SECTION .1400 - AMORTIZATION OF BOND PREMIUMS

17 NCAC 05C .1401 PRELIMINARY STATEMENT

If a corporation purchases a bond at more than its face value, the amount of premium paid may be amortized over the life of the bond. However, the allowance of a deduction against net income for amortization of the premium paid depends upon the type of bond purchased by the corporation. For example:

(1) Amortization of premiums on tax-exempt bonds by a corporation is mandatory with no deduction allowed in computing state net income.

(2) A corporation may at its option amortize the amount of premiums paid on taxable bonds over the life of the bonds. If the premium is not amortized by the corporation, it will constitute part of the basis of the bond in determining gain or loss at maturity of sale.

(3) For state income tax purposes, obligations of the United States or its possessions and obligations of the State of North Carolina or any of its subdivisions are tax-exempt. Interest income received by a corporation on such obligations is not taxable; however, a corporation must include in its computation of state net income any gain or loss realized on the disposal of such obligations.

(4) Premiums paid on all bonds acquired prior to January 1, 1963 cannot be amortized but constitute a part of the cost basis of the bonds in determining gain or loss when the bonds are sold.

History Note: *Authority G.S. 105-130.5; 105-262;*
Eff. February 1, 1976;
Amended Eff. January 1, 1994;
Pursuant to G.S. 150B-21.3A, rule is necessary without substantive public interest Eff. August 19, 2017.