

HUDSON POPE PLLC

CERTIFIED PUBLIC ACCOUNTANT
310 New Street, New Bern, NC 28560
252-635-1330; Fax: 252-634-2772

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We are now well into the third quarter of 2013 and we continue to wrap up the 2012 tax filing year. The corporate, partnership, and fiduciary income tax return extension deadline is September 16, 2013, while the individual return deadline date is October 15, 2013. We sincerely appreciate all of our clients' cooperation in getting us the information we need to complete the returns in a timely manner.

Now that it's September, it's not too early to look forward to end of the year planning. On July 23, 2013, Governor McCrory signed the Tax Simplification and Reduction Act (HB 998) into law. Although the changes made by HB 998 are not as revolutionary as some earlier proposals, the changes are significant. HB 998 lowers individual and corporate income tax rates and repeals many individual deductions. **The income**

TAX SIMPLIFICATION AND REDUCTION ACT HB 998 FOR NC

INDIVIDUAL INCOME TAX. Flat Individual Income Tax Rate after 2013. Effective for taxable years beginning after 2013, HB 998 provides a flat income tax rate of 5.8% for tax years beginning in 2014 and 5.75% for tax years beginning after 2014. Repeals Personal Exemption Amounts. Effective for tax years beginning after 2013, HB 998 repeals the NC Personal exemption deduction of \$2,000 or \$2,500 which is currently available to individuals whose AGI falls below certain thresholds. Increases Standard Deduction. Increases to the standard deduction amounts after 2013 are as follows: Joint – increases from \$6,000 to \$15,000; Head of household – increases from \$4,400 to \$12,000; Single – increases from \$3,000 to \$7,500; Married filing separately – increases from \$3,000 to \$7,500. **NOTE:** The additional standard deduction amounts for age or blindness are not

REMINDER:

Individual Estimated Income Tax payments are due September 16, 2013.

tax changes made by HB 998 are generally effective for tax years beginning after 2013. HB 998 also makes numerous changes to the NC sales and use tax laws. We will give a brief summary of several changes as a detailed analysis is beyond the scope of this newsletter. We will keep you informed as additional information comes to light concerning this new legislation.

allowed after 2013. Limits Deductions for Individual who Itemize on Federal Return. For individuals who itemize deductions on their Federal income tax returns their itemized deductions will be limited to the following amounts on their NC income tax returns for tax years beginning after 2013: 1) The deduction allowed for charitable contributions under Section 170 of IRS code; 2) Qualified residence interest allowed under the code for real estate property taxes. However, the total deduction for qualified residence interest and for real estate property taxes may not exceed \$20,000 for a tax year. Reductions of Federal AGI in Calculating NC Taxable Income. For tax years beginning after 2013, HB 998 eliminates many of the subtractions from Federal AGI in calculating NC taxable income.

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Some of the more prominent subtractions are: 1) The up to \$50,000 nonpassive business income deduction; 2) the up to \$4,000 subtraction for distributions from state, local, or federal retirement plans and the up to \$2,000 subtraction for distributions from other qualified retirement plans. 3) The up to \$35,000 subtraction for severance wages received as a result of involuntary termination. 4) The deduction for NC income tax purposes of amounts added to Federal AGI because a credit was elected in lieu of a deduction on the Federal return. 5) The up to \$2,500 subtraction for amounts contributed to the Parental Saving Trust Fund of NC 529 plan; 6) The \$250 subtraction for eligible volunteer firefighters and volunteer rescue squad workers; 7) the subtraction for amounts paid to an individual by the State as compensation for erroneous conviction or imprisonment.

Individual Income Tax Credits. Many NC income tax credits were already scheduled to sunset for tax years beginning after 2013 as the result of prior legislation. HB 998 eliminates additional credits that were not

scheduled to expire. In addition, HB 998 modifies the child tax credit for tax years beginning after 2013 based upon filing status and the AGI on the Federal return. Individual Credits Repealed by HB 998 are: Dependent care credit; \$250,000/\$500,000 maximum credits for real estate conservation easements; credit for disabled individuals; credit for charitable contributions by nonitemizers; credit for education expenses of special needs children; credit for construction of multifamily dwelling units for handicapped persons; credit for construction of poultry composting facilities; up to \$1,000 credit for property taxes paid on farm machinery; credit for crops donated to nonprofit organization; and the up to \$2,500 credit for the cost of conservation tillage equipment. Individual Credits Expiring for Tax years Beginning after 2013 Pursuant to Previous NC Legislation are: credit for premiums paid for long-term care insurance; the earned income credit; and the credit for adoption expenses.

HB 998 SALES TAX CHANGES

HB 998 makes numerous changes to the NC sales and use tax laws. The following is a brief summary of several changes made to the NC sales and use tax rules.

1. Increases the sales and use tax rate on manufactured homes from 2% to the general rate of 4.75% effective for sales made after 2013. 2. Increases the sales and use tax rate on modular homes from 2.5% to the general rate of 4.75% effective for sales made after 2013. 3. Excludes the sale of both manufactured and modular homes from the 1% local sales and use tax effective January 1, 2014. 4. Effective for sales made after 2013, repeals exemptions for: 1) nutritional supplements sold by a chiropractic physician at his office to a patient as part of the patient's treatment plan; 2) meals and food products served to students in dining rooms regularly operated by state or private educational institutions or student organizations; 3) sales of newspapers by newspaper street vendors, newspaper carriers making door-to-door deliveries, and in vending machines. 5. Expands the sales tax to include "entertainment activities" which include admissions charges for live performances,

movies and museums, effective for admissions purchased after 2013. 6. Extends the sunset dates from January 1, 2014 to January 1, 2016, for sales and use tax refunds available to passenger air carriers, motorsports teams or sanctioning bodies, and professional motorsports teams. 7. Modifies and consolidates several of the sales and use tax exemptions for farmers effective for sales made after June 30, 2014. 8. Imposes a sales tax on certain service contracts, including warranty agreements, maintenance agreements, repair contracts and other contracts to maintain or repair tangible personal property, effective for sales after 2013. 9. Repeals the sales tax exemption for sales of bread, rolls, and buns sold at a bakery thrift store after June 30, 2014. 10. Repeals the August sales tax holiday for purchases made after June 30, 2014. 11. Repeals the November sales tax holiday for purchases of qualified Energy Star products after June 30, 2014. 12. Limits the aggregate annual refund of sales and use taxes by any nonprofit entity to \$31,700,000 for a year.

