

**17 NCAC 06B .0116 DEDUCTIONS FROM FEDERAL TAXABLE INCOME**

(a) Interest. -- The deduction for interest on obligations of the United States or its possessions provided in G.S. 105-134.6(b)(1) applies to direct obligations such as United States Savings Bonds and United States Treasury Bills. Interest earned on obligations that are merely backed or guaranteed by the United States Government do not qualify for deduction from an individual's federal taxable income. The deduction from federal taxable income does not apply to any portion of a distribution from an individual retirement account.

(b) State, Local, and Federal Retirement Plans. -- The deduction from federal taxable income provided in G.S. 105-134.6(b)(6)a applies to all of the following:

- (1) Long-term disability benefits paid under the Disability Income Plan of North Carolina. No deduction from federal taxable income is allowed for short-term disability benefits paid under the Disability Income Plan of North Carolina;
- (2) Benefits paid to federal civil service employees who become disabled prior to becoming age 60; and
- (3) Benefits received by the survivors of a member of the armed forces paid under the Retired Serviceman's Family Protection Plan or the Survivor's Benefits Plan.

For purposes of the deduction allowed in G.S. 105-134.6(b)(6)b. and c., federal means the federal government of the United States. For purposes of the deduction allowed in G.S. 105-134.6(b)(6)b. and c., state and local includes the governments of territories and possessions of the United States. The deduction from federal taxable income provided in G.S. 105-134.6(b)(6)c includes amounts received from an individual retirement account or from an individual retirement annuity, both of which are described in Section 408 of the Internal Revenue Code. An individual is not required to have ceased employment to qualify for the deduction for distributions from an individual retirement account or an individual retirement annuity. A change in the structure of a corporate employer that causes a distribution to be paid to the employee from the employer's retirement plan does not entitle the employee to claim the deduction for retirement benefits provided in G.S. 105-134.6(b)(6)c.

(c) Indian Tribe. --The income earned by an enrolled member of the Eastern Band of Cherokee Indians or another federally recognized tribe is deductible from federal taxable income if it is included in federal gross income and it is derived from activities on the Cherokee reservation while the member resided on the reservation.

(d) The deduction from federal taxable income provided in G.S. 105-134.6(b)(11) for severance wages does not include payments that represent compensation for past or future services. Compensation for past or future services includes payment for any of the following:

- (1) Accumulated sick leave, vacation time, or other unused benefits;
- (2) Bonuses based on job performance; and
- (3) Payments in consideration of any agreement not to compete with the employer or in consideration of a contractual or legal claim.

(e) Other Adjustments. -- The deduction from federal taxable income provided in G.S. 105-134.6(d)(2) includes repayments of items of income included in gross income in a prior year under the claim-of-right doctrine for which the taxpayer reduces his or her tax under Section 1341 of the Internal Revenue Code in the year of repayment.

*History Note: Authority G.S. 105-134.6; 105-262;  
Eastern Band of Cherokee Indians v. Lynch 632 F.2d 373 (4th Cir. 1980);  
Eff. June 1, 1990;  
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