

**17 NCAC 05F .0204 ECONOMIC SUBSTANCE DOCTRINE**

The Secretary shall rely on general principles of the common law economic substance doctrine as established under federal and state case law in applying each prong of the two pronged test under G.S. 105-130.5A(g), except where case law conflicts with the statute. General principles of the economic substance doctrine include the following:

- (1) Economic substance is a prerequisite to any provision allowing deductions;
- (2) A taxpayer has the burden of proving that a transaction has both purpose and substance;
- (3) A taxpayer has the burden of showing that the form of the transaction accurately reflects its substance and that deductions claimed are permissible;
- (4) The economic substance of a transaction shall be determined based on documentation and data rather than the subjective opinions of the taxpayer; and
- (5) The transactions, not the entities, shall be examined for economic substance.

*History Note:* Authority G.S. 105-130.5A; 105-262.1;  
Eff. January 31, 2013;  
Pursuant to G.S. 150B-21.3A, rule is necessary without substantive public interest Eff. August 19, 2017.