

Form NC-478B- Investing in Machinery & Equipment

The credit for investing in machinery and equipment is taken in seven equal installments beginning in the tax year following the year in which the machinery and equipment is placed in service. Any unused portion of the credit may be carried forward for five succeeding years.

The following instructions for completing Part 1 through Part 5 of Form NC-478B apply to individuals, S corporations claiming the credit against franchise tax, and C corporations. Partnerships, S corporations claiming the credit against income tax, and other pass-through entities, see the specific instructions for pass-through entities located after the instructions for Part 5.

Part 1. Business Information. *(The information requested in Part 1 is for a single establishment at which machinery and equipment in excess of the applicable threshold were purchased or leased and placed in service in North Carolina during 2004. If you invested in machinery and equipment at more than one establishment in 2004, complete a separate Form NC-478B for each establishment.)*

To be eligible for the credit for investing in machinery and equipment, a taxpayer must be one of the eligible business types. In addition, taxpayers must meet all of the following conditions:

1. Meet all the general eligibility requirements.
2. Purchase or lease eligible machinery and equipment.
3. Place the eligible machinery and equipment in service during the 2004 tax year.

Name, Address, and County of Establishment. Enter the name, address, county, and NAICS Code for each establishment in which an investment of machinery and equipment is made. If the establishment is located in a tier three, four, or five area and not in a development zone, a wage standard test must also be satisfied. The wage standard test for investing in machinery and equipment requires the combined average weekly wage of all jobs at the location with respect to which the credit is claimed to meet the wage standard. For more information about the wage standard test, see the “**Guidelines for Article 3A Tax Credits**” available from the Department’s website.

Tier, Development Zone, and Health Insurance Information. The amount of credit allowed for investing in machinery and equipment is based upon the enterprise tier of the area in which machinery and equipment is placed in service. The Department of Commerce publishes a list of the counties and their respective tier designations. For more information about enterprise tiers, go to the Department of Commerce’s website, www.nccommerce.com, and click on “Financial Incentives/ North Carolina county tier designations.”

Within each tier, there may be designated “development zones.” Development zones recognize defined areas of economic need within a tier. For purposes of computing the credit for machinery and equipment, development zone areas are considered tier one areas.

Taxpayers must provide health insurance for all full-time positions at the location with respect to which the credit is claimed. The insurance must be provided to the employees at the time the machinery and equipment is purchased or leased and placed in service and must be maintained to claim an installment or carryforward of the credit. Taxpayers must provide with the tax return certification that health insurance is provided to all full-time positions at the location.

Part 2. Computation of Eligible Credit Amount for Investing in Machinery and Equipment in 2004. *(The information requested in Part 2 is for a single establishment at which machinery and equipment in excess of the applicable threshold were purchased or leased and placed in service in North Carolina during tax year 2004. If you invested in machinery and equipment at more than one establishment in 2004, complete a separate Form NC-478B for each establishment.)*

Line 1. Enter the cost of eligible machinery and equipment purchased or leased and placed in service in North Carolina during the 2004 tax year. Machinery and equipment are eligible if they are capitalized for tax purposes under the Internal Revenue Code and not leased to another party. **(Note.** *Property expensed under Section 179 of the Internal Revenue Code, real property, and rolling stock are not eligible.*) The cost of machinery and equipment is determined pursuant to the regulations of Section 1012 of the Internal Revenue Code. The cost of leased property is valued at eight times the net annual rental rate.

Line 2. Enter the cost of all machinery and equipment in service in North Carolina on the last day of the tax year. **(Note.** *Also enter this amount in the 2004 column of Part 3.*)

Line 3. Enter the cost of all machinery and equipment in service in North Carolina on the last day of the base year. The base year is that year, of the three immediately preceding taxable years, in which the most eligible machinery and equipment was in service in this State.

Line 4. Subtract Line 3 from Line 2, but not less than zero.

Line 5. Enter the lesser of Line 1 or Line 4. This is the maximum eligible investment amount for investing in machinery and equipment in North Carolina for tax year 2004.

Line 6. If you invested in machinery and equipment at more than one establishment during tax year 2004, enter the amount of Line 5 attributable to this establishment.

Line 7. Enter the applicable threshold from the following table based on the enterprise tier of this establishment:

Tier 1 & Development Zone	Tier 2	Tier 3	Tier 4	Tier 5
\$-0-	\$100,000	\$200,000	\$1,000,000	\$2,000,000

Line 8. Subtract Line 7 from Line 6, but not less than zero. If the calculated amount is zero or less, stop. **You are not eligible for the credit for investing in machinery and equipment for 2004.** If the calculated amount is greater than zero, enter the amount on Line 8.

Line 9. Multiply Line 8 by the applicable credit percentage from the following table based on the enterprise tier of this establishment:

Tier 1 & Development Zone	Tier 2	Tier 3	Tier 4	Tier 5
7%	7%	6%	5%	4%

This is the amount of eligible credit for investing in machinery and equipment at this establishment in 2004. The total eligible credit amount for investing in machinery and equipment in 2004 for **ALL** establishments must also be entered in the Credit History Table. *(See Part 5, 2004 Column, Eligible Credit Amount.)*

Line 10. Divide Line 9 by the number 7. This is the eligible installment amount for this establishment to be taken starting in tax year 2005.

Part 3. Machinery and Equipment in Service in North Carolina on the Last Day of the Tax Year. *(The information requested for Part 3 is a cumulative total for all establishments and should be entered only once on the last Form NC-478B filed.)*

Enter the total cost of all eligible machinery and equipment in service in North Carolina on the last day of the tax year for each year requested. This information should be used to determine the base year on Part 2, Line 3.

Part 4. Computation of Amount Eligible To Be Taken in 2004. *(The information requested for Part 4 is a cumulative total for all establishments and should be entered only once on the last Form NC-478B filed.)*

Line 11. Enter the 2003 eligible installment amount.
(See 2003 Form NC-478B, Part 2, Line 10.)

Line 12. Enter the 2002 eligible installment amount.
(See 2002 Form NC-478B, Part 2, Line 10.)

Line 13. Enter the 2001 eligible installment amount.
(See 2001 Form NC-478B, Part 1, Line 9.)

Line 14. Enter the 2000 eligible installment amount.
(See 2000 Form NC-478B, Part 1, Line 9.)

Line 15. Enter the 1999 eligible installment amount.
(See 1999 Form CD-478B, Part 1, Line 9.)

Line 16. Enter the 1998 eligible installment amount.
(See 1998 Form CD-478B, Line 13.)

Line 17. Enter the 1997 eligible installment amount.
(See 1997 Form CD-478A, Line 13.)

Line 18. Enter the portion of eligible installment amounts not taken for tax years 1996 through 2002.

Line 19. Add Lines 11 through 18. **This is the amount of eligible credit available to take for investing in machinery and equipment in 2004.** *(Carry amount to Form NC-478, Line 2.)*

Part 5. Machinery and Equipment Credit History Table. *(The information requested for Part 5 is a cumulative total for all establishments and should be entered only once on the last Form NC-478B filed. The installment portion of Credit History Table can not be completed in its entirety until after completing Part 3 of Form NC-478.)*

Eligible Credit Amount In the 2004 column, enter the total eligible credit amount for investing in machinery and equipment in tax year 2004. *(Add Part 2, Line 9 for all establishments.)* In the 1997 through 2003 columns, enter the total eligible credit amount as calculated on the prior year's Form NC-478B.

Installments Taken in 2003 In the 1997 through 2003 columns, enter the amount of credit actually taken in tax year 2004. The amount of credit taken includes the amount of current year's installment plus any portion of a prior year's carryforward utilized in 2004.

Carryforwards Taken If any portion of a prior year's installment is utilized in tax year 2004, enter the amount of carryforward taken in the applicable column. **(Important.** *Carryforwards taken do not include the amount of current year's installment taken.*

Carryforwards taken should only be entered if in 2004 a portion of a prior year's installment is utilized.)

Carryforwards To Take In Future If an installment is not fully utilized in tax year 2004, enter the amount not taken as a carryforward to take in the future. **(Important.** *Carryforwards to take in the future do not include eligible installments to be taken in future years. Carryforwards to take in the future should only be entered if in 2004 a portion of a current installment can not be utilized due to the 50% of tax limitation.)*

Expired Installments If an installment expires, enter the amount of expired credit in the applicable column. The credit for investing in machinery and equipment expires if a taxpayer fails to meet the general eligibility requirements. Generally, installments expire if the machinery and equipment are disposed of, taken out of service, or moved out of North Carolina prior to the end of the seven-year period in which the credit is claimed. *(For a detailed example on how to calculate the amount of expired installment, see the "Guidelines for Article 3A Tax Credits" available from the Department's website.)*

Pass-through Entities. S corporations claiming the credit for investing in machinery and equipment against income tax complete Parts 1 through 3 as one taxpayer, then allocate the amount from Part 2, Line 10 among the shareholders. Complete Parts 4 and 5 by including the amounts allocated to those nonresident shareholders on whose behalf a composite return is being filed. On Part 4, Line 18, include only the carryforwards for those nonresident shareholders on whose behalf a composite return is filed in both the prior year and the current year. **Partnerships** complete Parts 1 through 3 as one taxpayer, then allocate the amount from Part 2, Line 10 among the partners. Complete Parts 4 and 5 by including the amounts allocated to those nonresident partners on whose behalf the managing partner pays the tax. On Part 4, Line 18, include only the carryforwards for those nonresident partners on whose behalf the partnership pays tax in both the prior year and the current year. **Trusts and estates** complete Parts 1 through 3 as one taxpayer, then allocate the amount from Part 2, Line 10 among the fiduciary and the beneficiaries. Complete Parts 4 and 5 by including only the amount allocated to the fiduciary.