

17 NCAC 06B .3529 INTEREST INCOME PASSED THROUGH TO PARTNERS

(a) Although the interest income passed through to a partner in a partnership retains its same character as when received by the partnership, the expenses incurred in earning interest income shall be either deductible by the partnership and net interest income after expenses shall be reflected in the partner's pro rata share of the income of the partnership, or not deductible by the partnership and interest income before expenses shall be reflected in the partner's pro rata share of the income of the partnership.

(b) Net interest income shall be reported if the activities are considered trade or business activities under federal law and interest income before expenses shall be reported if the activities are considered investment activities under federal law. If the activities are considered investment activities, the expenses incurred in earning that income shall be reported by the partnership to its partners as a separately stated item and shall be deducted by the partner to the extent allowable on the partner's income tax return.

(c) For interest income subject to federal income tax and considered trade or business activities, the partner's federal gross income shall include the net interest income after expenses incurred in earning the income. If that interest income is deductible from federal adjusted gross income pursuant to G.S. 105-153.5(b), the individual partner shall deduct the net income on the North Carolina return. For interest income subject to federal income tax and considered investment activities, the partner's federal gross income includes the interest income before expenses incurred in earning the income. If that interest income is deductible from federal adjusted gross income pursuant to G.S. 105-153.5(b), the individual partner shall deduct the income before expenses on the North Carolina return. No addition shall be made for the expenses incurred in earning that income to the extent those expenses are deductible by the individual partner in arriving at federal adjusted gross income.

(d) Interest income not subject to federal income tax is not included in the partner's federal adjusted gross income. For interest income not subject to federal tax but required to be added to federal adjusted gross income pursuant to G.S. 105-153.5(c), the individual partner shall add the total interest income on the North Carolina return. No deduction shall be made for expenses incurred in earning that income if the expenses are not deductible in arriving at federal adjusted gross income.

*History Note: Authority G.S. 105-153.5(b); 105-153.5(c); 105-154; 105-262;
Eff. February 3, 1992;
Readopted Eff. May 1, 2016.*