2014 Individual Income Tax Changes

Individual Income Tax Law changes effective for tax years beginning on or after January 1, 2014
The NC Department of Revenue provides this information as a courtesy to help keep you informed. As tax laws change, the way this information is applied may change as well. This information is generalized and should not be considered advice for your specific situation. If you would like to obtain specific tax advice that is binding on the Department, you may follow the procedure for requesting a letter ruling, which is located at www.dornc.com.
The Tax Simplification and Reduction Act (House Bill 998) was signed into law on July 23, 2013. Under this new law, all taxpayers will be taxed at a lower rate and be granted a higher standard deduction. The Act made significant changes to the individual income tax law for tax years beginning on or after January 1, 2014.
Individual Income Tax Rate Changes
Changes to Individual Income Tax Rate

• **Before Tax Year 2014**: There were three (3) rates. Your NC taxable income was taxed at a rate of 6, 7, or 7.75% depending on the amount of your North Carolina Taxable Income.

• **Tax Year 2014**: All NC taxpayers will be taxed at the same rate. This rate is 5.8% for tax year 2014. The tax rate is scheduled to decrease to 5.75% for tax year 2015.

<table>
<thead>
<tr>
<th>Rates</th>
<th>2013 and Prior (Tiered)</th>
<th>2014</th>
<th>2015 and After</th>
</tr>
</thead>
<tbody>
<tr>
<td>Individual Income Tax Rate</td>
<td>6%</td>
<td>5.8%</td>
<td>5.75%</td>
</tr>
<tr>
<td></td>
<td>7%</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>7.75%</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Standard Deduction
Changes to North Carolina Standard Deduction

- **Before Tax Year 2014**: The NC standard deduction for most people was $3,000, $6,000, or $4,400 depending on your filing status.
- **Tax Year 2014**: The NC standard deduction has increased to $7,500, $15,000, or $12,000 depending on your filing status.

<table>
<thead>
<tr>
<th>Filing Status</th>
<th>Previous Standard Deduction 2013 and Prior</th>
<th>New Standard Deduction 2014 and After</th>
</tr>
</thead>
<tbody>
<tr>
<td>Single</td>
<td>$3,000</td>
<td>$7,500</td>
</tr>
<tr>
<td>Married filing jointly /</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Qualifying widow(er)</td>
<td>$6,000</td>
<td>$15,000</td>
</tr>
<tr>
<td>Married filing separately</td>
<td>$3,000</td>
<td>$7,500</td>
</tr>
<tr>
<td>Head of Household</td>
<td>$4,400</td>
<td>$12,000</td>
</tr>
</tbody>
</table>

The NC standard deduction may be greater than your allowable NC itemized deductions. Please choose what is best for your specific situation!
Itemized Deductions
Changes to North Carolina Itemized Deductions

- **Prior to Tax Year 2014**: Most taxpayers were able to claim the same amount of itemized deductions on their NC individual income tax return as on their federal individual income tax return.

- **Tax Year 2014**: North Carolina no longer allows all of the itemized deductions claimed on the federal return. North Carolina’s itemized deductions include:

<table>
<thead>
<tr>
<th>Itemized Deductions</th>
<th>2013 and Prior</th>
<th>2014 and After</th>
</tr>
</thead>
</table>
New Guidelines for Itemized Deductions!

- The remaining *itemized deductions* that can be claimed on your NC return are:
  - Qualified charitable contributions
    - There is no limit on charitable contributions other than those set forth under the Internal Revenue Code.
  - Mortgage interest and property taxes paid on real estate
    - A cap of $20,000 is placed on the sum of the mortgage interest and property taxes you can claim.
    - You cannot claim personal property tax.
These are the itemized deductions allowed for North Carolina:

- Home mortgage interest and property taxes paid on real estate, limited to the sum of $20,000
- Charitable contributions

The NC standard deduction may be greater than your allowable NC itemized deductions. Please choose what is best for your specific situation!
Children and Dependents
Changes to Credits and Allowances for Children and Dependents

- Before Tax Year 2014: Taxpayers were allowed to claim personal exemption allowances for themselves, their spouse, their children, or any other qualifying dependents, the child tax credit, the tax credit for child care expenses, and the earned income tax credit.
- Tax year 2014: Taxpayers are only allowed to claim the child tax credit

<table>
<thead>
<tr>
<th>Credits and Deductions</th>
<th>2013 and Prior</th>
<th>2014 and After</th>
</tr>
</thead>
<tbody>
<tr>
<td>Child Tax Credit</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Personal Exemption Allowance</td>
<td>✓</td>
<td></td>
</tr>
<tr>
<td>Child care expenses credit</td>
<td>✓</td>
<td></td>
</tr>
<tr>
<td>Earned Income Tax Credit</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
2014 Child Tax Credit

• The child tax credit has increased to $125 for taxpayers whose federal adjusted gross income is less than the following:
  - $40,000 (Married Filing Jointly);
  - $32,000 (Head of Household);
  - $20,000 (Single or Married Filing Separately)

• The credit remains $100 for taxpayers whose federal adjusted gross income exceeds the thresholds above but does not exceed:
  - $100,000 (Married Filing Jointly);
  - $80,000 (Head of Household);
  - $50,000 (Single or Married Filing Separately)
Business Owners
Business Credits and Deductions

• **Before Tax Year 2014:** Qualified business owners were allowed a [deduction for net business income that is not considered passive under the Internal Revenue Code](https://www.irs.gov/prior-issues) (up to $50,000) and credits for qualified business investments and for investments in growing businesses.

• **Tax Year 2014:** Qualified business owners are only allowed to take credit for qualified business investments made prior to January 1, 2014 and for investments in growing businesses made prior to January 1, 2014.

(Installment and carryforwards are allowed on qualifying activities occurring prior to 2014)
2014 Business Credits

The remaining business credits that can be claimed on your NC return are:

- **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 qualified licensee business. For 2014 the credit is for qualifying investments made during calendar year 2013.

- **Growing Business and Energy Tax Credits**
  - Tax credits are available as incentives to new and expanding businesses or for investing in renewable energy property, low-income housing, rehabilitation of historic structures, or for the production of a film, or a television or radio program.
  - See Instructions for 2013 NC-478 Series, General Instructions, for more details.
Retirement
Changes to Deduction for Retirement Benefits

• **Before Tax year 2014**: Taxpayers were allowed a deduction on their NC return for government retirement income (up to $4,000) and private retirement income (up to $2,000), retirement benefits received by vested NC State government, NC local government, or Federal Government Retirees under the Bailey settlement, and taxable social security.

• **Tax Year 2014**: The deductions for retirement benefits received pursuant to the Bailey settlement and Taxable Social Security are still allowed.

<table>
<thead>
<tr>
<th>Deductions</th>
<th>2013 and Prior</th>
<th>2014 and After</th>
</tr>
</thead>
<tbody>
<tr>
<td>$4,000 Government Retirement Deduction</td>
<td>✔️</td>
<td>✔️</td>
</tr>
<tr>
<td>$2,000 Private Retirement Deduction</td>
<td>✔️</td>
<td>✔️</td>
</tr>
<tr>
<td>Bailey Retirement Deduction</td>
<td>✔️</td>
<td>✔️</td>
</tr>
<tr>
<td>Social Security Deduction</td>
<td>✔️</td>
<td>✔️</td>
</tr>
</tbody>
</table>
2014 Retirement Deductions

• The remaining retirement deductions that can be claimed on your NC return are:
  ○ Retirement benefits received by qualified NC State, NC Local, and federal government (Bailey settlement) retirees
    ➢ Qualifications include:
      • Retirees that had five or more years of creditable service as of August 12, 1989.
      • Retirees that received retirement benefits from the State's 401 (k) and 457 plans and had contributed or contracted to contribute to the plan prior to August 12, 1989.

• Taxable Social Security
  ○ You may take a deduction if any portion of your social security or railroad retirement benefits were included in federal adjusted gross income
Deductions from Federal Adjusted Gross Income (AGI)
Changes to Deductions from Federal AGI

- Tax Year 2014: The deductions for other retirement benefits, severance wages, and net business income not considered passive under Internal Revenue Code are eliminated.

<table>
<thead>
<tr>
<th>Deductions from Federal AGI</th>
<th>2013 and Prior</th>
<th>2014 and After</th>
</tr>
</thead>
<tbody>
<tr>
<td>State or local income tax refund</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Interest Income from obligations of United States</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Taxable portion of Social Security</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Bailey Retirement</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Other Retirement benefits</td>
<td>✓</td>
<td></td>
</tr>
<tr>
<td>Severance Wages</td>
<td>✓</td>
<td></td>
</tr>
<tr>
<td>Deduction for Bonus Depreciation</td>
<td>✓</td>
<td></td>
</tr>
<tr>
<td>Deduction for Section 179</td>
<td>✓</td>
<td></td>
</tr>
<tr>
<td>Business Income Deduction</td>
<td>✓</td>
<td></td>
</tr>
<tr>
<td>Other deductions</td>
<td>✓</td>
<td></td>
</tr>
</tbody>
</table>
2014 Deductions

- The remaining deductions from federal AGI that can be claimed on your NC return include:
  - State or local income tax refund
  - *Interest income* from obligations of the United States or United States’ possessions;
  - *Taxable portion* of Social Security and Railroad Retirement Benefit included in federal AGI;
  - *Retirement benefits* received by vested N.C. State government retirees, N.C. local governments retirees, or federal government retirees;
  - Deduction for *bonus depreciation*;
  - Deduction for *Section 179 expense*;
  - Other deductions from federal AGI.
Individual Income Education

- An easy to understand one page document, to quickly highlight the major changes for taxpayers in 2014
Individual Income Tax Estimator

• The North Carolina Department of Revenue introduced a tax estimator that taxpayers can use to calculate the amount of their refunds or tax due balances for the current tax year (2014).
  
  • **There are two versions of the estimator:**
    • EZ version for those who will take the standard deduction
    • Standard version for those who will itemize deductions for North Carolina.

• The estimator was designed as a tool for taxpayers to use in planning whether to adjust their North Carolina withholding taxes.
  
  • If a taxpayer finds that he/she has a balance due, he/she can decrease allowances by submitting a new Form NC-4.
**North Carolina Income Estimator**

Please fill in all applicable boxes.

<table>
<thead>
<tr>
<th>Personal Information</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of children under age 17</td>
</tr>
<tr>
<td>Standard Deduction</td>
</tr>
<tr>
<td>Last full month of wages</td>
</tr>
<tr>
<td>Year to date North Carolina Tax Withheld</td>
</tr>
</tbody>
</table>

Use drop down menu to choose filing status.

**Income**

- Taxable portion of: Wages, salaries, tips, etc.
- Taxable Interest
- Unemployment compensation

**Estimated Refund or Amount Due**

Note: Negative Number represents Refund

Estimated North Carolina Taxable Income: $7,500.00

Estimated Refund or Amount Due: $0.00
Tax Estimator Example

North Carolina Income Tax Estimator

Please fill in all applicable boxes highlighted in yellow

Personal Information

- Year to date North Carolina Withholding
- Single
- Standard Deduction: $7,500.00
- Last full month of wages: June 30
- Year to date North Carolina Tax Withheld

$0.00

Month Ending

- Estimated North Carolina Taxable income: $7,500.00
- Estimated North Carolina Tax: $0.00

Please enter Income for the entire year (not year-to-date)
If using Married Filing Joint, please enter income for both spouses

Income

- Taxable portion of - Wages, salaries, tips, etc.
- Taxable interest
- Unemployment compensation
### Tax Estimator Example

#### Earnings Statement

<table>
<thead>
<tr>
<th>Earnings</th>
<th>Hours</th>
<th>Rate</th>
<th>Current Amount</th>
<th>Withholding/Deductions</th>
<th>Current Amount</th>
<th>Year to Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>Regular Pay</td>
<td></td>
<td></td>
<td>2307.69</td>
<td>State Tax Amt</td>
<td>87.69</td>
<td>350.77</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Deferred CMP</td>
<td>0.00</td>
<td>0.00</td>
</tr>
</tbody>
</table>

**Monthly Taxable Earnings multiplied by 12 months**

\( (2,307.69 \times 12) = \$27,692.28 \)

### North Carolina Income Tax Estimator

Please fill in all applicable boxes highlighted in yellow

#### Personal Information

- Number of children under age 17: 
- Single
- Married Filing Separate (MFS)
- Married Filing Jointly (MFJ)
- Widow/Widower
- Head of Household (HOH)

<table>
<thead>
<tr>
<th>Standard Deduction</th>
<th>$ 7,500.00</th>
</tr>
</thead>
<tbody>
<tr>
<td>Last full month of wages</td>
<td>June 30</td>
</tr>
</tbody>
</table>

#### Income

- Taxable portion of - Wages, salaries, tips, etc.
- Taxable interest
- Unemployment compensation

- Estimated North Carolina Income Tax Withheld: $0.00

- Monthly taxable earnings multiplied by 12 months
  \( (2,307.69 \times 12) = \$27,692.28 \)

Please enter Income for the entire year (not year-to-date)

If using Married Filing Joint, please enter income for both spouses.
**North Carolina Income Tax Estimator**

**Please fill in all applicable boxes highlighted in yellow**

**Personal Information**

<table>
<thead>
<tr>
<th>Number of children under age 17</th>
<th>2</th>
</tr>
</thead>
<tbody>
<tr>
<td>Single</td>
<td></td>
</tr>
<tr>
<td>Married Filing Separate (MFS)</td>
<td></td>
</tr>
<tr>
<td>Married Filing Joint (MFJ)</td>
<td></td>
</tr>
<tr>
<td>Head of Household</td>
<td></td>
</tr>
<tr>
<td>Income</td>
<td>$ 7,500.00</td>
</tr>
<tr>
<td>Date</td>
<td>June 30</td>
</tr>
<tr>
<td>Year to date North Carolina Tax Withheld</td>
<td>$ 350.77</td>
</tr>
</tbody>
</table>

**Balance due of**

$269.61

**Estimated Refund or Amount Due**

*Note: Negative Number represents Refund*

| Estimated North Carolina Taxable income | $ 20,192.28 |
| Estimated North Carolina Tax            | $ 1,171.15 |

Please enter Income for the entire year (not year-to-date)

If using Married Filing Joint, please enter income for both spouses

**Income**

| Taxable portion of - Wages, salaries, tips, etc. | $ 27,692.28 |
| Taxable interest                                 |   |
| Unemployment compensation                        |   |
Resources

- Website: [www.dornr.com](http://www.dornr.com)
- Phone: 1-877-252-3052
- **Income Tax Estimator**
  - This application can help estimate individual income tax refund or liability amount.

### Service Centers

- Asheville
- Charlotte
- Durham
- Elizabeth City
- Fayetteville
- Greensboro
- Greenville
- Hickory
- Raleigh
- Wilmington
- Winston-Salem