

## Income/Franchise:

### North Carolina: New Law Includes Corporate Income Tax Phase-Out, Franchise Tax Changes, and PTE Tax

S.B. 105, signed by gov. 11/18/21. North Carolina Governor Roy Cooper recently signed a state budget bill into law that includes:

URL: <https://www.ncleg.gov/BillLookUp/2021/sb105>

- Updating North Carolina's general income tax conformity provisions to the Internal Revenue Code (IRC),
- Phasing out North Carolina's corporate income tax,
- Simplifying the calculation of North Carolina's corporate franchise tax,
- Creating a new pass-through entity (PTE) tax, and
- Making various changes to North Carolina's individual income tax provisions.

Effective immediately, the new law generally updates corporate and individual income tax conformity with the IRC as in effect as of April 1, 2021 (previously, May 1, 2020), including "any provisions enacted as of that date that become effective either before or after that date." Regarding phase-out of the state corporate income tax, the new law provides the following:

- For taxable years beginning in 2025, the corporate income tax rate is 2.25%;
- For taxable years beginning in 2026, the corporate income tax rate is 2%;
- For taxable years beginning in 2028, the corporate income tax rate is 1%; and
- For taxable years beginning after 2029, the corporate income tax rate is 0%.

With respect to North Carolina's corporate franchise tax, the new law eliminates two alternate bases and requires taxpayers to compute the tax using apportioned net worth, applicable for the franchise tax calculation reported on and after the 2022 North Carolina corporate income tax return (*i.e.*, beginning with the 2023 North Carolina corporate franchise tax). Responding to the \$10,000 cap on the federal individual income tax deduction for state and local taxes that was enacted in the 2017 federal tax overhaul legislation known as the Tax Cuts and Jobs Act (*i.e.*, P.L. 115-97), the new law permits certain qualifying passthrough entities (PTEs) to elect to pay an entity level tax in North Carolina, effective for tax years beginning on or after January 1, 2022.

See forthcoming Multistate Tax Alerts for more details on these various state tax law changes, and please contact us with any questions in the meantime.

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