



DIRECTIVE

Subject: Wage Standard Tests for Article 3A Tax Credits
Tax: Income, Franchise, and Gross Premiums
Law: G.S. 105-129.4(b)
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This Directive clarifies how the two wage standard calculations set forth in Article 3A of Chapter 105 are performed. Questions may be directed to the Corporate, Excise, and Insurance Tax Division at (919) 733-8510. You may also write to the Division at P.O. Box 871, Raleigh, NC 27602-0871.

Background

The tax credits in Article 3A are designed to attract certain types of new businesses to North Carolina and to foster expansions of certain types of businesses in North Carolina. To qualify for any tax credit under Article 3A, some or all of the eligibility requirements set forth in G.S. 105-129.4 must be met. One of these requirements is to meet the wage standard. There are two wage calculations prescribed to determine whether the wage standard has been met. One is for all jobs at the location with respect to which a credit is claimed. The other is for jobs for which a credit is claimed. To determine if a business is subject to the wage standard and, if so, whether one or both calculations are required, please review the Guidelines for Article 3A Tax Credits. The Guidelines are accessible on the Department's website through the Business portal at www.dor.state.nc.us.

Wage Standard Calculations

A. One of the wage tests is to determine if the average wage of all jobs at a business location meets the wage standard. To make that determination, complete the following steps:

1. For each month in the tax year, identify the number of employees for the location who were included on line 1 of the Employer's Quarterly Tax and Wage Reports (NCUI 101s) as filed with the Employment Security Commission.

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2. Add the number of employees identified in Step 1 for each month and divide that amount by 12.
3. Divide the total wages included on line 2 of the NCUI 101s for this location for the tax year by the number calculated in Step 2.
4. Divide the amount calculated in Step 3 by 52.
5. Compare the amount calculated in Step 4 to the applicable wage standard for the county where the jobs are located.

B. The other wage test is to determine if the average wage of jobs for which a potential credit may be claimed meets the wage standard. To make that determination, complete the following steps:

1. For each employee, divide the number of hours worked, not including overtime, by 2,080. Hours worked includes all regular hours for which the employee received pay including vacation and sick time.
2. Divide each employee's total wages for the tax year by the amount calculated in Step 1.
3. Divide each amount calculated in Step 2 by 52.
4. Sum the amounts calculated in Step 3 for each employee and divide by the number of employees.
5. Compare the amount calculated in Step 4 to the applicable wage standard for the county where the jobs are located.

The above calculations are to be used if the taxpayer is in business at the location with respect to which credits are claimed for its entire tax year. If the taxpayer is in business at the location for only a portion of the year, the calculations must be adjusted accordingly. For example, Company X is an existing North Carolina taxpayer that files on a calendar year basis. On April 1, 2004, it expands its operations by opening a new manufacturing plant in North Carolina. Subsection C below shows how Company X would determine if the average wage of all jobs at the new location meets the wage standard. Subsection D below shows how Company X would determine if the average wage of jobs at the new location for which a potential credit may be claimed meets the wage standard.

C. To determine if jobs at the Company X New Location meet the wage standard in the 2004 tax year, complete the following steps:

1. For the months April through December, identify the number of employees for the location who were included on line 1 of the Employer's Quarterly Tax and Wage Reports (NCUI 101s) as filed with the Employment Security Commission.
2. Add the number of employees identified in Step 1 for each month and divide that amount by 9.

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3. Divide the total wages included on line 2 of the NCUI 101s for this location for April through December by the number calculated in Step 2.
4. Divide the amount calculated in Step 3 by 39.
5. Compare the amount calculated in Step 4 to the applicable wage standard for the county where the jobs are located.

D. To determine if jobs at the Company X New Location for which a potential credit may be claimed meet the wage standard in the 2004 tax year, complete the following steps:

1. For each employee, divide the number of hours worked, not including overtime, by 1,560 (2,080 X 9/12). Hours worked includes all regular hours for which the employee received pay including vacation and sick time.
2. Divide each employee's total wages for the months April through December by the amount calculated in Step 1.
3. Divide each amount calculated in Step 2 by 39.
4. Sum the amounts calculated in Step 3 for each employee and divide by the number of employees.
5. Compare the amount calculated in Step 4 to the applicable wage standard for the county where the jobs are located.