for trusts sited in North Carolina or trusts that hold income-producing North Carolina assets, such as rental property. The beneficiaries of the trust pay tax on the distributable income received from the trust. Trust rates are: 6% for taxable income on the first \$12,750, 7% on the next \$47,250, and 7.75% on the remainder above \$60,000.

QUESTIONS OR COMMENTS? *Please call us at 919-942-8700.*

II. North Carolina Estate and Gift Tax

NORTH CAROLINA ESTATE TAX

North Carolina imposes an estate tax on the estate of a decedent when a federal estate tax is imposed on the estate under federal law

NORTH CAROLINA GIFT TAX

The North Carolina gift tax was repealed for gifts made on or after January 1, 2009.

QUESTIONS OR COMMENTS? *We can provide assistance.*

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 December 31st.

The 2010 property tax rate for Orange County varies from 89 cents to \$1.63 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 \$1.54 per \$100 of assessed value. Purchasing a house with an assessed tax value of \$200,000 in Chapel Hill would result in a property tax of \$3,080.

The 2010 property tax rate for Chatham County varies from 62 cents to \$1.07 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.). Currently, the property tax for the Town of Pittsboro is \$0.92 per \$100 of assessed value. Purchasing a house with an assessed tax value of \$200,000 in Pittsboro would result in a property tax of \$1,840.

In Durham County, the 2010 property tax rate varies from 81 cents to \$1.54 per \$100 of assessed value, depending on where the property is located within the county.

In Wake County, the 2010 property tax rate varies from 53.4 cents to \$1.044 per \$100 of assessed value, depending on where the property is located within the county.

The bill for property tax on a vehicle is issued three months after you obtain or renew your license plate tags. You then have thirty days to pay this tax.

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 Town of Chapel Hill assesses a separate school tax in the amount of 19 cents per \$100 of personal property. This additional tax applies to all residents of the Town of Chapel Hill, 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.

III. Other Miscellaneous Tax Areas (continued)

SALES TAX

North Carolina generally has a 7.75% sales tax on essentially all tangible merchandise. This percentage includes a local sales tax rate, which may vary, but is generally 2% through most of the state. Prescription medicine is exempt from sales tax. All telecommunications 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%.

There is a sales tax holiday in August of each year for clothing, clothing accessories, school supplies, computers, printers, and educational software. Exceptions and limitations apply to certain purchases.

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? *We would be happy to help.*
