

GENERAL ASSEMBLY OF NORTH CAROLINA  
SESSION 2005

H

2

HOUSE BILL 1898  
Committee Substitute Favorable 5/23/06

Short Title: S Corp Income Tax Adjustments.

(Public)

Sponsors:

Referred to:

May 11, 2006

1 A BILL TO BE ENTITLED  
2 AN ACT TO MAKE CORPORATE INCOME TAX ADJUSTMENTS  
3 INAPPLICABLE TO S CORPORATIONS.

4 The General Assembly of North Carolina enacts:

5 **SECTION 1.** G.S. 105-131.2 reads as rewritten:

6 "**§ 105-131.2. Adjustment and characterization of income.**

7 (a) Adjustment. ~~— The pro rata share of each shareholder in the income~~  
8 ~~attributable to the State of an S Corporation shall be adjusted as provided in~~  
9 ~~G.S. 105-130.5. The pro rata share of each resident shareholder in the income not~~  
10 ~~attributable to the State of an S Corporation shall be adjusted as provided in~~  
11 ~~G.S. 105-134.6(b), (c), and (d). Each shareholder's pro rata share of an S Corporation's~~  
12 income is subject to the adjustments provided in G.S. 105-134.6.

13 (b) Repealed by Session Laws 1989, c. 728, s. 1.35.

14 (c) Characterization of Income. ~~— S Corporation items of income, loss, deduction,~~  
15 ~~and credit taken into account by a shareholder pursuant to G.S. 105-131.1(b) shall be~~  
16 are characterized as though received or incurred by the S Corporation and not its  
17 shareholder."

18 **SECTION 2.** G.S. 105-134.6(a) reads as rewritten:

19 "(a) S Corporations. ~~— The pro rata share of each shareholder in the income~~  
20 ~~attributable to the State of an S Corporation shall be adjusted as provided in~~  
21 ~~G.S. 105-130.5. The pro rata share of each resident shareholder in the income not~~  
22 ~~attributable to the State of an S Corporation shall be~~ Each shareholder's pro rata share of  
23 an S Corporation's income is subject to the adjustments provided in ~~subsections (b), (c),~~  
24 ~~and (d) of this section."~~

25 **SECTION 3.** G.S. 105-134.6(c) is amended by adding a new subdivision to  
26 read:

27 ...

28 (3a) The amount by which a shareholder's share of S Corporation income is  
29 reduced under section 1366(f)(2) of the Code for the taxable year by

1                    the amount of built-in gains tax imposed on the S Corporation under  
2                    section 1374 of the Code.  
3                    ..."  
4                    **SECTION 4.** This act is effective for taxable years beginning on or after  
5                    January 1, 2006.