2025-2026 General Assembly

SENATE BILL 595: Various Revenue Laws Changes, Part II: Conform to Federal System for Auditing Partnerships

Analysis of:	S.L. 2026-31, Part II	**Date:**	August 28, 2026
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Part II of S.L. 2026-31 (Senate Bill 595) provides a framework to conform the State individual income tax law to the federal system for centralized large partnership audits and allows partnerships to elect to pay tax at the partnership level.

The Bipartisan Budget Act of 2015, Public Law 114-74 (BBA), established new, centralized large partnership audit procedures at the federal level for tax years beginning after December 31, 2017, where partnerships are audited and taxes are collected at the entity level, replacing the prior system where the partners were individually assessed. Unless a partnership has 100 or fewer partners and opts out, the BBA requires an audit at the partnership level for purposes of determining whether an underpayment or overpayment of tax has occurred. However, partnerships with partners that are themselves partnerships, trusts, or disregarded entities cannot opt out.

The Multistate Tax Commission (MTC) developed model legislation for states to create a standardized process applicable to partnerships audited by the IRS under the BBA where, at the state level, the partnership may either transfer partnership items to the partners and have the partners pay the tax or elect to pay State tax at the partnership level. This Part generally follows the MTC model by transferring partnership items to partners and offering an election to pay tax at the partnership level. Specifically, when a partnership doing business in North Carolina receives a final federal partnership adjustment, the default rule is that the partnership has 90 days to file an amended state return reflecting the final federal adjustments with North Carolina modifications. The partnership must notify direct partners of their respective distributive shares of those adjustments, including any information necessary for the partners to prepare their State returns. Each direct partner subject to North Carolina tax has six months from the date the federal adjustment became final to file a State return reporting the partner's distributive share of the federal adjustments and to pay any additional tax due. Additionally, the Part sets out deadlines, makes provisions for tiered partnerships, allows for an election to pay at the partnership level, and provides other administrative guidance.

This Part becomes effective for taxable years beginning on or after January 1, 2026, and applies to federal partnership adjustments that become final on or after that date.