2016
North Carolina
C Corporation Tax Return Instructions

General Information

The information contained in these instructions is to be used as a guide in the preparation of the North Carolina C Corporation tax return and is not intended to cover all provisions of the law.

For further information on North Carolina tax law, refer to administrative rules, bulletins, directives, and other publications issued by the Department of Revenue, "Department", as well as opinions issued by the Attorney General's office.

The Department has published the "2016 Tax Law Changes" resource document. This document gives a brief summary of the tax law changes made by the 2016 General Assembly regardless of when the changes take effect, as well as changes made by prior General Assemblies that take effect for tax year 2016. For detailed information concerning these changes, go to the Department's website, www.dornc.com. Click on "Tax Professionals" and select "Revenue Laws".

Corporations Required to File

Every corporation doing business in North Carolina and every inactive corporation chartered or domesticated here must file an annual franchise and income tax return using the name reflected on the corporate charter if incorporated in this State, or on the certificate of authority if incorporated outside this State. A franchise tax is imposed on corporations for the privilege of doing business in this State even though the activities are exempt from income tax under P.L. 86-272. For a corporation that is subject to both income tax and franchise tax, its apportionment factor is the same for both taxes. For a corporation that is subject to franchise tax but not income tax, its apportionment factor for computing the amount of franchise tax due is the same factor that would be used if its activities that are protected by P.L. 86-272 were subject to income tax in this State.

North Carolina Political Organizations

North Carolina political organizations must file Form CD-405 if the organization has gross taxable income of more than $100. Organizations must first complete federal Form 1120-POL to determine the organization's federal taxable income.

When completing the North Carolina return, the political organization is not required to complete Schedules A, C, D, and E, which are used to calculate franchise tax. The political organization may also attach a copy of its federal return instead of completing Schedule G. If North Carolina adjustments are applicable, Schedule H must be completed. The remainder of Form CD-405, Schedules I through O, is not applicable.

In general, a NC political organization must file Form CD-405 by the 15th day of the fourth month following the close of the income year. The due date may be extended for six months if the extension, Form CD-419, is received timely. Interest and applicable penalties may be imposed if the organization is required to file Form CD-405 and fails to file the form by the due date.

New Corporations

A new corporation (newly incorporated, newly domesticated out-of-state corporation, or other corporation commencing business in the State) is required to file a franchise and income tax return with this Department by the 15th day of the fourth month following the close of its first income year of twelve (12) months or less. The taxable year for a new corporation in this State is presumed to end the calendar month preceding the month of incorporation unless otherwise established by the filing of the required return indicating the taxable year adopted. In no case may the first taxable year exceed 12 months unless it is clearly shown that the corporation has adopted a method of accounting using the 52-53 week reporting period. A franchise and income tax return is due annually so long as the corporation remains incorporated, domesticated, or continues to do business in this State.

Tax Rates

The franchise tax rate is $1.50 per $1,000.00 of the corporation's net worth or other alternative tax schedule. The minimum franchise tax is $200.00 with no maximum except for a qualified holding company. The corporate income tax rate is 4.0% of net income attributed to North Carolina.

When and Where to File

Franchise and income tax returns are due on the 15th day of the fourth month following the close of the income year. An income year ending on any day other than the last day of the month is deemed to end on the last day of the calendar month ending nearest to the last day of the actual income year.

Income tax returns for cooperative or mutual associations are due on or before the 15th day of the ninth month following the close of the income year; however, these corporations, if subject to franchise tax, must file a franchise tax return by the 15th day of the fourth month following the close of the income year. **Mail returns to:**

North Carolina Department of Revenue, P.O. Box 25000, Raleigh, NC 27640-0500

Computer Generated Substitute Forms

A corporation may file its North Carolina Franchise and Corporate Income tax return on computer generated tax forms approved by the Department. A list of software developers that have received approval is available on the Department's website. To view a list of approved software developers, go to **"Tax Forms"** and click on **"For Software Developers".** Tax returns that can not be processed by the Department's imaging and scanning equipment **will be returned to the taxpayer** with instructions to file on an acceptable form.

Where to Get Forms

In an effort to save the cost of printing and mailing tax booklets, the Department does not print or mail franchise and corporate income tax forms. Franchise and corporate income tax forms are available on the Department's website. Go to **"Tax Forms"** and click on **"Corporate Income and Franchise"**. The website offers forms that can be downloaded or filled in online and printed.

Extensions

An extension of time to file the franchise and income tax return may be granted for six (6) months if the extension application is received timely. Without a valid extension, a return filed after the statutory due date will be delinquent and subject to interest and all applicable penalties provided by law. To receive an extension, taxpayers must file the application by the original due date of the return.

You can apply for an extension and pay your tax online. Go to **"eServices"** and select **"CD-419"**.

North Carolina does not accept the federal extension in lieu of Form CD-419; therefore, a properly filed federal extension <u>does not</u> constitute a North Carolina extension.

Estimated Income Tax

Corporations that expect to have an income tax liability to this State of $500 or more are required to file Form CD-429, Corporate Estimated Income Tax, and pay estimated income tax.

You can pay corporate estimated income tax payments online. Go to **"eServices"** and select **"CD-429"**.

<u>Specific Instructions for Filing Form CD-405</u>

Period Covered

File the 2016 return for calendar year 2016 and fiscal years that begin in 2016. You must use the same taxable period on your North Carolina return as on your federal return.

Note: The 2016 Form CD-405 may also be used if:

- The corporation has a tax year of less than 12 months that **begins** in 2016. **If the corporation's tax year is less than 12 months, fill in the beginning and ending dates for the tax year.**

- The 2017 Form CD-405 is not available at the time the corporation is required to file its return.

Important. Returns submitted to the Department that do not meet the specified criteria **will be returned to the taxpayer** with instructions to refile the return on an acceptable form.

Demographic and Other Taxpayer Information

Name, Address, and Identification Numbers. Print the corporation's true legal name (as set forth in the corporate charter), address, federal identification number, and North Carolina Secretary of State number on the appropriate lines. Include in this section the corporation's primary NAICS code as reported to the Division of Employment Security within the Department of Commerce. *(For further information regarding the NAICS code, see the North American Industry Classification System as published by the Federal Office of Management and Budget.)*

Note. If a change in address occurs after the return is filed, use Form NC-AC, Business Address Correction, to notify the Department of the new address.

Gross Receipts/Sales and Total Assets. Enter the corporation's gross receipts or sales from all business operations for the tax year. Also, enter the corporation's total assets **(as determined by the accounting method regularly used in keeping the corporation's books and records)** at the end of the tax year.

Initial Return. If this is the corporation's first return in North Carolina, fill in the appropriate circle.

Final Return. If the corporation ceases to exist or leaves North Carolina during the tax year, fill in the appropriate circle. Since franchise taxes are paid in advance or at the beginning of the income year, corporations are not subject to franchise tax after the end of the income year in which articles of dissolution or withdrawal are filed with the Secretary of State unless the corporation engages in business activities not reasonably incidental to winding up its affairs. **This provision applies, however, only to those corporations that voluntarily file articles of dissolution or withdrawal with the Secretary of State of North Carolina.** Although the final income tax return must be filed on a franchise and income tax return form, the schedules relating to franchise tax should be disregarded.

Short Year Return. If this is not the taxpayer's initial return nor the taxpayer's final return and the corporation has a tax year of less than 12 months, fill in the appropriate circle.

Amended Return. If filing an amended return, fill in the appropriate circle. A complete explanation as to the reason(s) for filing an amended return, including specific schedule and line number references, must be included on Schedule J of the return. If any change is made to corporate net income by the Internal Revenue Service, taxpayers are required to file an amended North Carolina return **within six (6) months** after being notified of the correction or final determination. A penalty is imposed for failure to comply with this filing requirement. **Corporations filing amended returns with additional tax due should use Form CD-V Amended.** *(For more information on Form CD-V Amended, see page 6.)*

Captive REIT. A captive REIT is defined for NC tax purposes as a REIT whose shares or certificates of beneficial interest are not regularly traded on an established securities market and are more than 50% owned or controlled by a person subject to NC corporate income tax. REITs owned by other REITs or listed Australian property trusts are excluded from the definition of captive REIT. **If the REIT meets the definition of a captive REIT, fill in the appropriate circle.**

Tax Exempt. Certain corporations organized under Chapter 55A are exempt from franchise tax and income tax under G.S. 105-125 and 105-130.11, respectively. However, these corporations are not exempt on "unrelated business income" earned in excess of $1000 annually. The term "unrelated business income" is the same as defined under the Internal Revenue Code. Income tax returns for nonprofit entities that are tax exempt are due on or before the 15th day of the fifth month following the close of the tax year. **If the corporation is a tax exempt entity, fill in the appropriate circle.**

Non U.S./Foreign. Certain foreign corporations, other than those having an office or place of business in the United States or a FSC or former FSC, are required to file their federal income tax returns by the 15th day of the seventh month instead of by the 15th day of the fourth month. North Carolina law permits these corporations to file Form CD-405 on the 15th day of the seventh month instead of by the 15th day of the fourth month. **If the corporation is classified as a foreign corporation for federal income tax purposes and files its return by the 15th day of the seventh month, fill in the appropriate circle.**

Combined Return. If the Secretary has either allowed or required a corporation to file a combined North Carolina corporate income tax return, fill in the appropriate circle. A corporation **cannot file** a combined tax return in North Carolina without the written permission of the Secretary. For more information on how to file a combined return, go to **"Tax Forms"**, click on **"Corporate Income and Franchise Tax"**, and select **"CD-405 CW instructions"**.

NC-Rehab. Article 3L, which became effective January 1, 2016, established two new credits for rehabilitation of historic structures in North Carolina. The Article provides for a tax credit for rehabilitating income-producing historic structures and a tax credit for rehabilitating nonincome-producing structures. Corporations taking a credit under Article 3L must complete Form NC-Rehab, "2016 Historic Rehabilitation Tax Credits", and place it on the front of the completed Form CD-405. **If the corporation has attached Form NC-Rehab, fill in the appropriate circle.**

NC-478. Corporations taking a credit limited by statute to 50% of tax must complete Form NC-478, "Summary of Tax Credits Limited to 50% of Tax", and place it on the front of the completed Form CD-405. **If the corporation has attached Form NC-478 to Form CD-405, fill in the appropriate circle.**

CD-479 (Annual Report). All domestic corporations and foreign corporations authorized to transact business in North Carolina except for insurance companies, limited liability companies, nonprofit corporations, professional corporations, and professional associations must, on an annual basis, file an annual report and remit a twenty-five dollar ($25.00) fee. **Taxpayers have the option of either filing the annual report online in an electronic format with the Secretary of State for a reduced fee of $18.00 or in paper form with the Department of Revenue.**

If the corporation elects to file the annual report in paper form with the Department of Revenue, Form CD-479 must be completed in its entirety and placed on **the front page** of the completed tax return. **The circle labeled "CD-479 is attached" located at the top of the tax return must also be filled in.** The $25.00 fee must be included in the computation of the corporation's income tax due. *(See instructions on Page 5.)*

IMPORTANT. The Department's eFile program does not permit the electronic filing of Form CD-479. Therefore, if a corporation e-files its corporate tax return, Form CD-479 must be filed either (1) online directly with the NC Secretary of State http://www.sosnc.gov/Corporations/arentry.aspx, or (2) in paper form with the Department of Revenue. Form CD-479 can be obtained from the Department's website. Go to "Tax Forms", click on "Corporate Income and Franchise" and select "CD-479". **Attaching the annual report to an electronically filed tax return does not constitute filing the annual report.** Failure to timely file the annual report with the NC Secretary of State may result in a corporate administrative dissolution under G.S. 55-14-20 or revocation under G.S. 55-15-30.

Escheatable (Abandoned or Unclaimed) Property. Every corporation holding property of North Carolina residents that is unclaimed and abandoned under General Statutes Chapter 116B must certify the holding of the escheatable property on its income tax return by filling in the appropriate circle. For questions concerning escheatable property, call (919) 814-4200 or write to: **Unclaimed Property Division, P.O. Box 20431, Raleigh, N.C. 27619-0431.**

N.C. Education Endowment Fund. A corporation may elect to contribute to the N.C. Education Endowment Fund. To make a contribution, complete Form NC-EDU and enclose the form and applicable payment with the tax return. Form NC-EDU is available on the Department's website. Go to **"Tax Forms"**, click on **"Corporate Income and Franchise"** and select **"NC-EDU"**. *(For more information on the Education Endowment Fund, see page 6.)*

Rounding Off to Whole Dollars

Corporations must round the amounts on the return and accompanying schedules to the nearest whole dollar. Taxpayers should drop any amount less than 50 cents and increase any amount of 50 cents or more to the next whole dollar.

Computation Of Franchise Tax - Schedule A

Lines 1 through 5 - Franchise Tax

North Carolina imposes a franchise tax upon corporations for the opportunity and privilege of transacting business in the State. In general, franchise tax is measured by a corporation's net worth (Schedule C). In no case shall a corporation's net worth be less than:

(1) The corporation's actual investment in tangible property in North Carolina (Schedule D), or
(2) 55% of the appraised property tax value of all of the corporation's tangible property in North Carolina (Schedule E).

Franchise tax is computed by applying the rate of $1.50 per $1,000.00, and can be no less than $200.00.

Inactive Corporations. A corporation that is inactive and without assets is subject annually to a minimum franchise tax of $200.00 A return containing a statement of the status of the corporation is required to be filed. **Failure to file this return and pay the minimum tax will result in suspension of the articles of incorporation or certificate of authority.**

Net Worth. Enter the amount of the corporation's net worth from the book balance sheet as of the end of the tax year. Before making this entry, corporations must complete Schedule C of Form CD-405. *(See instructions on page 7.)*

Investment in North Carolina Tangible Property. Enter the amount of actual investment in North Carolina tangible property as of the end of the tax year. Before making this entry, corporations must complete Schedule D of Form CD-405. *(See instructions on page 7.)* For more information regarding when to include leased property, see Administrative Code Section 17NCAC05B.1309.

Appraised Value of North Carolina Tangible Property. Multiply the appraised ad valorem tax value of all tangible property located in N.C. by 55%. Before making this entry, corporations must complete Schedule E of Form CD-405. *(See instructions on page 7.)*

Holding Company. Franchise tax payable by a holding company on its net worth is limited to an amount not to exceed $150,000. However, if the tax produced by the investment in tangible property (Schedule D) or the appraised value (Schedule E) exceeds the tax produced by the corporation's net worth, then the tax is levied on the greater of the amounts of Schedule D or Schedule E. *(For specific information including a "definition of a holding company," refer to the Corporate Income and Franchise Tax Bulletin, as well as the NC statutes.)* **Important. If the corporation qualifies as a holding company and the tax produced by Schedule C**

exceeds the tax produced by Schedule D or Schedule E, fill in the "Holding Company Exception" circle.

Line 6 - Payment with Franchise Tax Extension

If the corporation filed an application for franchise tax extension, Form CD-419, enter the amount of **franchise tax paid** with the extension on Line 6. *(From Form CD-419, Line 9.)* When filing an amended return, enter the franchise tax extension payment claimed on the original return on Schedule B, Line 29b.

Line 7 - Tax Credits

To take a franchise tax credit on Line 7, corporations must complete Form CD-425, Corporate Tax Credit Summary, and file it with the tax return. Taxpayers taking a credit limited by statute to 50% of tax must also complete Form NC-478, Summary of Tax Credits Limited to 50% of Tax, and place it on the front of the completed tax return. **Forms for many of these credits, as well as the CD-425 and NC-478, are available from the Department's website.**

Failure to substantiate a tax credit may result in the disallowance of that credit. *(For specific information regarding tax credits, refer to the Corporate Income and Franchise Tax Bulletin.)*

Lines 8 and 9 - Franchise Tax Due / Overpaid

Subtract Lines 6 and 7 from Line 5. If the total of Line 6 plus 7 is less than Line 5, **additional franchise tax is due**. Enter the amount of additional tax due on Line 8 and on Page 2, Line 33. If the amount of 6 plus 7 is more than Line 5, **franchise tax is overpaid**. Enter the amount of overpayment on Line 9 and on Page 2, Line 33. **Fill in the circle located next to Line 33 to indicate the amount is overpaid.**

Since franchise tax is prepaid, a special computation is sometimes required to prevent a duplication of tax when two or more corporations with different income years **merge** or otherwise transfer the entire assets from one corporation to the other. *(For specific information and the procedure for making this computation, refer to the Corporate Income and Franchise Tax Bulletin.)*

(Overpaid franchise tax can offset underpaid income tax in the same tax year and vice versa. See the "Tax Due or Overpayment" section on page 5 for line-by-line instructions.)

Computation of Income Tax - Schedule B

Line 10 - Federal Taxable Income

Enter the amount of federal taxable income before the net operating loss deduction from Schedule G, Line 30, or from federal Form 1120, Line 28 minus Line 29b. **If the amount on Line 10 is negative, enter the amount and fill in the circle located next to Line 10 to indicate the amount is negative. Do not use brackets or other symbols to indicate a negative number.**

A copy of your federal tax return, as filed with the Internal Revenue Service, is not required to be attached to the North Carolina return; however, the complete federal return must be available to the Department upon request.

Line 11 - Adjustments to Federal Taxable Income

Taxpayers must make certain adjustments to federal taxable income in arriving at North Carolina taxable income. Before making this entry, corporations must complete Schedule H of Form CD-405. *(See instructions on page 8.)* **If the amount on Line 11 is negative, enter the amount and fill in the circle located next to Line 11 to indicate the amount is negative.**

Line 13 - Contributions

Subject to certain limitations, corporations may deduct contributions or gifts made within the income year to qualified donees when determining State net income. North Carolina law does not permit a corporation to carry over unused contributions to subsequent tax years. Before making this entry, corporations must complete Schedule I of Form CD-405. *(For specific information regarding the deduction of contributions, refer to the Corporate Income and Franchise Tax Bulletin.)*

Line 15 - Nonapportionable Income

When a corporation has income from sources within North Carolina as well as sources outside North Carolina a determination of apportionable and nonapportionable income must be made. If the corporation's business is conducted entirely within North Carolina, enter zero on Line 15. If the business is both within and outside of North Carolina, enter the total amount of nonapportionable income on Line 15. Before making this entry, corporations must complete Schedule N of Form CD-405. *(See instructions on page 11.)* **If the amount on Line 15 is negative, enter the amount and fill in the circle located next to Line 15 to indicate the amount is negative.**

Line 16 - Apportionable Income

All income apportionable under the U.S. Constitution is apportioned to North Carolina and to other states based on the apportionment factor. **If the amount on Line 16 is negative, enter the amount and fill in the circle located next to Line 16 to indicate the amount is negative.**

Line 17 - Apportionment Factor

Enter the apportionment factor percentage as calculated from Schedule O of Form CD-405. **The apportionment factor must be calculated four places to the right of the decimal.** *(See instructions on page 11.)*

Line 19 - Nonapportionable Income Allocated to N.C.

Enter on Line 19 the amount of nonapportionable income allocated directly to this State. Before making this entry, corporations must complete Schedule N of Form CD-405. *(See instructions on page 11.)* **If the amount on Line 19 is negative, enter the amount and fill in the circle located next to Line 19 to indicate the amount is negative.**

Line 21 - Percentage Depletion over Cost Depletion on North Carolina Property

Enter on Line 21 the amount by which percentage depletion allowed by sections 613 or 613A of the Internal Revenue Code exceeds cost depletion for solid minerals or rare earths extracted from North Carolina soil or waters.

Line 22 - State Net Loss

A State net loss for a taxable year is the amount by which allowable deductions for the year, other than prior year losses, exceed gross income under the Internal Revenue Code for the year adjusted as provided in G.S. 105-130.5. Corporations that are required to allocate and apportion their net income or loss may carry forward to the succeeding year only the allocated portion of the loss. **There is no State net loss carryback deduction available**. For more information on calculating the State net loss deduction, see the 2014 and 2015 law changes on the Department's website, http://www.dor.state.nc.us/practitioner/taxlaws.html.

Enter on Line 22 the amount of State net loss brought forward from prior years and claimed as a deduction. *(Attach schedule)*

Line 26 - North Carolina Net Income Tax

To calculate North Carolina net income tax, multiply Line 25 by the income tax rate of **4.0%**.

Line 27 - Annual Report Fee

If the corporation elects to pay the annual report fee in paper form with the income tax return, enter $25.00 on Line 27; **otherwise enter zero.**

Line 29 - Tax Payments and Credits

a. **Income Tax Extension**. Taxpayers filing a Form CD-419 enter the amount of income tax paid on Form CD-419, Line 10 on Line 29a. When filing an amended return, enter the income tax extension payment claimed on the original return on Schedule B, Line 29b.

b. **2016 Estimated Tax**. Enter any estimated income tax payments for 2016 (including any portion of the 2015 overpayment that was applied to the 2016 estimated income tax and any payment remitted through the Electronic Funds Transfer Program, EFT) on Line 29b. When filing an amended return, enter the amount of previous tax payments (both franchise and income tax) here. **Important.** If the corporation received a refund for overpaid taxes on its original return, enter the sum of all previous payments less any refunds received (excluding interest).

c. **Partnership**. If the corporation is a nonresident partner, enter the amount of tax paid to North Carolina on behalf of the corporate partner on Line 29c. **Important**. If a partnership payment is claimed on Line 29c, a copy of Form D-403 NC K-1 ***MUST*** be attached.

d. **Nonresident Withholding**. Enter the amount of tax withheld from a nonresident corporation for nonwage compensation during the taxable year on Line 29d.

e. **Tax Credits.** To take an income tax credit on Line 29e, corporations must complete Form CD-425, "Corporate Tax Credit Summary", and file it with the tax return. Taxpayers taking a credit limited by statute to 50% of tax must also complete Form NC-478, "Summary of Tax Credits Limited to 50% of Tax", and place it on the front of the completed tax return. **Forms for many of these credits, as well as the CD-425 and NC-478, are available from the Department's website. Failure to substantiate a tax credit may result in the disallowance of the credit.**

Lines 31 and 32 - Income Tax Due / Overpaid

Subtract Line 30 from Line 28. If Line 30 is less than Line 28 **additional income tax is due**. Enter the amount of additional tax on Line 31 and on Line 34. If Line 30 is more than Line 28, **income tax is overpaid**. Enter the amount of overpayment on Line 32 and on Line 34. **Fill in the circle located next to Line 34 to indicate the amount is overpaid.**

(Overpaid franchise tax can offset underpaid income tax in the same tax year and vice versa. See "Tax Due or Overpayment" below for instructions.)

Lines 33 through 35 - Tax Due or Overpayment

A corporation that overpays its franchise or income tax may elect to have its refund applied to an underpaid franchise or income tax liability in the same tax year. The netting of an overpaid tax to an underpaid liability is calculated by adding or subtracting Lines 33 and 34.

Line 36 - Underpayment of Estimated Tax

A corporation that does not make estimated tax payments when due may be subject to interest for the period of underpayment. Generally, a corporation is subject to interest if its income tax liability is $500 or more and it did not timely pay the smaller of the corporate income tax liability for 2015 or the current year's income tax liability.

Use Form CD-429B, "Underpayment of Estimated Tax for C Corporations" *(available from the Department's website)*, to see if underpayment interest is owed. Enter the amount of interest on Line 36. **Do not attach Form CD-429B to the completed tax return. Maintain the form for future reference.**

Exceptions to Underpayment of Estimated Tax. In certain cases, a corporation may reduce or eliminate underpayment interest. If any of the following exceptions apply, enter the exception code in the box located next to Line 36 along with the amount of interest computed if any:

- Enter an **"S"** in the box labeled "Exception to Underpayment of Estimated Tax" if the corporation's tax year is less than four months, or the requirements to make an estimated payment are not met before the first day of the last month in the short tax year.
- Enter an **"A"** in the box labeled "Exception to Underpayment of Estimated Tax" if the corporation annualized its income.

Lines 37a through 37c - Interest and Penalties

Interest. Interest at the rate established by G. S. 105-241.21 is charged on taxes paid late even if an extension of time to file is granted. The interest rate on underpayments is the same as the interest rate on overpayments. The rate is established semiannually by the Secretary of Revenue and is listed on the Department's website.

Failure to File Penalty. Returns filed after the statutory due date are subject to a failure to file penalty of 5% of the tax for each month, or part of a month, the return is late (maximum 25% of the additional tax due).

Failure to Pay Penalty. Returns filed after the statutory due date without a valid extension are subject to a late payment penalty of 10% of the unpaid tax. If the corporation has an extension of time for filing its return, the 10% penalty will apply on the remaining balance due.

Other Penalties. There are other penalties for negligence, filing a frivolous return and fraud. Criminal penalties also apply for fraud with intent to evade or defeat the tax and for willful failure to file a return, supply information or pay the tax.

Collection Assistance Fee. Any part of a tax debt not paid within 90 days is subject to a 20% collection assistance fee. The fee will not apply to taxpayers that make payments under an installment agreement that became effective within 90 days after the tax debt became collectible.

Line 38 - Total Due

Add Lines 35 through 37c and enter the total on Line 38, but not less than zero. **This is the total tax, penalties, and interest due**. Make your check or money order payable to the **North Carolina Department of Revenue.** The Department will not accept a check or money order unless it is drawn on a U.S. (domestic) bank and the funds are payable in U.S. dollars. Mail the return, any balance due, and a personalized payment voucher, Form CD-V, to:

North Carolina Department of Revenue
P.O. Box 25000
Raleigh, N.C. 27640-0500

Form CD-V (Corporate Payment Voucher). Form CD-V is a personalized payment voucher that a corporation should send with any balance due. This voucher allows the Department to process payments more accurately and efficiently with fewer errors. To generate a personalized payment voucher, go to **"Tax Forms"**, click on **"Corporate Income and Franchise"** and select **"CD-V" The Department strongly encourages the use of the personalized payment voucher**.

Form CD-V Amended (Amended Corporate Payment Voucher). When filing an amended return, corporations that owe additional tax must use Form CD-V Amended. Form CD-V Amended allows the Department to process amended payments more accurately and efficiently with fewer errors. To generate an amended personalized payment voucher, go to **"Tax Forms"**, click on **"Corporate Income and Franchise"** and select **"CD-V Amended".**

Form NC-EDU (N.C. Education Fund Payment Voucher). Form NC-EDU is a personalized voucher that a corporation must send with any contribution made to the N.C. Education Fund. The voucher allows the Department to process the contribution accurately and efficiently with fewer errors. To generate the N.C. Education Fund personalized payment voucher, go to **"Tax Forms"**, click on **"Corporate Income and Franchise"** and select **"NC-EDU"**. **Note**. If the corporation owes additional tax and would like to make a contribution to the N.C. Education Endowment Fund, the corporation may write one check for the combined amount of tax due plus the contribution. Enclose the check with both Form NC-EDU and Form CD-V.

IMPORTANT. You can pay your franchise and corporate income tax online**.** Go to **"eServices"** and click on **"Businesses".**

Line 39 - Overpayment

If the sum of Lines 35 through 37c is less than zero, the corporation has overpaid its tax. Enter the amount of overpayment on Line 39.

Line 40 - Estimated Income Tax

A corporation may elect to apply part or all of the overpayment shown on Line 39 to its estimated income tax for the following year by entering the amount to be applied on Line 40. **The election to apply any overpayment to 2017 can not be changed after the return is filed.**

Important. To apply an overpayment from 2016 to 2017 estimated tax, the return must be filed by the last allowable date for making 2017 estimated tax payments.

Line 41 - Nongame and Endangered Wildlife Fund

Corporations may elect to contribute part or all of their overpayment to the North Carolina Nongame and Endangered Wildlife Fund. Your tax deductible contributions are essential to match private and federal grants to pay for conservation projects from sea turtles to songbirds, from native fish to bats. Conserving these species and their habitat is made possible by your contributions. Your donations provide most of the funds for conservation of our endangered species and native backyard wildlife. If the corporation wishes to contribute to the Fund, enter the amount of the contribution on Line 41. **The election to contribute to the Fund can not be changed after the return is filed.** If the corporation is not due a refund, it may still contribute to this Fund by mailing your donation directly to the North Carolina Wildlife Resources Commission, 1702 Mail Service Center, Raleigh, North Carolina 27699-1700. Checks should be made payable to the Nongame & Endangered Wildlife Fund. For more information about the Fund, check out www.ncwildlife.org/GiveDonate.

Line 42 – Education Endowment Fund

The North Carolina Education Endowment Fund was created to provide additional support and funding for K-12 public schools. Corporations may elect to contribute part or all of their overpayment to the North Carolina Education Endowment Fund. If the corporation wishes to contribute to the Fund, enter the amount of the contribution on Line 42. **The election to contribute to the Fund cannot be changed after the return is filed.**

If the corporation is not due a refund, it may still contribute to this Fund by: (1) making a contribution with the tax return; or (2) mailing a donation directly to the North Carolina Department of Public Instruction. To make a donation directly to the North Carolina Department of Public Instruction, mail your donation to: North Carolina Department of Public Instruction, Cash Collections, 6331 Mail Service Center, Raleigh, North Carolina 27699-6331. Checks should be made payable to the North Carolina Department of Public Instruction and should indicate it is a contribution for the North Carolina Education Endowment Fund.

Line 43 - Amount to be Refunded

Enter the amount of overpayment to be refunded on Line 43. The amount to be refunded cannot exceed Line 39 minus the total of Lines 40, 41, and 42.

Signature and Verification

An authorized officer must sign and date the completed tax form and enter his or her corporate title. **A phone number for the corporation, including area code, is also requested.** If a paid preparer is used, the preparer must also sign and date the return, enter the firm's federal employer ID number, social security number, or PTIN as assigned by the Internal Revenue Service, and fill in the applicable circle to denote the type of number used.

Net Worth - Schedule C

A corporation's net worth is measured by the corporation's total assets without regard to the deduction for accumulated depreciation, depletion, or amortization less its total liabilities, computed in accordance with generally accepted accounting principles, ("GAAP"), as of the end of the corporation's taxable year. If the corporation does not maintain its books and records in accordance with GAAP, then the corporation's net worth is computed in accordance with the accounting method used by the corporation for federal income tax purposes, so long as the method fairly reflects the corporation's net worth for franchise tax purposes. The corporation's net worth is subject to the following adjustments:

- A deduction for accumulated depreciation, depletion, and amortization as determined in accordance with the method used for federal tax purposes.
- An addition for indebtedness the corporation owes to a parent, subsidiary, affiliate or a noncorporate entity in which the corporation or affiliated group of corporations owns directly or indirectly more than 50% of the capital interests of the noncorporate entity. The amount added back to the corporation's net worth may be further adjusted if part of the capital of the creditor is capital borrowed from a source other than a parent, a subsidiary, or an affiliate. The debtor corporation may deduct a proportionate part of the indebtedness based on the ratio of the borrowed capital of the creditor to the total assets of the creditor. For purposes of this subdivision, borrowed capital does not include indebtedness incurred by a bank arising out of the receipt of a deposit and evidenced by a certificate of deposit, a passbook, a cashier's check, a certified check, or other similar document.
- If the creditor corporation is subject to North Carolina franchise tax, the creditor corporation may deduct the amount of indebtedness owed to it by a parent, subsidiary, or affiliated corporation to the extent that such indebtedness has been added by the debtor corporation.
- A deduction for the cost of treasury stock.

The term "indebtedness" includes all loans, credits, goods, supplies, or other capital of whatsoever nature furnished by a parent, subsidiary, or affiliated corporation. The terms "parent," "subsidiary," "affiliate," and "noncorporate entity" have the meanings specified in G. S. 105-122(b1).

Investment in North Carolina Tangible Property - Schedule D

Include all tangible assets located in North Carolina at book value (original purchase price less reserve for depreciation permitted for income tax purposes). In addition to the types of property listed in the schedule, include all other tangible property owned such as supplies and tools. For more information regarding when to include leased property, see Administrative Code Section 17NCAC05B.1309. **LIFO valuation is not permitted for inventories.**

Appraised Value of North Carolina Tangible Property - Schedule E

Enter 55% of the appraised value, not book value, of all property listed for county ad valorem tax in North Carolina. This value includes the appraised value of all vehicles for which the county tax assessor has issued a billing during the income tax year. **Values are to be determined as of the dates specified on Schedule E of the return.**

Corporate Member of a Limited Liability Company (LLC)

Important. This section does not apply to a LLC that is subject to franchise tax.

A limited liability company's income, assets, liabilities, or equity is generally not attributed to a corporation that is a member of the LLC. However, if the corporation or an affiliated group of corporations owns more than fifty percent of the capital interests in a LLC, the corporation must include a percentage of the LLC's net assets in the calculation of the corporation's franchise tax. **For example:** A partnership owns 100% of the capital interests of an LLC. Corporation A is a 51% owner of the partnership. Corporation A constructively owns 51% of the capital interest in the LLC.

If all members of the affiliated group are doing business in NC, then each member includes the percentage of the LLC's assets equal to the member's percentage ownership in the LLC. If some of the members of the group are not doing business in NC, then the percentage of the LLC's assets owned by the group are allocated among the members that are doing business in NC. The percentage attributed to each member doing business in NC is determined by multiplying the percentage of the LLC owned by the entire group by a fraction. The numerator of the fraction is the member's percentage ownership of the LLC and the denominator is the total percentage of the LLC owned by all members doing business in NC.

For example: An affiliated group of corporations owns 100% of the capital interests in an LLC. The group consists of three corporations. Corporation A is doing business in NC and owns 51% of the LLC. Corporation B is doing business in NC and owns 10% of the LLC. Corporation C is not doing business in NC and owns 39% of the LLC. The percentage of the LLC's assets required to be included in Corporation A's and Corporation B's franchise tax is determined as follows:

- Corporation A 100% X 51% ÷ (51% + 10%) = 83.61%
- Corporation B 100% X 10% ÷ (51% + 10%) = 16.39%

Important. If a corporation is required to include a percentage of the LLC's assets in the calculation of its franchise tax, the corporation may exclude its investment in the LLC from the computation of the corporation's net worth. **Also**, if the total book value of the LLC's assets never exceed $150,000 during the taxable year, no attribution is required.

Other Information - Schedule F

MUST BE COMPLETED BY ALL TAXPAYERS

Federal Taxable Income - Schedule G

Federal taxable income as defined in the Internal Revenue Code, effective as of January 1, 2016 (before net operating loss) is the starting point for determining North Carolina taxable income. If you attach a copy of your federal income tax return with all supporting schedules, you do not have to complete Schedule G. **A corporation included in a consolidated filing for federal income tax purposes must attach a copy of its proforma federal tax return.**

Adjustments to Federal Taxable Income - Schedule H

A taxpayer's North Carolina net income or loss is calculated from federal taxable income or loss, plus any additions on Schedule H, Line 2, less any deductions on Schedule H, Line 4. Schedule H provides a list of some of the adjustments required by statute but is not all-inclusive. Following is a detailed listing of State adjustments to federal taxable income.

Additions to Federal Taxable Income

The following additions to federal taxable income must be made in determining State net income:

(1) Taxes based on or measured by net income by whatever name called and excess profits taxes.

(2) Interest paid in connection with income exempt from State income tax.

(3) Contributions deducted on the federal return.

(4) Interest income earned on bonds and other obligations of other states or their political subdivisions, less allowable amortization on any bond acquired on or after January 1, 1963.

(5) The amount by which gains have been offset by the capital loss carry-over allowed under the Internal Revenue Code. (All gains recognized on the disposition of assets must be included in determining State net income or loss in the year of disposition.)

(6) Net operating loss deducted on the Federal return.

(7) Payments to or charges by a parent, subsidiary, or affiliated corporation in excess of fair compensation in all intercompany transactions.

(8) The amount of tax credits allowed against North Carolina income tax. **In lieu of the addback of tax credits to federal taxable income, taxpayers must reduce the amount of credit available by the current income tax rate.**

(9) The amount of percentage depletion in excess of cost depletion applicable to mines, oil and gas wells, and other natural deposits.

(10) The amount allowed under the Code for depreciation for a utility plant acquired by a natural gas local distribution company.

(11) The amount of royalty payments required to be added by G.S. 105-130.7A, to the extent deducted in calculating federal taxable income.

(12) The amount of gross income from international shipping activities excluded from federal taxable income as a result of the corporation electing to be subject to the tonnage tax under subchapter R of Chapter 1 of the Internal Revenue Code.

(13) The amount of gross income from domestic production activities deducted on the federal return pursuant to section 199 of the Internal Revenue Code.

(14) The amount of dividends paid deduction allowed under the Internal Revenue Code to a captive REIT, as defined by G.S. 105-130.12.

(15) The amount of donation to a nonprofit organization for which a credit is claimed.

(16) The amount of income deferred under section 108(i)(1) of the code from the discharge of indebtedness in connection with a reacquisition of an applicable debt instrument.

(17) The amount allowed as a deduction under section 163(e)(5)(F) of the code for an original issue discount on an applicable high yield discount obligation.

(18) The amount required to be added under G.S. 105-130.5B when the State decouples from federal accelerated depreciation and expensing.

(19) The amount of net interest expense to a related member. *(See "Limitation on Qualified Interest for Certain Indebtedness" for information and examples.)*

Deductions from Federal Taxable Income

The following deductions from federal taxable income must be made in determining State net income:

(1) Interest income from obligations of the United States or its possessions net of direct or indirect expense related to the income.

(2) Interest, net of related expenses, received from North Carolina obligations included in federal taxable income.

(3) Payments received from an affiliated corporation not deductible by the corporation under North Carolina law.

(4) The amount of dividends received from sources outside the United States as determined under Section 862 of the Internal Revenue Code, to the extent included in federal taxable income.

(5) Any amount included in federal taxable income under Section 78 or Section 951 of the Code.

(6) State net losses incurred by the corporation. ***(A State net loss must be deducted on Schedule B, Line 22.)***

(7) Contributions to the extent provided under G.S. 105-130.9.

(8) The amount of losses realized on the sale or other disposition of assets not allowed under Section 1211(a) of the Internal Revenue Code. All losses recognized on the disposition of assets must be included in determining State net income or loss in the year of disposition.

(9) The portion of undistributed capital gains of regulated investment companies included in federal taxable income and on which the federal tax paid by the regulated investment company is allowed as a credit or refund to the shareholder under Section 852 of the Internal Revenue Code.

(10) The amount by which an ordinary and necessary business expense has been reduced on the federal income tax return because a tax credit was claimed in lieu of the deduction on that return.

(11) The amount by which the tax basis of certain property is reduced as the result of compliance with federal investment tax credit provisions.

(12) The amount of natural gas expansion surcharges collected by a natural gas local distribution company under G.S. 62-158.

(13) Wireless enhanced 911 service charges collected under G.S. 62A-43 and remitted to the Wireless Fund under G.S. 62A-43.

(14) The amount of royalty payment received from a related member who added the payments to income under G.S. 105-130.7A for the same taxable year.

(15) The amount of a dividend received from a captive REIT, as defined by G.S. 105-130.12.

(16) The amount added to federal taxable income as deferred

income under section 108(i)(1) of the code.

(17) The amount allowed as a deduction under G.S. 105-130.5B as a result of an add-back of special federal accelerated depreciation and section 179 expense. *(See Adjustment for Bonus Depreciation.)*

(18) The amount of qualified interest expense to a related member. This deduction is allowed only to the extent the expense has been added back under G.S. 105-130.5(a)(25). *(See "Limitation on Qualified Interest for Certain Indebtedness" for information and examples.)*

Other Adjustments to Federal Taxable Income

The following other adjustments to federal taxable income must be made in determining State net income:

(1) No deduction is allowed for annual amortization of bond premiums applicable to any bond acquired prior to January 1, 1963. The amount of premium paid on any such bond is deductible only in the year of sale or other disposition.

(2) Federal taxable income must be increased or decreased to account for any difference in the amount of depreciation, amortization, or gains or losses applicable to property that has been depreciated or amortized by use of a different basis or rate for State income tax purposes than that used for federal purposes.

(3) No deduction is allowed for any direct or indirect expenses related to income not taxed. For dividends received that are not taxed, the adjustment for expenses may not exceed an amount equal to fifteen percent (15%) of the dividends. *(See "Attribution of Expenses to Other Income not Taxed," below.)*

(4) Federal taxable income must be increased or decreased to account for the recovery of previously deducted amounts that differ for State income tax purposes.

Adjustment for Bonus Depreciation. As in the past, North Carolina did not adopt the 50 percent bonus deprecation provisions in IRC sections 168(k) or 168(n) for property placed in service for tax year 2016. An addition is required for 85% of the amount of bonus depreciation deducted on the federal return. **Note:** Any amount of the bonus depreciation added to federal adjusted gross income on your 2016 State return may be deducted in five equal installments over your first five taxable years beginning with the tax return for taxable year 2017.

Attribution of Expenses to Other Income Not Taxed. Under general principles of income taxation, expenses are deductible if they are incurred to produce taxable income and are not deductible if they are incurred to produce income that is exempt from tax. The disallowance of a deduction for expenses related to income not taxed is commonly called "attribution of expenses." Attribution of expenses is required for all nonapportionable income not allocated to North Carolina as well as other income exempt from State taxation.

Direct Expenses. All expenses directly connected with the production of income not taxed in North Carolina must be used to compute the net amount of income not taxed.

Indirect Expenses. When a corporation earns income that is not taxed by this State and incurs expenses, such as interest expense, that are not specifically related to any particular income or property, the corporation must attribute a portion of these expenses to income not taxed in determining North Carolina taxable income.

To compute the amount of expenses attributable to income not taxed, use the formula outlined in the following worksheet.

Attribution of Expenses to Income Not Taxed

1. **Value of Assets that Produce Income Not Taxed**	________
2. **Total Assets at Cost**	________
3. **Line 1 divided by Line 2**	________
4. **Total Income Not Taxed in North Carolina**	________
5. **Total Income** *(From Schedule G, Line 11)*	________
6. **Line 4 divided by Line 5**	________
7. **Average Ratio** *(Line 3 plus Line 6 divided by the number 2)*.................................	________
8. **Expenses, Such as Interest Expense, Not Related to any Particular Type of Income**	________
9. **Expenses Attributable to Income Not Taxed** *(Multiply Line 8 by Line 7)*	________

Note. As an alternative for expenses attributed to income not taxed, other than interest expense, corporations may use the procedure set forth in the Code for determining expenses related to foreign source income generally referred to as "stewardship".

Limitation on Qualified Interest for Certain Indebtedness. In determining State net income, a deduction is allowed only for qualified interest expense paid or accrued by the taxpayer to a related member during a taxable year. Qualified interest expense is defined as the amount of net interest paid or accrued to a related member in a taxable year with the amount limited to the greater of (i) fifteen percent (15%) of the taxpayer's adjusted taxable income or (ii) the taxpayer's proportionate share of interest paid or accrued to a person who is not a related member during the same taxable year. G.S. 105-130.7B(b)(4) provides certain exceptions to the limitation on interest paid or accrued to a related entity. Specifically, the limitation does not apply if one or more of the following applies:

a. Tax is imposed by the State under Article 105 on the related member with respect to the interest.
b. The related member pays a net income tax or gross receipts tax to another state with respect to the interest income.
c. The related member is organized under the laws of a foreign country that has a comprehensive income tax treaty with the United States and that country taxes the interest income at a rate equal to or greater than the rate imposed under G.S. 105-130.3.
d. The related member is a bank.

(See G.S. 105-130.7B for more information, including definitions.)

Example 1. Taxpayer is a C corporation filing Form CD-405. All the interest deducted by Taxpayer on federal Form 1120 is interest paid to related members. The related party interest expense does not qualify for an exception under G.S. 105-130.7B(b)(4). Taxpayer's adjusted taxable income for the year is $1,500. The amount of qualified interest expense is $225, calculated as follows:

Amount of Taxpayer's adjusted taxable income................ 1,500

Interest Deduction on Line 18, federal Form 1120............... 500

Amount paid to unrelated 3rd parties:....................... 0
Amount paid to related entities that qualifies for
an exception to the limitation:................................ 0
Proportionate share of interest paid:......................... 0
All other related member interest:......................... 500

Amount of net interest expense to be added to federal taxable income 500

Amount of qualified interest expense to be deducted from federal taxable income............................ 225

The amount of net interest expense ($500) limited to the greater of (i) 15% of Taxpayer's adjusted net income ($1,500 x .15=$225), or (ii) Taxpayer's proportionate share of interest paid ($0)

Example 2. Taxpayer is a C corporation filing Form CD-405. All the interest deducted by Taxpayer on federal Form 1120 is interest paid to related members. The related party interest expense does not qualify for an exception under G.S. 105-130.7B(b)(4). Taxpayer's adjusted taxable income for the year is $900. The amount of qualified interest expense is $135, calculated as follows:

Amount of Taxpayer's adjusted taxable income.................. 900

Interest Deduction on Line 18, federal Form 1120............ 1,100

Amount paid to unrelated 3rd parties:....................... 0
Amount paid to related entities that qualifies for
an exception to the limitation:................................ 0
Proportionate share of interest paid:......................... 0
All other related member interest:
Subsidiary A.......1,000
Subsidiary B ....100............. 1100

Amount of net interest expense to be added to federal taxable income 1,100

Amount of qualified interest expense to be deducted from federal taxable income............................ 135

The amount of net interest expense ($1,100) limited to the greater of (i) 15% of Taxpayer's adjusted net income ($900 x .15=$135), or (ii) Taxpayer's proportionate share of interest paid ($0)

Example 3. Taxpayer is a C corporation filing Form CD-405. Of the $400 in interest expense deducted by Taxpayer on federal Form 1120, only $100 is interest paid to related members. The related party interest expense does not qualify for an exception under G.S. 105-130.7B(b)(4). Taxpayer's adjusted taxable income for the year is $1,500. The amount of qualified interest expense is $100, calculated as follows:

Amount of Taxpayer's adjusted taxable income................ 1,500

Interest Deduction on Line 18, federal Form 1120............... 500

Amount paid to unrelated 3rd parties:................... 400
Amount paid to related entities that qualifies for
an exception to the limitation:................................ 0
Proportionate share of interest paid:......................... 0
All other related member interest:......................... 100

Amount of net interest expense to be added to federal taxable income 100

Amount of qualified interest expense to be deducted from federal taxable income............................ 100

The amount of net interest expense ($100) limited to the greater of (i) 15% of Taxpayer's adjusted net income ($1,500 x .15=$225), or (ii) Taxpayer's proportionate share of interest paid ($0)
Note: The amount of qualified interest expense to be deducted from federal taxable income cannot exceed the amount of net interest expense added to federal taxable income.

Example 4. Taxpayer is a C corporation filing Form CD-405. Of the $500 in interest expense deducted by Taxpayer on federal Form 1120, $400 is interest paid to related members. $100 of the related party interest expense qualifies for an exception under G.S. 105-130.7B(b)(4). Taxpayer's adjusted taxable income for the year is $1,500. The amount of qualified interest expense is $350, calculated as follows:

Amount of Taxpayer's adjusted taxable income................ 1,500

Interest Deduction on Line 18, federal Form 1120............... 500

Amount paid to unrelated 3rd parties:................... 100
Amount paid to related entities that qualifies for
an exception to the limitation:............................ 100
Proportionate share of interest paid:..................... 250
All other related member interest:........................... 50

Amount of net interest expense to be added to federal taxable income 400

Amount of qualified interest expense to be deducted from federal taxable income............................ 350

The amount of net interest expense ($400) limited to the greater of (i) 15% of Taxpayer's adjusted net income ($1,500 x .15=$225), or (ii) Taxpayer's proportionate share of interest paid ($250). Note. The $100 interest paid to a related entity that qualifies for an exception under (b)(4) is added here.

Example 5. Taxpayer is a C corporation filing Form CD-405. Of the $700 in interest expense deducted by Taxpayer on federal Form 1120, $600 is interest paid to related members. $100 of the related party interest expense qualifies for an exception under G.S. 105-130.7B(b)(4). Taxpayer's adjusted taxable income for the year is $3,500. The amount of qualified interest expense is $600, calculated as follows:

Amount of Taxpayer's adjusted taxable income	3,500
Interest Deduction on Line 18, federal Form 1120	700
Amount paid to unrelated 3rd parties:	100
Amount paid to related entities that qualifies for an exception to the limitation:	100
Proportionate share of interest paid:	250
All other related member interest:	250
Amount of net interest expense to be added to federal taxable income	600
Amount of qualified interest expense to be deducted from federal taxable income	600

The amount of net interest expense ($600) limited to the greater of (i) 15% of Taxpayer's adjusted net income ($3,500 x .15=$525), or (ii) Taxpayer's proportionate share of interest paid ($250). Note. The $100 interest paid to a related entity that qualifies for an exception under (b)(4) is added here. However, the amount of qualified interest expense to be deducted from federal taxable income cannot exceed the amount of net interest expense added to federal taxable income.

Balance Sheet - Schedule L

Complete this schedule only if you do not attach a copy of federal Form 1120, Schedule L, along with all supporting schedules.

Reconciliation of Income (Loss) - Schedule M-1 Analysis of Unappropriated Retained Earnings - Schedule M-2

Complete these schedules only if you do not attach a copy of federal Form 1120, Schedules M-1 and M-2, along with all supporting schedules.

Net Income (Loss) Reconciliation for Corporations With Total Assets of $10 Million or More - Schedule M-3

Attach a copy of federal Schedule M-3 to the back of this form if the corporation's total assets as reported on federal Schedule L equal or exceed $10 million.

Nonapportionable Income - Schedule N

"Nonapportionable income" means all income other than apportionable income. "Apportionable income" means all income that is apportionable under the U.S. Constitution. Nonapporationable income is not subject to apportionment, but is allocated.

In general, all transactions and activities of a taxpayer that are dependent upon, or contribute to the operations of the taxpayer's economic enterprise as a whole, constitute the taxpayer's trade or business. Income from these type of transactions and activities are operational income and therefore apportionable.

Nonapportionable income includes rents and royalties from real or tangible personal property, capital gains, interest, dividends, and patent and copyright royalties, to the extent they are not dependent upon, or contribute to, the operations of the taxpayer's economic enterprise as a whole. Nonapportionable income must be reduced by the related expenses incurred to generate the nonapportionable income. *(For an acceptable means of computing related expenses to nonapportionable income, see **"Attribution of Expenses to Other Income Not Taxed".**)*

In general, all transactions and activities of a taxpayer that are dependent upon, or contribute to the operations of the taxpayer's economic enterprise as a whole, constitute the taxpayer's trade or business. Income from these type of transactions and activities are operational income and therefore apportionable.

Nonapportionable income includes rents and royalties from real or tangible personal property, capital gains, interest, dividends, and patent and copyright royalties, to the extent they are not dependent upon, or contribute to, the operations of the taxpayer's economic enterprise as a whole. Nonapportionable income must be reduced by the related expenses incurred to generate the nonapportionable income. *(For an acceptable means of computing related expenses to nonapportionable income, see **"Attribution of Expenses to Other Income Not Taxed".**)*

Computation of Apportionment Factor - Schedule O

All corporations, domestic or foreign, doing business in North Carolina must complete Schedule O to compute the corporation's net worth and North Carolina taxable income.

Domestic Corporations - Part 1

Domestic corporations and other corporations not apportioning franchise or income outside of North Carolina must enter 100% on Schedule B, Line 17 and on Schedule C, Line 9. Domestic corporations are those corporations or associations created or organized under North Carolina law. Foreign corporations doing business in North Carolina but not taxable in another state must also enter 100% for its apportionment factor.

Multistate Corporations - Part 2

A corporation having income from business activities that is taxable both within and without North Carolina is required to apportion its State net income or net loss. For purposes of allocation and apportionment, a corporation is taxable in another state if (i) the corporation's business activity in that state subjects it to a net income tax or a tax measured by net income, or (ii) that state has jurisdiction based on the corporation's business activity in that state to subject the corporation to a tax measured by net income regardless of whether that state exercises its jurisdiction. For purposes of this section, "business activity" includes any activity by a corporation that would establish a taxable nexus pursuant to 15 United States Code § 381.

All income of corporations other than public utilities and excluded corporations must be apportioned to this State by multiplying the income by a fraction, the numerator of which is the property factor plus the payroll factor plus three times the sales factor, and the denominator of which is five. If the sales factor does not exist, the denominator is the number of existing factors. If a property or a payroll factor does not exist, the denominator is the number of existing factors plus two. **Calculate the apportionment factor to four places to the right of the decimal.**

Lines 1 through 8 - Property Factor

The property factor is a fraction, the numerator of which is the average value of the corporation's real and tangible personal property owned or rented and used in this State during the income year and the denominator of which is the average value of all the corporation's real and tangible personal property owned or rented and used during the income year. The numerator includes not only inventories actually located in North Carolina but also inventories in transit with a North Carolina destination.

Property owned by the corporation is valued at its original cost. Property rented by the corporation is valued at eight times the net rent paid during the current income year. Net annual rent is the annual rent paid by the corporation less any annual rent received by the corporation from subrentals except that subrentals are not deductible when they constitute apportionable income. Any property under construction or any property not actually used or operated in the corporation's business during the income year and any property the income from which constitutes nonapportionable income are excluded in the computation of the property factor.

The average value of property is determined by averaging the values at the beginning and end of the income year, but in all cases the Secretary may require the averaging of monthly or other periodic values during the income year if required to reflect properly the average value of the corporation's property. A corporation that ceases its operation in this State before the end of its income year for any reason whatsoever must use property values as of the first day of the income year and the last day of its operations in this State in determining the average value of property; however, the Secretary may require the averaging of monthly or other periodic values during the income year.

Lines 9 through 11 - Payroll Factor

The payroll factor is a fraction, the numerator of which is the total compensation paid in this State during the income year by the corporation and the denominator of which is the total compensation paid everywhere during the income year. All compensation paid to general executive officers and all compensation paid in connection with nonapportionable income shall be excluded in computing the payroll factor. General executive officers include the chairman of the board, president, vice-presidents, secretary, treasurer, comptroller, and any other officer serving in similar capacities.

Compensation is paid in this State if any of the following applies:

(1) The individual's service is performed entirely within the State; or
(2) The individual's service is performed both within and outside of the State, but the service performed outside of the State is incidental to the individual's service within the State.
(3) Some of the service is performed in this State and the base of operations, or, if there is no base of operations, the place from which the service is directed or controlled, is in this State.
(4) Some of the service is performed in this State and the base of operations or the place from which the service is directed or controlled is not in any state in which some part of the service is performed, but the individual's residence is in this State.

Line 12 - Sales Factor

The sales factor is a fraction, the numerator of which is the total sales of the corporation in this State during the income year, and the denominator of which is the total sales of the corporation everywhere during the income year. The following receipts are excluded from both the numerator and denominator of the sales factor:

(1) Receipts for any casual sale of property.
(2) Receipts exempt from taxation.
(3) The portion of receipts realized from the sale or maturity of securities or other obligations that represent a return of principal
(4) The portion of receipts from financial swaps and other similar financial derivatives that represents the notional principal amount that generates the cash flow traded in the swap agreement.

If a corporation is not taxable in another state on its apportionable income but is taxable in another state only because of nonapportionable income, all sales are treated as having been made in this State.

Sales of tangible personal property are in this State if the property is received in this State by the purchaser. In the case of delivery of goods by common carrier or by other means of transportation, including transportation by the purchaser, the place at which the goods are ultimately received after all transportation has been completed is considered the place at which the goods are received by the purchaser. Direct delivery into this State by the taxpayer to a person or firm designated by a purchaser from within or without the State constitutes delivery to the purchaser in this State.

Other sales are in this State if any of the following applies:

(1) The receipts are from real or tangible personal property located in this State.

(2) The receipts are from intangible property and are received from sources within this State.

(3) The receipts are from services and the income-producing activities are in this State.

Special Apportionment Provisions - Parts 3 and 4

Special apportionment provisions apply to certain types of corporations and excluded corporations. G.S. 105-130.4 should be consulted for definitions and specific allocation requirements. The Department refers to the North American Industry Classification System (NAICS) as a means of determining whether a taxpayer's business operations require the corporation to use North Carolina's special apportionment provisions.

Qualified Capital Intensive Corporation. A corporation that qualifies as a capital intensive corporation must apportion income by using the sales factor alone. *(See G.S.105-130.4(s1) for a list of conditions that must be met before a corporation can be considered a capital intensive corporation.)*

Excluded Corporations. Any corporation engaged in business as a multistate building or construction contractor, a securities dealer, a loan company, or a corporation that receives more than fifty percent (50%) of its ordinary gross income from intangible property must apportion income by using the sales factor alone.

Air and Water Transportation. All income of an air or water transportation company must be apportioned by the ratio of revenue-ton miles in North Carolina to total revenue-ton miles. A revenue-ton mile is one ton of passenger, freight, mail, or other cargo carried one mile; each passenger is deemed to weigh 200 pounds. *(See G.S. 105-130.4(s) for more information, including a definition of an air transportation corporation.)*

Railroads. All income of a railroad company must be apportioned by multiplying the income by a fraction, the numerator of which is the "railway operating revenue" from business done in this State and the denominator of which is the total railway operating revenue of the company everywhere. *(See G.S. 105-130.4(m) for a detailed definition of railway operating revenue.)*

Motor Carriers. All income of a motor carrier of property or passengers must be apportioned by multiplying the income by a fraction, the numerator of which is the number of vehicle miles in this State and the denominator of which is the total number of vehicle miles of the company everywhere. The words "vehicle miles" mean miles traveled by vehicles owned or operated by the company hauling property for a charge, carrying passengers for a fare, or traveling on a scheduled route. *(Complete the worksheet below.)*

Computation of Apportionment Factor for Motor Carriers - Vehicle Miles Factor

1. Number of vehicle miles traveled in N.C. .. ____________

2. Total number of vehicle miles traveled everywhere .... ____________

3. **Percentage of Mileage in N.C. Factor** *(Divide Line 1 by Line 2; enter amount here and on Schedule O, Part 4)*.............. ___ ___ ___.___ ___ ___ ___%

Telephone Companies. All income of a telephone company must be apportioned by multiplying the income by a fraction, the numerator of which is gross operating revenues earned in this State plus other revenue items attributed to this State specifically listed in G.S. 105-130.4(n) and the denominator of which is the total gross operating revenue from all business done by the company everywhere less uncollectible revenue. *(Complete the worksheet below.)*

Computation of Apportionment Factor for Telephone Companies - Gross Operating Revenue Factor

1. Gross Operating Revenues in North Carolina

a. Gross operating revenue from local service in N.C. .... ____________

b. Gross operating revenue from toll services within N.C. .... ____________

c. N.C. portion of revenue from interstate toll services... ____________

d. Gross operating revenues in N.C. from other services.............................. ____________

e. Total gross operating revenues assignable to N.C. (Add Lines 1a - 1d) ____________

f. N.C. uncollectible revenue .... (____________)

g. Total adjusted gross operating revenues assignable to N.C. (Line 1e minus Line 1f)........................ ____________

2. Gross Operating Revenues Everywhere

a. Total gross operating revenues .... ____________

b. Total uncollectible revenue .... (____________)

c. Total adjusted gross revenues everywhere (Line 2a minus 2b)........... ____________

3. **Gross Operating Revenue Factor** *(Divide Line 1g by Line 2c; enter amount* here and on Schedule O, Part 4)................ ___ ___ ___.___ ___ ___ ___%