

## Allocation of Credits by Pass-through Entities

A pass-through entity must take extra steps in calculating and allocating the tax credits among its shareholders, partners, or beneficiaries.

**S Corporations.** If the credit is being claimed against franchise tax, no allocation is required. Complete the applicable tax credit form and enter the amount eligible to be taken in the current year on the NC-478 form. If the credit is being taken against income tax, complete the applicable tax credit form to determine the eligible credit to be allocated among the shareholders. The portion of the eligible credit allocated to nonresident shareholders on whose behalf a composite return is being filed is calculated and carried to the NC-478 form. The portion of the eligible credit allocated to resident shareholders or nonresident shareholders who are not part of a composite return will not be reflected on the S-corporation's NC-478 form.

**Partnerships.** Complete the applicable tax credit form to determine the eligible credit to be allocated among the partners. The portion of the eligible credit allocated to nonresident partners on whose behalf the partnership pays tax is calculated and carried to the NC-478 form. The portion of the eligible credit allocated to resident partners or nonresident partners on whose behalf the partnership does not pay tax will not be reflected on the NC-478 form.

**Trusts and estates.** Complete the applicable tax credit form to determine the eligible credit to be allocated among the trust or estate and its beneficiaries. The portion of the eligible credit allocated to the trust or estate is calculated and carried to the NC-478 form. The portion of the eligible credit allocated to the trust's or estate's beneficiaries will not be reflected on the NC-478 form.

The example below shows how the tax credit for creating new jobs under Article 3J is calculated and reported on the NC-478 form and the NC-478J form by an S corporation. The example also applies to partnerships, trusts, and estates.

**Example.** An S corporation creates new jobs in a Tier 1 county in North Carolina during tax year 2008. The S corporation meets all of the eligibility requirements for the tax credit for creating new jobs. The S corporation has three shareholders. Shareholder 1 is a North Carolina resident and owns 50% of the corporation. Shareholder 2 is a nonresident who owns 20% of the corporation. This shareholder is not part of the composite return that is filed by the S corporation. Shareholder 3 is also a nonresident, owns 30% of the corporation, and is part of the composite return. The S corporation elects to apply the tax credit against income tax. *(For further details see form NC-478J.)*

### Step 1. Calculating the Credit Amount for Creating New Jobs for the Entity (From NC-478J, Part 1)

<b>Line 1.</b>	County where new jobs were created	COUNTY
<b>Line 2.</b>	Average number of full-time employees in NC during 2008	30
<b>Line 3.</b>	Average number of full-time employees in NC during 2007	10
<b>Line 4.</b>	Maximum number of new jobs in NC eligible for credit in 2008	20
<b>Line 5.</b>	Number of new jobs included in Line 4 located in this county but NOT in urban progress or agrarian growth zone	10
<b>Line 6.</b>	Tier threshold for county	5
<b>Line 7.</b>	Compare the number of jobs on Line 5 with the amount on Line 6. If the number of jobs on Line 5 is less than	

the amount on Line 6, skip Lines 7 and 8 and go to Line 9.

If the number of jobs on Line 5 is greater than or equal to Line 6, enter the number of jobs from Line 5.

<b>Line 8.</b>	Credit amount for each new job created in this county NOT located in urban progress or agrarian growth zone	\$125,000
<b>Line 9.</b>	Number of new jobs included in Line 4 located in this county AND in urban progress or agrarian growth zone	6
<b>Line 10.</b>	Tier threshold for urban progress or agrarian growth zone	5
<b>Line 11.</b>	Compare the number of jobs on Line 9 with the amount on Line 10. If the number of jobs on Line 9 is less than the amount on Line 10, skip Lines 11 through 15 and go to Line 16. If the number of jobs on Line 9 is greater than or equal to Line 10, enter the number of jobs from Line 9.	6
<b>Line 12.</b>	Credit for new jobs located in urban progress or agrarian growth zone	\$ 81,000
<b>Line 13.</b>	Number of new jobs included in Line 9 that are filled by residents of that zone or by individuals	1
<b>Line 14.</b>	Multiply Line 13 by \$2,000	\$ 2,000
<b>Line 15.</b>	Total credit amount for new jobs located in an urban progress or agrarian growth zone in 2008	\$ 83,000
<b>Line 16.</b>	Total Credit for New Jobs Created in this County in 2008	\$208,000
<b>Line 17.</b>	Amount of each future installment	\$ 52,000

### Step 2. Allocating the Credit Amount to the Shareholders

Shareholder	1	2	3
<b>Credit Amount of S Corporation</b>	\$ 52,000	\$ 52,000	\$ 52,000
<b>Percentage Ownership</b>	50%	20%	30%
<b>Credit Amount Allocated</b>	\$ 26,000	\$ 10,400	\$ 15,600
<b>Non-composite Credit Amount</b>	\$ 26,000	\$ 10,400	\$ 0
<b>Composite Credit Amount</b>	\$ 0	\$ 0	\$ 15,600

**Step 3. Completing Part 2 of NC-478J and Line 1b of NC-478 for the Entity.** *(Note. For example purposes only. The first installment of the Article 3J credit for creating jobs can not be taken until the year after the taxpayer qualifies for the credit.)*

NC-478J, Part 2, Line 18 - First Installment	\$ 15,600
NC-478, Part 1, Line 1b - Creating Jobs Article 3J	\$ 15,600

**Note.** Shareholders 1 and 2 must complete NC-478J, Part 2, and NC-478 separately to claim the credit that is passed through to the individual shareholders.