

*Tax Administration***Seek Filing Extension to Get Federal Tax Changes: North Carolina**

North Carolina taxpayers should consider seeking an extension of time to file their state returns to fully account for recent changes in federal tax law.

According to a Feb. 16 notice issued by the state Department of Revenue, state lawmakers must act before taxpayers can take certain deductions and exclusions allowed for 2017 under federal income tax law. The Legislature doesn't reconvene until May 16, so taxpayers may want to wait on filing state returns and seek time extensions, the revenue department said.

Although most of the changes in the 2017 federal tax act (Pub. L. No. 115-97) affect tax years beginning in 2018, a change to the calculation of deductible medical expenses impacts North Carolina taxpayers for the 2017 tax year. Absent action by the Legislature, that change won't apply for state income tax purposes, the DOR notice says.

A number of federal tax law changes also were made in the temporary spending bill signed by President Donald Trump Feb. 9. That law extends through the 2017 tax year the federal tuition, mortgage insurance premium, and mortgage interest deductions as well as a principal residence indebtedness exclusion that require legislative action to apply for North Carolina income tax purposes, according to the DOR.

Individuals who want to wait for state lawmakers to consider the conformity issues before filing their North Carolina returns need to file Form D-410 to receive an automatic six-month extension of time, according to the DOR. Corporations that want to delay filing should file a Form CD-419, the department said.

Taxpayers filing before state lawmakers act may have to file amended North Carolina returns, the department said. If payment for additional taxes due is in-

cluded with an amended return, late-payment penalties may be avoided, the DOR said.

Hard to Predict The predicament of taxpayers filing a return before the state Legislature has decided whether to conform with or decouple from federal changes isn't a new one, William W. Nelson, a partner with Smith, Anderson, Blount, Dorsett, Mitchell & Jernigan LLP in Raleigh, told Bloomberg Tax Feb. 20.

In the past, the state Legislature's Revenue Laws Study Committee has provided recommendations on such issues before returns were due, giving taxpayers good insight into what lawmakers were likely to do, according to Nelson. However, the scope and complexity of the recent federal changes and absence of any committee recommendations this year "make it much harder for taxpayers to predict" what the Legislature will do, he said.

Schorr Johnson, spokesman for the DOR, said the potential impacts from the recent federal changes on corporate income tax returns are "very limited."

The federal repatriation toll charge (Internal Revenue Code section 965) and accelerated expensing item changes (IRC sections 168, 179) were both applicable in the last quarter or during the end of 2017 and, "depending on North Carolina conformity or not, may result in amounts calculated under current law as of the beginning of 2017," Johnson told Bloomberg Tax. "There were also select extenders that were retroactively approved, although most were federal tax credits not applicable to North Carolina."

BY ANDREW M. BALLARD

To contact the reporter on this story: Andrew M. Ballard in Raleigh, N.C. at aballard@bloomberglaw.com

To contact the editor responsible for this story: Ryan C. Tuck at rtuck@bloombergtax.com

Text of the North Carolina DOR notice is at <http://src.bna.com/wvb>.

To request permission to reuse or share this document, please contact permissions@bna.com. In your request, be sure to include the following information: (1) your name, company, mailing address, e-mail and telephone number; (2) name of the document and/or a link to the document PDF; (3) reason for request (what you want to do with the document); and (4) the approximate number of copies to be made or URL address (if posting to a website).
