

# Personal Income Tax Changes



**EFFECTIVE JANUARY 1, 2014  
HOUSE BILL 998  
S.L. 2013-316**

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# Most Substantial PIT Changes since 1989



- Moved to a flat rate
  - 5.8% for 2014
  - 5.75% for 2015
- No less than 40 tax exemptions, deductions, credits, or refunds eliminated or allowed to sunset
- What was retained?
  - Deduction for all social security income
  - Deduction for “Bailey” retirement income
  - Child credit
    - ✦ Enhanced for AGI under \$40,000 (MFJ)
  - Standard deduction
    - ✦ Increased 250%

# Individual Tax Preferences Eliminated



## Items that will expire

- Credit for premiums paid on long-term care insurance
- Earned income tax credit
- Credit for adoption related expenses

## Items that were repealed

- Personal exemptions
- Credits
  - Child care expenses
  - Disabled
  - Property taxes paid on farm machinery
  - Education expenses
  - Non-itemizer charitable contributions
- Deductions
  - Retirement income
  - Severance wages
  - \$50,000 business deduction
  - Many itemized deductions
  - Parental savings trust fund
  - Firefighter & rescue squad
  - Payment for erroneous conviction

# Business Tax Preferences Eliminated



## Tax Credits that will Expire

- Ports charges
- Recycling oyster shells
- Renewable fuels
- Work opportunity
- Interactive digital media
- Article 3J
- Qualified business venture
- Film (2015)
- Renewable energy (2016)
- Historic & mill rehab (2015)
- Low income housing (2015)
- Railroad intermodal (2038)

## Tax Credits that were Repealed

- Construction of dwelling units for handicapped
- Real property donations
- Conservation tillage equipment
- Gleaned crops
- Construction of poultry composting facility

# Itemized Deductions



- Currently, all federal itemized deductions allowed
- Effective 2014, only two itemized deductions allowed for State tax purposes
  - ✓ Home mortgage + property taxes paid on real estate allowed on federal return
    - ✦ Capped at \$20,000
  - ✓ Charitable contributions allowed on federal return
  - ✗ Other federal deductions eliminated
    - ✦ Medical expense deduction
    - ✦ Unreimbursed employee expenses
    - ✦ Miscellaneous deductions
    - ✦ Personal property taxes

# Income Tax Withholding



- Amount of taxes withheld from paycheck should approximate the person's tax liability
  - Withholding tables based on tax rate, standard deduction, and filing status
- Too much withheld?
  - Interest free loan to the State
  - Taxpayer would receive refund when return filed at end of the taxable year
- Too little withheld?
  - Taxpayer would owe taxes when return filed at end of taxable year

# Form NC-4



- Purpose of Form NC-4 is to allow for a more accurate withholding amount
  - Most taxpayers would claim 0 allowances
    - ✦ Less tax preferences available to change a person's tax liability
  - Taxpayers who may want to claim allowances
    - ✦ Tax credit for children
    - ✦ Itemized deductions
    - ✦ Non-withholding income from other sources
  - Consequence for employee who does not submit a new NC-4
    - ✦ The maximum amount will be withheld: Filing status single, with no allowances
- <http://www.dornco.com/press/2013/nc4requirement.html>