In 2017, the Supreme Court of North Carolina rendered its decision in *Fidelity Bank v. North Carolina Department of Revenue*. The issue presented in that case was whether the word “interest” as used in the North Carolina Revenue Act (the “Revenue Act”) should be construed in accordance with the meaning given the term in the Internal Revenue Code (the “Code”). The court held that absent a “clear and specific reference” in the Revenue Act to the Code’s definition of “interest,” that definition did not apply, and the term must be construed in accordance with its plain meaning.

While the narrow issue in *Fidelity Bank* was the interpretation of a single word, the case shines a revealing light on a large and important question: to what extent do federal tax rules control the outcome of North Carolina tax controversies? That question is important because taxpayers and the North Carolina Department of Revenue (the “Department”) share an interest in knowing what law governs a given case. More broadly, the answer to this question has important consequences for the state’s ability to prevent the erosion of its “concurrent and coequal authority” over the taxing power within our federal system.

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