

17 NCAC 06B .4005 BASIS IN STOCK

(a) Due to different tax treatment of an S corporation's income for State and federal purposes for taxable years beginning before January 1, 1989, a shareholder's basis in the stock of an S corporation for State tax purposes may be different than for federal tax purposes; thereby causing adjustments in determining North Carolina taxable income upon receipt by the shareholder of distributions from the S corporation and upon disposition of the S corporation stock.

(b) The initial basis of the stock in an S corporation to a nonresident of North Carolina is zero, and the nonresident shareholder shall not be taxed on distributions from the corporation and recognizes no income or loss upon disposition of the stock. A nonresident shareholder's basis in the S corporation stock shall be adjusted for his or her pro rata share of the income or loss of the corporation.

(c) A resident shareholder's initial basis in the stock of an S corporation shall be determined as of the later of the date the stock is acquired, the effective date of the S corporation election, or the date the shareholder became a resident of North Carolina. A resident shareholder's basis in the stock shall be increased by his or her pro rata share of the corporation's income, subject to the adjustments required under G.S. 105-153.5 and G.S. 105-153.6, except for income exempt from federal or State income taxes and deductions for depletion in excess of the basis of the property being depleted. The basis shall be decreased by:

- (1) distributions to the extent deemed a return of basis;
- (2) a pro rata share of the losses of the corporations as adjusted under G.S. 105-153.5 and G.S. 105-153.6;
- (3) nondeductible expenses of the corporation; and
- (4) the amount of the shareholder's deduction for depletion of oil and gas wells to the extent the deduction does not exceed the proportionate share of the adjusted basis of that property allocated to the shareholder.

The adjustments to the basis do not apply to tax periods beginning prior to January 1, 1989.

*History Note: Authority G.S. 105-131.3; 105-262;
Eff. June 1, 1990;
Readopted Eff. May 1, 2016.*