



# Overview of North Carolina Retirement Tax Friendliness

## Is Social Security taxable in North Carolina?

**No.** All Social Security retirement income can be subtracted from your taxable income when you file your North Carolina income tax return.

NC General Assembly approved eliminating the state's tax on military pension income in the fiscal budget that was signed into law by Gov. Roy Cooper in November 2021.

## Are other forms of retirement income taxable in North Carolina?

**Yes.** Income from a pension (private and public) income from a 401K. Income from an IRA and income from any other type of retirement account are all taxed at the North Carolina state income tax rate of 4.99%.

However, the rate will decrease to 4.75% in 2023, 4.6% in 2024, 4.5% in 2025, 4.25% in 2026, and 3.99% in 2027 and thereafter. Social Security benefits are not taxed by the state. Unlike many other states, NC does not allow deductions on any type of retirement income. However, the NC standard deduction is fairly large. It is \$7,500 for single filers, \$15,000 for joint filers, and \$12,000 for heads of household.

## Bailey Exemption

As a result of the NC Supreme Court's decision in Bailey v. State of North Carolina, North Carolina may not tax certain retirement benefits received by retirees of the State of North Carolina and its local government or by the US government retirees (including military) for each retirement plan if the retiree has five or more years of creditable service as of August 12, 1989. The exclusion also applies to retirement benefits received from the State's 401 (k) and 457 plans if the retiree had contributed or contracted to contribute to the plan, prior to August 12, 1989. The exclusion does not apply to local government 457 plans, 403(b) annuity plans, or retirement benefits paid to former teachers and state employees of other states and their political subdivisions by Gov. Roy Cooper November 2021.

## Vehicle Tax

Registration: 3% tax due when title is transferred, revenue from this tax is regularly allocated to the maintenance of the NC highways. Property tax: Annual, determined by multiplying the combined county and municipal district tax rate by the county tax. (*Ex. a vehicle in Wake county worth \$20k would be taxed at \$252/year.*) Vehicles purchased outside NC (moving to NC, out-of-state title in your name) Maximum \$250.

## What is the North Carolina low income homestead exclusion?

Older homeowners (age 65 and older) with a household income of no more than \$29,000 can claim the NC low-income homestead exclusion. The exclusion is subtracted from taxable value and is equal to either \$25,000 or 50% of taxable value, whichever is greater. For eligible seniors, this can mean hundreds in property tax savings every year.

Senior homeowners whose income is no more than \$43,500 may also qualify for a property tax deferral. This does not reduce property taxes but defers payment of taxes owed until a later time, typically when the home is sold.

## Do you pay income tax on disability benefits?

Between \$25,000 and \$34,000, you may have to pay income tax on up to 50% of your benefits. More than \$34,000, up to 85% of your benefits may be taxable.

Did you know NC offers property tax relief for elderly and disabled homeowners? You may qualify to reduce the taxable value of your home by \$25,000 or 50%, whichever is greater. This amount may be higher if you are a veteran, and your disability is related to your service. The Disabled Veterans Property Tax Exclusion is for veterans who have been found permanently and totally disabled by the US Department of Veterans Affairs. The exclusion applies to a residence owned and occupied by a qualified veteran. The first \$45,000 of the appraised value of the residence is excluded from taxation.

## What other North Carolina taxes should I be concerned about?

NC recently eliminated its estate tax, so seniors who are planning on leaving wealth or property for their loved ones need not worry about that.

Retirees with investment income outside of a retirement account should be aware that capital gains in NC are treated as regular income. They are taxed at the state rate of 4.99%. NC exempts all Social Security retirement benefits from income taxes. Other forms of retirement income are taxed at the NC flat income tax rate of 4.99%. The state's property and sales taxes are both moderate.

## How high are sales taxes in NC?

NC's total state and average local sales tax rate is 6.9%. This ranks as the 25th highest in the nation. In other words, it is very close to average. In most counties, the total rate is either 6.75% or 7%. The exceptions are Durham County and Orange County, where the rate is 7.5%

Unlike many states, North Carolina taxes groceries, albeit at a reduced rate. The rate on most food is 2%.

Prescription drugs are fully exempt from the sales tax, however.

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*\*This data is provided by RetireNC in association with the 2023 Economic Development Partnership of North Carolina and subject to change without notice. Contact NC.Gov for details and updates.*