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ElliottDavis
Accountants and Business Advisors

Moving to North Carolina

Tax Guide

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Whether you're moving for a career start, a promotion, a transfer, a new opportunity or retirement – welcome to North Carolina.

While this brochure presents the important federal and state tax considerations of moving within the United States or from abroad, you should not regard it as a complete guide. We would be pleased to answer any questions you may have about this Moving to North Carolina Tax Guide or to advise you concerning your specific situation.

MOVING EXPENSES DEDUCTION

If you've changed job locations or launched a new career, you may be able to deduct your moving expenses for relocating to North Carolina – or within the state – if they are directly related to starting work at your new job location, and as long as the location is at least 50 miles from your former home. There is a requirement that you must work full time for at least 39 weeks during the first 12 months after you arrive in the general area of your new job location.

North Carolina conforms with the Federal income tax rules; thus the moving expense deduction will be the same as the Federal and will require no adjustment if you are moving into North Carolina.

If you are self-employed, you must work full time for at least 39 weeks during the first 12 months and a total of at least 78 weeks during the first 24 months after you arrive in the area of your new job.

DEDUCTIBLE MOVING EXPENSES

Deductible moving expenses include the following:

- *Travel to your new home (includes lodging while en route).*
- *Packing, crating, and transporting your household goods and personal items and those of the members of your household, as well as the cost of shipping your car and your household pet(s).*
- *Actual auto expenses are deductible by keeping an accurate record, or you may deduct 15 cents per mile (shortest, most direct route), plus parking fees and tolls. You may NOT deduct repairs, insurance, depreciation or general maintenance.*

- *For foreign and military moves, the expenses of a return trip to the United States are subject to the standard moving expense deduction.*

HOW TO REPORT MOVING EXPENSES

The Federal tax code provides that moving expenses are deductible in arriving at Adjusted Gross Income (AGI) to the extent not paid or reimbursed by the employer. Therefore, as an "above-the-line" deduction, moving expenses can be claimed regardless of whether or not the taxpayer itemizes deductions. Also, by reducing AGI, the moving expense deduction will make it easier to claim other allowable deductions that depend in part on AGI, such as medical expenses, casualty losses, miscellaneous itemized deductions, and IRA contributions.

In addition, there is an exclusion from gross income for qualified moving expense reimbursements. Qualified moving expense reimbursements are amounts received (directly or indirectly) by the taxpayer from an employer as a payment or reimbursement for moving expenses that would have been deductible had the taxpayer paid them directly. They do not include payments for, or reimbursements of, expenses that were deducted by the taxpayer in a prior tax year.

A taxpayer must substantiate underlying amounts related to the moving expense deduction and should retain all records, receipts, and canceled checks related to the deductions.

SELLING YOUR HOME

Married taxpayers may exclude ALL gain on the sale of a principal residence up to \$500,000 (single taxpayers up to \$250,000). Taxpayers must use the home as a principal residence for 2 of the 5 years prior to the sale, and this treatment is generally available every two years. Special rules apply for newly separated couples, newly married couples, changes in the place of employment, health issues and "unforeseen circumstance." You may not deduct a loss on the sale or exchange of your home. The loss does not increase the basis of your new home. The original basis of a home is the purchase price in addition to certain settlement or closing costs and improvements.

YOUR NORTH CAROLINA RETURN

You are either a resident, part-year resident, or non-resident for North Carolina income tax purposes.

If you are a resident of North Carolina you are required to file a North Carolina income tax return if your income equals or exceeds the minimum amounts set forth each year by the state (generally \$5,500 for single taxpayer and \$11,000 for married filing joint taxpayer in 2007).

If you are a part-year resident of North Carolina you are required to file a North Carolina income tax return if you received income while a resident of North Carolina that equals or exceeds the minimum amounts discussed above.

If you are a nonresident of North Carolina who received income from North Carolina sources then you are required to file a North Carolina income tax return if you income equals or exceeds the minimum amounts discussed above.

If you had North Carolina income tax withheld during the year but your income is below the amount required for filing, you must still file a return to receive a refund of the tax withheld.

If an individual has income from sources within another state or country while a resident of North Carolina and the other state or country taxes the individual on such income, the individual may be eligible to claim a tax credit on the North Carolina income tax return. A nonresident is not entitled to the tax credit for tax paid to another state or country.

If one spouse is a resident and the other is not, and you file a joint Federal return, you may file jointly or separate in North Carolina. If you choose to file Married Filing Separately then you must attach a schedule to your North Carolina returns showing your separate federal taxable income.

ADD-BACKS FOR NORTH CAROLINA INCOME

These include:

- *Non-North Carolina Municipal interest*
- *Federal deductions for state and local income taxes are added back for North Carolina*

NC TAX RATES AND CREDITS

North Carolina's individual income tax is a graduated tax with a maximum rate of 8%. The rate is the same regardless of filing status. Additionally, various tax credits are also available.

ESTIMATED TAX

Generally you should make estimated tax payments if you figure your estimated tax will be \$1,000 or more and you do not have adequate withholdings from your salary, pension or other income.

INCOME NOT TAXABLE TO NC RESIDENTS

North Carolina does not tax the following income:

- *Interest from U.S. obligations*
- *Social security and/or railroad retirement income*
- *State income tax refunds*
- *Certain North Carolina and Federal Government retirement benefits received by a vested Government retiree (Bailey Settlement)*
- *Up to \$4,000 in retirement benefits from one or more other federal, state, or local government retirement plans (not falling within the Bailey Settlement discussed above)*
- *Up to \$2,000 in retirement benefits from one or more private retirement plans, however, if the taxpayer receives both other federal, state, or local retirement benefits and private retirement benefits, the total deduction is limited to \$4,000 (not including the Bailey Settlement retirement benefits discussed above)*
- *A \$2,500 deduction (\$5,000 for Married Filing Jointly) for contributions made to North Carolina 529 college savings plan*
- *Up to \$35,000 of any severance wages you received as a result of your permanent involuntary termination from employment through no fault of your own*

PROPERTY TAX

The real property tax assessment on primary residences is based on the specific county of residence.

The greater of \$20,000 or fifty percent of the appraised value of real property owned by a North Carolina resident and occupied by the owner as his or her permanent residence is excluded from the taxpayer's assessment, if the owner is 65 years of age or older or disabled, meets certain income limits, and a proper application is submitted to the county assessor.

North Carolina's personal property tax is based on the fair market value of the property using the tax rates of the district in which you live. Certain exemptions and exceptions apply to some types of personal property.

SALES TAX

North Carolina taxes sales of tangible personal property at the rate of 6.25-7.25% with some exceptions. There will be additional local sales tax in some jurisdictions.

INTANGIBLE TAX

North Carolina does not tax intangible assets.

MOVING TO NORTH CAROLINA FROM ABROAD

If you are a citizen of the United States returning from abroad, the expense deduction rules apply. If you are a retiree or a survivor (spouse or dependent) whose main job location and home were outside the United States, please consult your tax advisor.

If you are not a United States citizen, you must determine if you are a resident alien or a non-resident alien for U.S. tax purposes. A resident alien is a person who has a green card or who meets the requirements of the substantial presence tests. The substantial presence test is a calculation of the number of days a person is physically present in the United States.

It is important to note that even though a person may meet the substantial presence test, certain exceptions may apply which would allow that person to claim non-resident status.

A resident alien's worldwide income is generally subject to tax in the same manner as a U.S. citizen. Resident aliens must report all interest, dividends, wages, or other compensation for services, income from rental property or royalties, and other types of income, whether from sources within or outside the U.S., on their U.S. tax return – Form 1040.

After determining your status as a resident or a nonresident alien, whether your income is subject to tax in the U.S. generally depends on the source of the income.

A tax treaty between the United States and your country of residence may contain a provision to settle any conflicting claims of residence. For the proper determination of your residence status in accordance with your U.S. tax considerations, please consult your tax advisor.

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