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CD-401S Instructions
S-Corporation Tax Return

2017

GENERAL INFORMATION

The information contained in these instructions is to be used as a guide in the preparation of the North Carolina S-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 "2017 Tax Law Changes" resource document. This document gives a brief summary of the tax law changes made by the 2017 General Assembly regardless of when the changes take effect, as well as changes made by prior General Assemblies that take effect for tax year 2017. For detailed information concerning these changes click on **"Taxes", "Corporate Income and Franchise Tax",** and select **"2017 Tax Law Changes"**.

Corporations Required to File

Every S corporation doing business in North Carolina and every inactive S 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.

New S Corporations

A new S 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 tax return is due annually so long as the corporation remains incorporated, domesticated, or continues to do business in this State.

Election to be S Corporation

There is no separate S election for North Carolina income tax purposes. There is no provision to elect a different filing method for State income tax purposes.

Termination of S Election

The S corporation election will terminate for North Carolina purposes at the same time and for the same taxable period the termination is effective for federal tax purposes.

Tax Rates

The franchise tax rate is $1.50 per $1,000.00 of a 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 for composite filers is based on the current individual income tax rate.

Estimated Income Tax

Estimated income tax payments are not required on behalf of nonresident shareholders filing a composite tax return; however, if the S corporation makes any prepayments of income tax for nonresidents, the S corporation must claim these prepayments on Schedule B, Line 22b.

When and Where to File

The S corporation tax return is 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. **Mail returns to:**

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

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 **"File and Pay", "eServices",** and select **"Corporate Extension CD-419"**.

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

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 **"File and Pay",** and click on **"Corporate and Franchise Tax"** under **"eFile Through Approved Software Vendor",** and select **"Corporate Income and Franchise".** 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 **"Taxes", "Corporate Income and Franchise Tax",** and click on **"Download Forms and Instructions"**. The website offers forms that can be downloaded or filled in online and printed.

Specific Instructions for Filing Form CD-401S

Period Covered

File the 2017 return for calendar year 2017 and fiscal years that begin in 2017. You must use the same taxable period on your North Carolina return as on your federal return.

Note: The 2017 Form CD-401S may also be used if:

- The corporation has a tax year of less than 12 months that **begins** in 2017. **If the corporation's tax year is less than 12 months, fill in the beginning and ending dates for the tax year.**
- The 2018 Form CD-401S 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 or type 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.)*

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 taxpayers 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.

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, "2017 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-401S. **If the corporation has attached Form NC-478 to Form CD-401S, 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 5.)*

Has Nonresident Shareholders. If the corporation has nonresident shareholders during the tax year, fill in the appropriate circle.

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) 811-4200 or write to:

Unclaimed Property Division, P.O. Box 20431, Raleigh, North Carolina 27619-0431

Qualified Subchapter S Subsidiary (QSSS). For corporate income tax purposes, North Carolina follows the federal classification of entities under the federal check-the-box regulations. Determine whether or not the corporation meets the qualifications of a QSSS, and fill in the appropriate circle. In addition, enter the name and FEIN of the parent of the QSSS. **Qualified Subchapter S Subsidiaries must file separate franchise tax returns.**

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-401S. *(See instructions on page 5.)*

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-401S. *(See instructions on page 5.)* 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-401S. *(See instructions on page 5.)*

Holding Company. Franchise tax payable by a holding company on its net worth tax base 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. **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 22b.

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 26. If the total 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 26. **Fill in the circle located next to Line 26 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 "Tax Due or Overpayment" section, on page 5 for line-by-line instructions.)

Computation of Income Tax - Schedule B

Line 10 - Shareholders' Shares of Corporation Income (Loss)

Enter the total amount of income or loss for the S corporation on Line 10. Before making this entry, corporations must complete Schedules G and H of Form CD-401S. *(See instructions on page 6.)* **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.**

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 I of Form CD-401S. *(See instructions on page 6.)* **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 - 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 13. If the business is both within and outside of North Carolina, enter the total amount of nonapportionable income on Line 13. Before making this entry, corporations must complete Schedule N of Form CD-401S. *(See instructions on page 7.)* **If the amount on Line 13 is negative, enter the amount and fill in the circle located next to Line 13 to indicate the amount is negative.**

Line 14 - 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 14 is negative, enter the amount and fill in the circle located next to Line 14 to indicate the amount is negative.**

Line 15 - Apportionment Factor

Enter the apportionment factor percentage as calculated from Schedule O of Form CD-401S. **The apportionment factor must be calculated four places to the right of the decimal.** *(See instructions on page 7.)*

Line 17 - Nonapportionable Income Allocated to N.C.

Enter on Line 17 the amount of nonapportionable income allocated directly to this State. Before making this entry, corporations must complete Schedule N of Form CD-401S. *(See instructions on page 7.)* **If the amount on Line 17 is negative, enter the amount and fill in the circle located next to Line 17 to indicate the amount is negative.**

Lines 19 through 21 - Composite Tax Returns

Lines 19 through 21 are to be completed only by an S corporation filing a composite income tax return on behalf of its nonresident shareholders. A composite return is an income tax return that combines and reports the income and tax due of participating nonresident shareholders. A nonresident individual shareholder is not required to file a North Carolina individual income tax return, Form D-400, if the shareholder's only income in North Carolina is reported by the S corporation. If the nonresident shareholder is a trust or another S corporation, the entity must file a separate North Carolina tax return.

Line 20 - Separately Stated Items of Income Attributable to Nonresidents Filing Composite

Special rules apply for gain from the sale, exchange, or disposition of Internal Revenue Section 1231 property on which a Code Section 179 expense deduction was previously claimed. For federal purposes, the gain is no longer included at the entity level but instead is passed through separately to the individual shareholders. As a result, the gain is included in federal taxable income on the shareholder's income tax return but is not included as part of the shareholder's share of the corporation's income. *(See North Carolina Schedule K, Line 5.)*

S corporations must identify each nonresident shareholder's share of separately stated income items and enter the amount on the North Carolina Schedule K, Line 12, and on Form NC K-1, Line 7. **Important. Losses attributed to the sale of Section 1231 property are not deductible in the calculation of North Carolina income tax for nonresident shareholders filing composite. Taxpayers wishing to deduct their pro rata share of these losses must do so by filing a North Carolina income tax return.**

Line 21 - North Carolina Income Tax

To calculate North Carolina net income tax for nonresident shareholder's filing a composite return, add Lines 19 and 20 and multiply the sum by the income tax rate of **5.499%**.

Line 22a and 22b - Tax Payments and Credits

a. **Income Tax Extension**. Taxpayers filing a Form CD-419 enter the amount of income tax paid on Line 10 of the CD-419 on Line 22a. When filing an amended return, enter the income tax extension payment claimed on the original return on Schedule B, Line 22b.

b. **Other Prepayments of Tax**. Enter any income tax payments for 2017 (including any payment remitted on behalf of nonresident shareholders applicable to composite tax return filers) on Line 22b. 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).

Line 22c through 22e - Tax Payments and Credits

Important. On Lines 22c through 22e, enter only the amount of payments and credits attributable to nonresident shareholders on whose behalf a composite return is filed.

c. **Partnerships**. If the corporation is a nonresident partner enter the amount of tax paid to North Carolina on behalf of the corporate partner on Line 22c. **Important**. If a partnership payment is claimed on Line 22c, 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 22d.

e. **Tax Credits**. To take an income tax credit, the S corporation must complete Form CD-425, Corporate Tax Credit Summary, and file it with the completed tax return. In order for a composite filer to take an income tax credit limited by statute to 50% of tax, the S corporation 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 the NC-478, are available from the Department's website. Failure to substantiate a tax credit may result in the disallowance of the credit.**

Lines 24 and 25 - Income Tax Due / Overpaid

Subtract Line 23 from Line 21. If Line 23 is less than Line 21 **additional income tax is due**. Enter the amount of additional tax on Line 24 and on Line 27. If Line 23 is more than Line 21, **income tax is overpaid**. Enter the amount of overpayment on Line 25 and on Line 27. **Fill in the circle located next to Line 27 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 26 through 28 - 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 26 and 27.

Lines 29a through 29c - Interest and Penalties

Interest. Interest at the rate established by G. S. 105-241.1 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 due date are subject to a penalty of 5% of the tax for each month, or part of a month, the return is late (maximum 25% of the additional tax).

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.

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 30 - Total Due

Add Lines 28 through 29c and enter the total on Line 30, 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:

NC Department of Revenue, P.O. Box 25000,
Raleigh, NC 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 **"Taxes", "Corporate Income and Franchise Tax", "Download Forms and Instructions",** 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 **"Taxes", "Corporate Income and Franchise Tax", "Download Forms and Instructions",** and select **"CD-V Amended".**

IMPORTANT. You can pay your franchise and corporate income tax online**.** Go to **"File and Pay", click on "eServices",** and select the tax you are paying**.**

Line 31 - Amount to be Refunded

Enter the amount of overpayment to be refunded on Line 31.

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.) 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)

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

Ordinary Income (Loss) From Trade or Business - Schedule G

The computation of net income from trade or business activities follows the determination of ordinary income as defined by the Internal Revenue Code, effective January 1, 2017. S corporations must transfer the information from federal Form 1120S, U.S. Income Tax Return for an S Corporation (Lines 1 through 21), to Schedule G, or attach a copy of the federal form along with all supporting schedules.

Computation of Income (Loss) - Schedule H

Line 1 Enter the ordinary business income(loss) as taken from federal Form 1120S, Line 21 or from Schedule G, Line 21.

Lines 2-10 Add income or deduct losses on Lines 2 through 10 that are directly passed to the shareholders as shown on federal Schedule K, Lines 2 through 10.

Line 11 Total of Lines 1 through 10; enter on Schedule B, Line 10.

Adjustments to Income (Loss) - Schedule I

Taxpayers must make certain adjustments to federal taxable income in arriving at North Carolina taxable income. Specifically, a shareholder's income (loss) is subject only to the adjustments under individual law regardless of the shareholder's residency status or whether the income is attributable to North Carolina. *(For more information on the adjustments to federal taxable income, see Form D-401, Individual Income Tax Instructions available from the Department's website.)*

Shareholders' Pro Rata Share Items - Schedule K

This schedule is provided primarily as a worksheet to the S corporation to summarize all the shareholders' shares of income, North Carolina adjustments, and North Carolina tax credits, and to show the amount of these items that are apportioned or allocated to nonresident shareholders. The name, address, and percentage of ownership of each shareholder must be listed on Schedule K. A North Carolina resident is required to report its full share of corporate income or loss. A nonresident shareholder, however, is only required to report to North Carolina its share of apportioned and allocated income or loss.

The S corporation must give each shareholder a copy of Form NC K-1. The NC K-1 is the form used to report each shareholder's share of these items. The cumulative total of a given line on all of the shareholders' NC K-1s must equal the amount that the corporation reports in the Shareholders' Total column of Schedule K. A nonresident shareholder filing a composite income tax return must be provided with its share of net tax paid on its behalf by the S corporation. *(For additional instructions on Form NC K-1, see page 9.)*

In addition, an S corporation doing business in this State must file Form NC-NA for each of its nonresident shareholders. The form is due by the 15th day of the fourth month following the first taxable period in which the nonresident shareholder became a shareholder of the corporation. For additional instructions on Form NC-NA, go to **"Taxes", "Corporate Income and Franchise Tax", "Download Forms and Instructions",** and select **"NC-NA"**.

Balance Sheet - Schedule L and Schedule M-1

Complete these schedules only if you do not attach a copy of federal Schedule L and Schedule M-1, along with all supporting schedules.

Analysis of N.C. Accumulated Adjustments Account, N.C. AAA - Schedule M-2

All corporations must maintain an "accumulated adjustments account" (AAA) for federal and state purposes. The N.C. accumulated adjustments account, N.C. AAA, may be different than the federal AAA for S corporations that were in existence prior to 1989. The computation of the N.C. AAA and N.C. other adjustments account is made using the same procedures as the federal computation applying the North Carolina amounts. *(See instructions for federal Form 1120S and IRC §1368.)*

N.C. Other Adjustments Account. The N.C. other adjustments account, N.C. OAA, is only adjusted by any items of North Carolina income less related expenses that are not included in the N.C. AAA account.

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. Nonapportionable 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.

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, complete the worksheet below.

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".

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 15 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 four times the sales factor, and the denominator of which is six. 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 three. **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 without the State, but the service performed without 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.

Lines 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 apportions income by using the sales factor alone.

Pipeline Companies. All income of a pipeline company must be apportioned by multiplying the income by a fraction, the numerator of which is the number of barrel miles in this State and the denominator of which is the number of barrel miles of the company everywhere. *(See G.S. 105-130.4(s2) for more information.)*

Air and Water Transportation. All income of an air or water transportation company is 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 following worksheet.)*

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 following worksheet.)*

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)................ ___ . ____ %

Forms and Instructions for the NC-478 Series

Forms and Instructions for the NC-478 series are available from the Department's website.

Shareholder's Share of North Carolina Income, Adjustments, and Credits - Form NC K-1

Form NC K-1 is the form used by the S corporation to report to each shareholder its share of the S corporation's income, adjustments, tax credits, etc. Prepare and give a Form NC K-1 to each entity that was a shareholder in the S corporation at any time during the tax year. Form NC K-1 must be provided to each shareholder on or before the due date of the return. ***(Form NC K-1 is available from the Department's website.)***

Shareholders that are **residents of North Carolina** must be provided with the total amount of their proportionate share of the following items:

1. North Carolina adjustments to federal taxable income, NC K-1, Lines 2 and 3.
2. Shareholder's distributive share of tax credits, NC K-1, Line 4. When reporting the distributive share of tax credits, a list of the amount and type of each tax credit must be provided to the shareholder.
3. Any tax withheld from nonwage compensation for personal services in North Carolina by the S corporation, NC K-1, Line 5.

Shareholders that are **nonresidents of North Carolina** must be provided with their share of the same items listed above for North Carolina residents, along with the following items:

1. North Carolina income apportioned and allocated for business activities occurring outside of North Carolina, NC K-1, Line 6.
2. Shareholder's share of separately stated items of income, NC K-1, Line 7.
3. Any North Carolina income tax paid by the S corporation on behalf of the nonresident shareholder, NC K-1, Line 8.