



MULTISTATE INCOME/FRANCHISE TAX

North Carolina enacts income and franchise tax law changes

Tax Alert

Overview

On November 18, 2021, the North Carolina governor signed into law [Senate Bill 105](#) ("S.B. 105"), which phases out the corporate income tax, simplifies the calculation of the franchise tax, enacts a pass-through entity tax, updates the state's conformity to the Internal Revenue Code ("IRC"), and makes various changes to the state's individual income tax provisions.

This Tax Alert summarizes some of the income and franchise tax changes made by S.B. 105.

Corporate income and franchise tax

Phase out of corporate income tax

For taxable years beginning on or after January 1, 2025, North Carolina will begin phasing out its corporate income tax as follows:

- For taxable years beginning in 2025, the rate will be 2.25%
- For taxable years beginning in 2026, the rate will be 2%
- For taxable years beginning in 2028, the rate will be 1%
- For taxable years beginning after 2029, the corporate income tax rate will be 0%

Franchise tax calculation updates

S.B. 105 modifies the calculation of the North Carolina franchise tax base. Under current law, a corporate taxpayer's franchise tax base is the greater of the following alternate bases: (1) the taxpayer's net worth apportioned to North Carolina using the corporation's income tax apportionment factor; (2) 55% percent of the appraised value of all real and tangible personal property in North Carolina; or (3) the taxpayer's total actual investment in tangible personal property in North Carolina.

As enacted, S.B. 105 requires taxpayers to compute franchise tax using apportioned net worth and eliminates the other two alternate bases. Under the new law, the franchise tax rate of \$1.50 per \$1,000 will continue to be applied to a taxpayer's apportioned net worth, with a minimum franchise tax of \$200. The franchise tax changes are applicable to the calculation of franchise tax reported on and after the 2022 corporate income tax return.

IRC conformity

North Carolina has updated its conformity to the IRC by amending the definition of "Code", which is now defined as the IRC as enacted as of April 1, 2021, including any provisions enacted as of that date that become effective either before or after that date.

As a result of this amendment, North Carolina now conforms to the federal tax treatment for Paycheck Protection Program (PPP) loans and related business assistance.

Pass-through entity tax election

Effective for tax years on or after January 1, 2022, qualifying pass-through entities, including entities taxed as partnerships or S corporations, can elect to pay an entity level tax in North Carolina. Additional details related to this new elective pass-through entity tax will be covered in a separate Tax Alert.

Individual income tax updates

Effective for taxable years beginning on or after January 1, 2022, S.B. 105 as enacted makes the following individual income tax changes:

- Reduces the individual income tax rate from 5.25% to 3.99% over a period of 6 years as follows:
 - 4.99% for taxable years beginning in 2022
 - 4.75% for taxable years beginning in 2023
 - 4.6% for taxable years beginning in 2024
 - 4.5% for taxable years beginning in 2025
 - 4.25% for taxable years beginning in 2026
 - 3.99% for taxable years beginning after 2026

- Increases the standard deduction amount for tax years beginning on or after January 1, 2022 as follows:
 - From \$21,500 to \$25,550 for Married, filing jointly
 - From \$16,125 to \$19,125 for Head of Household
 - From \$10,750 to \$12,750 for Single and Married, filing separately

- Adds a new deduction for state net operating losses with a 15-year carryforward period

Get in touch

[Art Tilley](#)

[Joe Garrett](#)

[John Paek](#)

[Abdullah Saleh](#)



[Deloitte.com](#) | [Unsubscribe](#) | [Manage email preferences](#) | [Legal](#) | [Privacy](#)

30 Rockefeller Plaza
New York, NY 10112-0015
United States

This alert contains general information only and Deloitte is not, by means of this alert, rendering accounting, business, financial, investment, legal, tax, or other professional advice or services. This alert is not a substitute for such professional advice or services, nor should it be used as a basis for any decision or action that may affect your business. Before making any decision or taking any action that may affect your business, you should consult a qualified professional advisor. Deloitte shall not be responsible for any loss sustained by any person who relies on this alert.

As used in this document, "Deloitte" means Deloitte Tax LLP, a subsidiary of Deloitte LLP. Please see www.deloitte.com/us/about to learn more about our legal structure. Certain services may not be available to attest clients under the rules and regulations of public accounting.

Copyright © 2021 Deloitte Development LLC. All rights reserved.