

NC RETURNS & TAXWISE

Information for free tax prep programs (based on 2009 tax products)

TaxWise automatically takes care of most of the calculations necessary to prepare a NC return, but several items come up over the tax season that must be manually entered in TaxWise for the taxpayer to receive proper credit on their NC return. The Bailey gets major attention every time NC returns are discussed, but several other things that may be seen at VITA/TCE sites that also require manual entry. I have tried to give some basic information for each situation and trust preparers will review the additional appropriate information in NC D-400 Instructions.

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Glossary: TP = taxpayer, TW = TaxWise, FYR = Full Year Resident, PYR = Part YR.

First, NC has lower income thresholds for determining who has to file a return than the FED does. Some seniors, for example, don't have to file a federal return, but **MUST** still file an NC return.

Second, TW uses the FED AGI as the starting point for NC calculations, no matter what is or is not entered on related income documents.

References: In addition to NC D-400 Instructions, the online Individual Bulletin may help - http://www.dorncc.com/practitioner/individual/bulletins/income_bulletins_09-10.pdf

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TW Main Information Sheet

Filing Status: Spouses must file MFJ-NC if: (1) they filed MFJ-FED, and (2) both were FYR, or both had NC taxable income. All other individuals must file MFS-NC. File the FED return that provides the best benefit. See NC D-400 for details on filing MFS-NC.

State Information: Taxpayer and spouse will either be Full Year Resident or Part Year Resident. Either category may also have other Non-Resident states. Get state information correct here as to reduce complications later in the return.

Income Documents

W-2 - Severance Wages

A portion may be excludable from NC income tax. Excludable portion must be manually entered on NC D-400 page 2, line 48 even if an adjustment was made in Box 16 of the TP's W2. If Severance is not indicated in Box 14 of W2, TP should have some proof of the severance amount.

Get Bailey out of the way! Pension income reported on 1099R -4012.2, pg 10

NC does not tax a portion of retirement benefits. TW adjusts the NC return based on buttons checked on the 1099-R. These buttons are not on a paper 1099R and you may need to have a conversation with the TP about the issues discussed below. Use the buttons on the TW 1099R. D-400 line numbers are listed for quality review purposes; do not override them.

Private Pensions – TPs can exclude up to \$2,000. No additional steps need to be taken; this exclusion is shown on NC D-400 line 45. (Note: **State Street Retiree Services** is a private pension manager.)

Government Pensions – 3 categories

- A. Non-NC state or local government – Exclude \$4,000. Check Box 1; exclusion shown on NC D-400 line 45.
- B. Federal, NC state and NC local government – If the TP was vested in the plan on 8/12/1989 (generally hired before 8/12/1984) they may exclude their entire pension from their NC income. This is called the “Bailey Settlement”; Box 2 is checked and the exclusion is shown on NC D-400 line 44. Note in the example below that the State of NC helps in this determination. For others, you need to ask the following questions: “Were you hired on or before Aug. 12, 1984? Were you vested in the pension plan on Aug. 12, 1989?” You might also ask the taxpayer if they have ever been told they were eligible or not eligible for “Bailey”.
- C. Federal, NC state and NC local government not eligible for “Bailey” – Exclude \$4,000. Check Box 1; exclusion shown on NC D-400 line 45.

Buttons on the left center of TW Form 1099-R

Account number (optional)		Private Pension - No boxes checked, taxpayer exempts up to \$2000 of pension income. NC D-400 line 45
See F1 Help on the state return for use of these boxes. Instructions vary by state. Check if applies.	10 State <input type="checkbox"/>	(A, C above) Federal or NC state /local government pension not eligible for Bailey or other state/local government pension.
Box 1 <input type="checkbox"/>	13 Local <input type="checkbox"/>	Check Box 1, taxpayer exempts up to \$4,000 of pension income. NC D-400 line 45
Box 2 <input type="checkbox"/>		(B above) Federal or NC state/local payer, taxpayer vested on 8/12/1989 – “Bailey Eligible”.
Box 3 <input type="checkbox"/>		Check Box 2, entire pension is exempt from NC state tax. This is the Bailey provision. NC D-400 line 44.
Railroad retirement <input type="checkbox"/>		

If you want to read more:

<input type="checkbox"/> CORRECTED (if checked)		1 Gross distribution \$ 31,301.40	2b Taxable amount not determined <input type="checkbox"/>	OMB No. 1545-0119 2007 Form 1099-R Distributions From Pensions, Annuities, Retirement or Profit-Sharing Plans, IRAs, Insurance Contracts, etc. COPY B Report this income on your Federal tax return. If this form shows Federal income tax withheld in box 4, attach this copy to your return.
PAYER'S name, street address, city, state, and ZIP code LOCAL GOVERNMENTAL EMPLOYEES RETIREMENT SYSTEM OF NC 325 N SALISBURY ST RALEIGH, NC 276031385		2a Taxable amount \$ 31,301.40	Total distribution <input type="checkbox"/>	
PAYER'S Federal identification number 56-6118071		3 Capital gain (included in box 2a)	4 Federal Income tax withheld \$ 2,776.02	
RECIPIENT'S identification number [REDACTED]		5 Non-Taxable amount \$ 0.00	6 Net unrealized appreciation in employer's securities \$	
Account number (optional) 0000221384		7 Distribution code 7 IRA/DEP SIMPLE <input type="checkbox"/>	8 Other %	
RECIPIENT'S name, street address, city, state, and ZIP code [REDACTED]		9a Your percentage of total distribution %	9b Already taxed contributions \$ 0.00	
[REDACTED]		10 State of NC tax withheld \$ 0.00	11 State/Payer's state no. 092-035566	
[REDACTED]		13 Local tax withheld \$	14 Name of locality	
[REDACTED]		NC VESTED AS OF 8/12/1989		
[REDACTED]		Form 1099-R Department of the Treasury - Internal Revenue Services		
[REDACTED]		12 State distribution \$	15 State distribution \$	

<http://www.dorn.com/taxes/individual/benefits.html>

http://www.dorn.com/practitioner/individual/bulletins/income_bulletins_07-08.pdf#page=30

Example: A 1099-R for a retired NC state employee. These are the “easy” ones.

NC D-400 Page 1

- Confirm county code, particularly if set as a default.
- Ask about earmarks to the public campaigns. No cost to the TP and their only voice in the campaign process.
- Residency section-be sure not to check any boxes that conflict with information provided in other places in the return.
- Filing Status - If it is to the couple's benefit to file MFJ-FED, but a TP must file MFS-NC, check the Taxpayer or Spouse block below line 3 of the D-400 for the one needing to file an NC return. TW automatically creates a "ghost return" (shown in TW as NC 1040) to determine the MFS-FED AGI. Paper file NC (be sure to change that setting on D-400 page 1) and attach a copy of the MFS-FED "ghost return". (If the TPs in this situation are military, they should be referred to a military VITA site as there may be other applicable issues.)
- Confirm or check efile button.
- Direct deposit of refund is an option only with efile. Do not enter bank information again if the first button (FED & state to same account) is checked. Make sure no button in this section is checked if owe NC.

NC D-400 Page 2 (line numbers)

- 19 - Consumer Use Tax - Always ask TP if they bought anything over the phone or internet from an out-of-state company and, if so, give them the opportunity to let TW calculate this tax.
- 48 - Severance Wages - See W-2 in Income Documents above.
- 51 - Contributions to NC College Savings Plan (529 plans) are NC tax exempt. More likely seen at a TCE/AARP site.
- 52c - Unpaid volunteer firefighter/rescue squad member. If eligible for the credit, check the TP and/or Spouse box.
- 52-d - Tuition & Fees claimed on 8863 - verify that these flowed from 8863 to this line.
- Below 53 - For PYR, enter dates of NC residency here. The last day of the Tax Year that a TP was a resident of NC should be entered as the end date, even if it is 12/31.

D-400TC Page 1 (line numbers)

- 1-7 - Credit for income tax paid to another state or country. This section is only applicable if TP reported being a NC FYR and a NR of another state, will be paying NC income tax, as well as income tax to the NR state. This situation may occur most frequently in border counties where the NC resident works in another state.
 - First, go to D-400 page 2, line 20 to determine if the TP will be paying any NC tax. If this line is zero, quit; not due any NC credit.
 - Print Return (not physically). On Main Info Sheet, scroll to state recap.Is TP paying tax to other states? If not, quit. If so, note state and amounts; close Print Return PDF. [not sure about this step for Desktop, but for TWO this is the quickest way to determine the numbers needed to complete worksheet.]
 - Go the RES/NR Worksheet and note the amount of income attributed to the states to which the TP will be paying taxes. Not needed for any states to which TP is not paying tax, even if getting refund.
 - Open NC 400TC page 1, go to line 1 and link a NC400TC Wkt, even if there is only one applicable state. This Wkt has space for 4 different states.

- On line 2 of this worksheet, put the amount of income for the applicable state from the RES/NR worksheet; on line 6 put the amount of tax to be paid to that state, which came from the Main Info Sheet. The amount on line 7 will flow to the NC TC form and reduce the TP's NC state tax by that amount.
- If paper NC return, TP will need to include a copy of the state return for which they are claiming the tax credit. Print extra copies as needed.
- 9 - Day Care expenses - Manually enter the portion of line 8 (flows from FED return) that was incurred for dependent(s) who were under the age of seven and dependent(s) who were physically or mentally incapable of caring for themselves.

D-400TC Page 2 (line numbers)

- 24 - Credit for the disabled. Check the box if for a disabled spouse or dependent. Checking the disabled spouse box on the Main Info sheet does not flow to this line.

Miscellaneous

Charitable Contributions & Long Term Care Insurance Premiums - Enter these amounts on appropriate lines of 1040 Sch A Detail even if TP is not going to itemize. NC still gives some credit (i.e. not full credit) for these items and, if entered on Sch A Detail, correct amounts will flow to the NC return.

NC Injured Spouse - NC does recognize Injured Spouse. Do not efile NC; mail the NC D-400 package and include the FED Form 8379.

Amend NC Return - Recent changes in what to send in.

D-400X in TW tree now shows as D-400X-WS (for Work Sheet)

Mail D-400X-WS and corrected D-400 package

If FED also amended, include the FED 1040X and changed schedules.

TW Tree - PY Res Wkt & RES/NR Wkt - TW adds these forms based on entries in the state section of the Main Info Sheet. Review them and re-allocate income, particularly unearned income, as needed.

Interest/Dividends not taxable in NC - Generally, if TP does not have this information, the amount of NC tax over-paid will be insignificant.

Native American living and earning income on a reservation-this income not NC taxable -

Per Section I.3.j (pg 19) of the online Individual Bulletin referenced on page 1, TP must be an "enrolled member" of the tribe living and working on a recognized reservation for income to be exempt from NC income tax. Deduct on D-400, line 52e. On the W2, a difference between income in Box 1 and Box 16 may indicate that there was a period of time when the TP did not reside on the reservation.

Closing-

Suggest that each return preparer get a reference copy of D-400 instructions by contacting NC DOR and requesting that a copy be mailed to them. As we tell our customers - don't pay for something you can get for free.

Send suggestions, corrections, comments on this document to me at william.gilleland@davidsoncountync.gov. I will do my best to keep it as current and accurate as possible.