

**GENERAL ASSEMBLY OF NORTH CAROLINA
SESSION 2005**

**SESSION LAW 2006-17
HOUSE BILL 1898**

**AN ACT TO MAKE CORPORATE INCOME TAX ADJUSTMENTS
INAPPLICABLE TO S CORPORATIONS.**

The General Assembly of North Carolina enacts:

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

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

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

(b) Repealed by Session Laws 1989, c. 728, s. 1.35.

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

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

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

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

...

(3a) The amount by which a shareholder's share of S Corporation income is reduced under section 1366(f)(2) of the Code for the taxable year by the amount of built-in gains tax imposed on the S Corporation under section 1374 of the Code.

..."

SECTION 4. This act is effective for taxable years beginning on or after January 1, 2006.

In the General Assembly read three times and ratified this the 19th day of June, 2006.

s/ Marc Basnight
President Pro Tempore of the Senate

s/ James B. Black
Speaker of the House of Representatives

s/ Michael F. Easley
Governor

Approved 7:05 p.m. this 21st day of June, 2006