2006
North Carolina
C Corporation Tax Return Instructions

Important Legislative Changes for 2006

1. **Limited Liability Companies (LLCs) Taxed as C Corporations.** G.S. 105-114 was amended to expand the definition of "corporation" for franchise tax purposes to include LLCs that elect to be taxed as C Corporations for federal income tax purposes. As amended, these LLCs are now subject to the general business franchise tax imposed under G.S. 105-122. LLCs subject to franchise tax are allowed a tax credit under G.S. 105-122.1 equal to the difference between the annual report fee on LLCs and the annual report fee on C Corporations.

2. **Royalty Reporting Option.** G.S. 105-130.7A was enacted in 2001 to address a problem with the lack of compliance by intangible holding companies with the requirement to file returns and pay tax on royalty income derived from trademarks used in North Carolina. The statute provided a reporting option for taxpayers that received royalty payments from related members for the use of trademarks in North Carolina and that were required to file North Carolina franchise and income tax returns. The reporting option as originally enacted was only for royalty payments for the use of trademarks. As amended, this section was expanded to apply to royalty payments from copyrights and patents in addition to trademarks.

3. **Due Dates for Returns Filed by Foreign Corporations.** G.S. 105-130.17(g) was enacted to conform the filing date for foreign corporations to the date those corporations are required to file federal income tax returns. Under Code section 6072(c) foreign corporations are required to file their income tax returns by the fifteenth day of the sixth month instead of by the fifteenth day of the third month.

4. **Reporting Federal Corrections.** G.S. 105-130.20 was amended to reduce the period for reporting federal corrections or determinations from two years to six months.

5. **Article 3A Tax Incentives for New and Expanding Businesses.** G.S. 105-129.3B was added to define an agrarian growth zone and to set out the procedure for designating an area of land as an agrarian growth zone. The purpose of these zones are to revitalize counties by making enhancements to Article 3A tax credits that are available to development zones also available to agrarian growth zones.

6. **New Tax Credits.** New tax credits were enacted for revitalizing historic mill facilities (G.S. 105-129.71) and for recycling oyster shells (G.S. 105-130.48). (For more information concerning these credits, see the **"2006 Tax Law Changes"** available on the Department's website.)

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.

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.

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 combined franchise and income tax return with this Department within seventy-five (75) days 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 capital stock, surplus, and undivided profits or other alternative tax base. The minimum franchise tax is $35.00 with no maximum except for qualified holding companies. The corporate income tax rate is 6.90% 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 third 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 third 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. The Department's website includes a list of software developers who have received approval. 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 mail franchise and corporate income tax forms to taxpayers. North Carolina forms are available from the Department or by going to the Department's website and clicking on **"Tax Forms"**. The website offers forms that can be downloaded or filled in online and printed. **Forms can also be obtained by calling the Department's toll free forms request line at 1-877-252-3052.**

Extensions

An extension of time to file the franchise and income tax return may be granted for seven (7) 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 Form CD-419, Application for Extension, by the original due date of the return**.

You can apply for an extension and pay your tax online. Go to the Department's website, click on **"Electronic Services"**, and select **"Businesses"**.

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 90% of the estimated tax.

You can pay corporate estimated tax payments online. Go to the Department's website, click on **"Electronic Services"**, and select **"Businesses"**.

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

Period Covered

File the 2006 return for calendar year 2006 and fiscal years that begin in 2006. You must use the same taxable period on your North Carolina return as on your federal return.

Note: The 2006 Form CD-405 may also be used if:

- The corporation has a tax year of less than 12 months that **begins** in 2006. **If the corporation's tax year is less than 12 months, fill in the appropriate circle at the top of the form.**
- The 2007 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 determined by the North Carolina Employment Security Commission. *(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.

Federal Schedule M-3. All corporations with total assets of $10 million or more on the last day of the tax year must complete Federal Schedule M-3 instead of Federal Schedule M-1. Corporations filing Federal Schedule M-3 must attach a copy of the completed schedule to the North Carolina corporate income tax return. **If the corporation has attached Federal Schedule M-3 to Form CD-405, fill in the appropriate circle.**

Important. For North Carolina income tax purposes, taxpayers that are members of a U.S. consolidated tax group must complete Federal Schedule M-3 separately in order to accurately reflect each member's activity.

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 about escheatable property, call (919) 508-5979 or write to:

Escheat Officer, Department of State Treasurer
Albemarle Building
325 N. Salisbury Street
Raleigh, North Carolina 27603

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 they engage in business activities not reasonably incidental to winding up their affairs. Although the final income tax return must be filed on a combination franchise and income tax return form, the schedules relating to franchise tax should be disregarded. **This applies, however, only to those corporations officially filing articles of dissolution or withdrawal with the Secretary of State of North Carolina.**

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 7.)*

NC-478. Corporations claiming 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 dollar ($20.00) fee. **Taxpayers have the option of either filing the annual report in paper form with the Department of Revenue or online with the Secretary of State.**

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 $20.00 fee must be included in the computation of the corporation's income tax due ***ONLY*** if the corporation elects to file the report with the Department of Revenue. **Form CD-479 can be obtained from the Department's website or by calling the Department's form request line.**

If the corporation elects to file the annual report in an electronic format online with the Secretary of State, go to the Secretary of State's website, **www.sosnc.com** for details. **The $20.00 fee must be paid online using one of the payment options offered by the Secretary of State.** The Department strongly encourages taxpayers to file the annual report electronically with the Secretary of State.

Limited Liability Companies (LLCs) Taxed as C Corporations. For franchise tax paid on or after January 1, 2007, limited liability companies that elect to be taxed as C Corporations for federal income tax purposes must compute and pay general business franchise tax. **If a limited liability company is classified as a C Corporation for federal income tax purposes, fill in the appropriate circle.** *(For more information, see the **"Important Legislative Changes for 2006"** on page 3.)*

Real Estate Investment Trust (REIT). Taxpayers that elect to be classified as a real estate investment trust (REIT) for federal income tax purposes are recognized as the same type of entity for State income tax purposes. Taxpayers can not elect to be taxed differently for State income tax purposes. **If the entity is classified as a real estate investment trust for federal income tax purposes, fill in the appropriate circle.**

Nonprofit. 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 are due on or before the 15th day of the fifth month following the close of the tax year. **If a corporation is incorporated as a nonprofit entity, fill in the appropriate circle.**

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 - Tax Bases

Franchise tax is computed by applying the tax rate of $1.50 per $1,000.00, **minimum $35.00**, to the largest of the following three bases:

(1) Capital stock, surplus, and undivided profits (Schedule C)
(2) Investment in North Carolina tangible property (Schedule D)
(3) Appraised value of North Carolina tangible property (Schedule E)

Inactive Corporations. A corporation that is inactive and without assets is subject annually to a minimum franchise tax of $35. 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.** Any corporation that intends to dissolve or withdraw through suspension for nonpayment of franchise tax should indicate its intention in writing to the Department.

Capital Stock, Surplus, and Undivided Profits. Enter the amount of capital stock, surplus, and undivided profits 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 8.)*

Qualified Holding Companies. Franchise tax payable by a qualified holding company on its capital stock and surplus tax base is limited to an amount not to exceed $75,000. There is no limitation on the amount of franchise tax payable where the alternative tax bases of investment in tangible property or appraised value of property apply.

Important. If the corporation qualifies as a holding company for franchise tax purposes, enter the amount of capital stock on Line 1 and fill in the "Holding Company Exception" circle.

Investment in North Carolina Tangible Property. Enter the amount of actual investment in North Carolina tangible property from the book balance sheet 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 8.)*

Appraised Value of North Carolina Tangible Property. Multiply the appraised ad valorem tax value of all tangible property located in North Carolina by 55%. Before making this entry, corporations must complete Schedule E of Form CD-405. *(See instructions on page 8.)*

Line 6 - Application for 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.)*

Line 7 - Tax Credits

To claim 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 claiming 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.**

The following is a list of the more utilized franchise tax credits:

- Short Period Franchise Tax Credit
- Annual Report Fee Tax Credit ***(New:** see **"2006 Legislative Changes")***
- Machinery & Equipment Investment Tax Credit
- Job Creation Tax Credit
- Research and Development Tax Credit
- Worker Training Tax Credit
- Central Office or Aircraft Facility Property Tax Credit
- Investing in Renewable Energy Property Tax Credit
- Low-Income Housing Tax Credit
- Renewable Fuel Facility Credit
- Credit for Major Computer Facilities

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

Mergers. 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 Franchise Tax and Corporate Income Tax Rules and Bulletins.)*

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 35. 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 35. **Fill in the circle located next to Line 35 to indicate the amount is overpaid.**

(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 7 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 9.)* **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 Franchise Tax and the Corporate Income Tax Rules and Bulletins.)*

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 - Net Economic Loss

Corporations that are required to apportion their net income or loss under G.S. 105-130.4 may carry forward to the succeeding year only the allocated portion of the loss less a proportionate amount of any nontaxable income received in the loss year. The amount of any nontaxable income received in the succeeding year multiplied by the succeeding year's apportionment percentage must be deducted from the loss brought forward in determining the allowable net economic loss deduction.

There is no corporate NEL carryback deduction available. *(For more information on the net economic loss, see the instructions for Schedule H, Deductions from Federal Taxable Income, on page 9.)*

Line 26 - North Carolina Net Income Tax

To calculate North Carolina net income tax, multiply Line 25 by the income tax rate of **6.90%**.

Line 27 - Tax Credits

To claim an income tax credit on Line 27, corporations must complete Form CD-425, Corporate Tax Credit Summary, and file it with the tax return. Taxpayers claiming 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.**

The following are some of the more utilized income tax credits for corporations:

- Machinery & Equipment Investment Tax Credit
- Job Creation Tax Credit
- Research and Development Tax Credit
- Worker Training Tax Credit
- Central Office or Aircraft Facility Property Tax Credit
- Investing in Renewable Energy Property Tax Credit
- Credit for Supervisory Fees (savings and loan associations only)
- Credit for the Rehabilitation of Historic Structures
- Credit for Use of North Carolina Ports
- Credit for Recycling Oyster Shells ***(New: see "2006 Legislative Changes")***

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

Note. The tax credit for qualifying expenses of a film or television production company cannot be claimed on Form CD-405, Line 27. Instead, this credit must be claimed on Form NC-415, available from the Department's website. *(For detailed information concerning the film incentives tax credit, see the **"2005 Tax Law Changes"** and **"2006 Tax Law Changes"** available from the Department's website.)*

Line 29 - Annual Report Fee

If the corporation elects to pay the annual report fee in paper format with the income tax return, enter $20.00 on Line 29; **otherwise enter zero.**

Note. LLCs taxed as corporations are subject to a $200.00 annual report fee. (*Go to the Secretary of State's website, **www.sosnc.com**, for information and payment options.)*

Line 31 - Tax Payments

a. **Application for Extension**. Taxpayers filing a Form CD-419 enter the amount of income tax paid on Form CD-419, Line 10 on Line 31a.

b. **2006 Estimated Tax**. Enter any estimated income tax payments for 2006 (including any portion of the 2005 overpayment that was applied to the 2006 estimated income tax and any payment remitted through the Electronic Funds Transfer Program, EFT) on Line 31b.

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 31c. **Important**. If a partnership payment is claimed on Line 31c, a copy of the 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 31d.

Lines 33 and 34 - Income Tax Due / Overpaid

Subtract Line 32 from Line 30. If Line 32 is less than Line 30 **additional income tax is due**. Enter the amount of additional tax on Line 33 and on Line 36. If Line 32 is more than Line 30, **income tax is overpaid**. Enter the amount of overpayment on Line 34 and on Line 36. **Fill in the circle located next to Line 36 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 35 through 37 - 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 35 and 36.

Line 38 - 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 2005 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 38. **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 38 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.

Line 39 - 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 (minimum $5.00; 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. The minimum penalty is $5.00.

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 tax, penalty, and interest not paid within 90 days after a final notice of assessment has been mailed 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 final notice was mailed.

Line 40 - Total Due

Add Lines 37, 38, and 39 and enter the total on Line 40, 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, NC 27640-0500

Form CD-V (Corporate Payment Voucher). Form CD-V is a personalized 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 voucher, go to the Department's website and click on **"Tax Forms". The Department strongly encourages the use of the personalized voucher**.

Form CD-V Amended (Amended Corporate Payment Voucher). If filing an amended CD-405, corporations owing additional tax should use Form CD-V Amended. Form CD-V Amended allows the Department to process amended payments more accurately and efficiently with few errors. To generate the amended personalized payment voucher, go to the Department's website and click on **"Tax Forms".**

IMPORTANT. You can pay your franchise and corporate income tax online**.** Go to the Department's website**.** Click on **"<u>Electronic Services</u>/ <u>Businesses</u>".**

Line 41 - Overpayment

If the sum of Lines 37, 38, and 39 is less than zero, the corporation has overpaid its tax. Enter the amount of overpayment on Line 41.

Line 42 - Estimated Income Tax

A corporation may elect to apply part or all of the overpayment shown on Line 41 to its estimated income tax for the following year by entering the amount to be applied on Line 42. The election to apply any overpayment to 2007 can not be changed after the return is filed. **Important. To apply an overpayment from 2006 to 2007 estimated tax, the return must be filed by the last allowable date for making 2007 estimated tax payments.**

Line 43 - 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 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 43. **The election to contribute to the fund can not be changed after the return is filed.**

Line 44 - Amount to be Refunded

Enter the amount of overpayment to be refunded on Line 44. The amount to be refunded cannot exceed Line 41 minus the total of Lines 42 and 43.

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 and enter the firm's federal employer ID number, social security number, or PTIN as assigned by the Internal Revenue Service.

Capital Stock, Surplus, and Undivided Profits - Schedule C

In addition to the items listed on the schedule, include stock subscribed, deferred taxes, and all other surplus, reserves, deferred credits, and inventory valuation reserves, including amounts deferred as result of a LIFO valuation method (LIFO reserves), and liabilities except: (a) reserve for depreciation permitted for income tax purposes; (b) accrued taxes; (c) dividends declared; (d) definite and accrued legal liabilities (accounts, notes, mortgages payable, etc.) Deferred tax liabilities may be reduced, but not below zero, by deferred tax assets. No other deferred liabilities may be reduced by deferred tax assets. Deferred income resulting from customer advances for goods or services may be excluded from this base provided: (1) there exists a definite legal liability to render the service or deliver the goods; (2) no part of the advances has been reported or is reportable for income tax purposes; and (3) all related costs and expenses are reflected in the balance sheet as assets. Deferred income net of related deferred income taxes arising from the usual installment sale is not deductible because the corresponding liability would have been discharged at the time of delivery.

Indebtedness owed to a parent, subsidiary, or affiliated corporation is considered a part of the debtor corporation's capital and must be added to the debtor corporation's capital stock, surplus, and undivided profits. If the creditor corporation has borrowed a part of its capital from outside sources (i.e., sources other than a parent, subsidiary, or affiliated corporation), the debtor corporation may exclude a proportionate part of the debt determined on the basis of the ratio of the creditor corporation's capital borrowed from outside sources to the creditor corporation's total assets.

The creditor corporation, if subject to the tax, can deduct from its capital stock, surplus, and undivided profits the amount of indebtedness owed to it by a parent, subsidiary, or affiliated corporation to the extent that the indebtedness has been added by the debtor corporation on a return filed with this State. **The exclusion permitted the debtor corporation and the deduction permitted the creditor corporation are applicable only to indebtedness owed to or due from a parent, subsidiary, or affiliated corporation.**

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," and "affiliate" have the meanings specified in G. S. 105-130.6. The capital stock base may be reduced by the excess of assets of an international banking facility employed outside the United States over liabilities of the corporation owed to foreign persons.

Cash Basis Corporations. Corporations using the cash basis method of accounting for income tax purposes cannot compute the capital stock, surplus, and undivided profits base by this method. Assets and liabilities must be accrued and reported for franchise tax purposes.

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. **LIFO valuation is not permitted for inventories.**

A deduction from the tangible property base is allowed for indebtedness incurred and existing by virtue of the purchase or permanent improvement of real estate located in North Carolina. The deductible amount cannot exceed the book value (cost less depreciation) of the real estate acquired or improvements made. Debts incurred in the purchase of personal property are not deductible even though the funds borrowed are secured by a lien against real estate. Indebtedness owed to a parent, subsidiary, or affiliated corporation constitutes a part of the debtor corporation's capital and, therefore, cannot be deducted from the tangible property tax base (except to the extent explained below) even though the indebtedness was incurred in the purchase or permanent improvement of real estate. The extent to which the indebtedness can be deducted is the amount of the total debt excluded by the debtor corporation from its capital stock, surplus, and undivided profits base by application of the creditor corporation's borrowed capital ratio.

Air or Water Pollution Abatement and Recycling Resource Recovering Facilities. A corporation may deduct from Schedule C and Schedule D the cost of any air cleaning device, sewage or waste treatment plant, and pollution abatement equipment purchased or constructed in this State. The cost of constructing a facility for recycling solid waste or for reducing hazardous waste may also be deducted from these bases. **A deduction is allowed only upon certification from the Department of Environment and Natural Resources.**

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)

This section does not apply to a Limited Liability Company that is subject to franchise tax. *(For detailed information, see the* ***"2006 Tax Law Changes"*** *available from the Department's website.)*

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 three franchise tax bases. **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 bases 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 bases, the corporation may exclude its investment in the LLC from the computation of the capital stock base. **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, 2006 (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.** (See Form CD-425, Part 4, Line 32.)

(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.

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

(3) Net economic losses incurred by the corporation. **There is no corporate NEL carryback deduction available.** The net economic loss carryforward period was extended to fifteen (15) years effective for tax years beginning on or after January 1, 1999. A net economic loss is the amount by which allowable deductions, other than prior year losses, exceed income from all sources in the year including any nontaxable income. Nontaxable income includes income deducted from federal taxable income in computing State net income, nonapportionable income allocated outside this State, and other income not taxable under State law. Any nontaxable income received in a succeeding year must be deducted from the loss brought forward in arriving at the allowable net economic loss deduction. ***(Net economic losses must be deducted on Schedule B, Line 22. See "Net Economic Loss" on Page 6.)***

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

(5) Amortization in lieu of depreciation allowed for federal income tax purposes on the cost of qualified sewage, waste or air pollution facilities, recycling and resource recovering facilities, equipment mandated by OSHA, and equipment and facilities acquired for the purpose of reducing the volume of hazardous waste generated as provided in G.S. 105-130.10 and G.S. 105-130.10A.

(6) Depreciation of emergency facilities acquired prior to January 1, 1955, if no amortization has been claimed on the facilities for State income tax purposes.

(7) 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.

(8) 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.

(9) 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.

(10) Reasonable expenses paid for reforestation and cultivation of commercially grown trees by a corporation owned entirely by natural persons actively engaged in the commercial growing of trees.

(11) The amount of eligible income of an international banking facility to the extent included in determining federal taxable income.

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

(13) Marketing assessments paid on tobacco grown in N.C.

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

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

(16) Wireless enhanced 911 service charges collected under G.S. 62B-3 and remitted to the Wireless Fund under G.S. 62B-4.

(17) Any interest, investment earnings, and gains of a trust established by two or more manufacturers that signed a settlement agreement with North Carolina to settle claims for damages attributable to a product of the manufacturers.

(18) Amounts received from the Hurricane Floyd Reserve Fund in the Office of State Budget, Planning, and Management.

(19) 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.

(20) 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.

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

(22) The amount paid from the Disaster Relief Reserve Fund in the Office of State Budget and Management for hurricane relief or assistance. No deduction is allowed for payments for goods or services provided by the taxpayer.

(23) Twenty percent (20%) of the amount added to federal taxable income for additional first-year depreciation on the 2002, 2003, or 2004 State return. *(See **"Adjustment for Additional First-Year Depreciation"*** below.)

Adjustment for Additional First-Year Depreciation. North Carolina did not adopt the additional first-year depreciation provisions in the federal Jobs Creation and Worker Assistance Act of 2002 or the federal Jobs and Growth Tax Relief Reconciliation Act of 2003. Instead, taxpayers were required to add to federal taxable income a percentage of the additional first-year depreciation deducted on the federal return when computing State taxable income for tax years 2002, 2003, and 2004.

For taxable years beginning on or after January 1, 2005, the amount of additional first-year depreciation added to federal taxable income on the 2002, 2003, or 2004 State return may be deducted in five equal installments. To calculate the deduction, total the amount of first-year depreciation added back to the State return during 2002, 2003, and 2004, and multiply the total by 20% (.20). Enter the result on Schedule H, Line 3f.

Note. If during the tax year, the S Corporation has a change in ownership with respect to its shareholders and a new shareholder is brought in to replace an existing shareholder, the new shareholder would not be entitled to claim a share of the first-year depreciation deduction because the new shareholder would not have added back any depreciation on its returns for tax years 2002, 2003, or 2004.

Example: A taxpayer added the following amounts of additional first-year depreciation to federal taxable income during tax years 2002, 2003, and 2004:

2002	-	$4,000
2003	-	$2,000
2004	-	$6,000
Total		$12,000

The taxpayer may deduct $2,400 ($12,000 x .20) on the 2005 return and $2,400 on each return for the succeeding four tax years.

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

(4) Interest on deposits with the FHLB (savings and loan associations only).

(5) Deductions are generally not allowed for any direct or indirect expenses related to income not taxed. *(For detailed information, see **"Attribution of Expenses to Dividends"** and **"Attribution of Expenses to Other Income Not Taxed"**.)*

Attribution of Expenses to Dividends. Taxpayers are required to attribute expenses to untaxed dividends in arriving at State taxable income. Generally, the amount of direct and indirect expenses related to dividends not taxed in this State is limited to fifteen percent (15%) of the deductible dividends. For bank holding companies, the limit is twenty percent (20%) of the dividends. For electric power holding companies, the limit is fifteen percent (15%) of the holding company's interest expenses.

There are also limits on the amount of potential tax liability for bank holding companies that attribute expenses to dividends not taxed. In general, for bank holding companies and their related affiliates, the additional tax resulting from the expense adjustment may not exceed eleven million dollars ($11,000,000) per taxable year. If the tax on the bank holding company group is limited because of the $11 million cap, each member of the group must include with its income tax return a schedule that lists every member of the affiliated group that has dividends, the amount of the dividends, and whether the affiliate is a bank holding company.

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 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".

Schedule K

The letter K is not used on the tax return to designate a schedule.

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 is income that cannot be apportioned because of 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. *(For an acceptable means of computing related expenses to nonapportionable income, see* ***"Attribution of Expenses to Other Income Not Taxed"*** *on Page 10.)*

Computation of Apportionment Factor - Schedule O

All corporations, domestic or foreign, doing business in North Carolina must complete Schedule O to compute the capital stock, surplus, and undivided profits tax base 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% in the area provided. 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 twice the sales factor, and the denominator of which is four. 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 one. **Calculate the apportionment factor to four places to the right of the decimal.**

<u>Lines 1 through 8 - Property Factor</u>

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.

<u>Lines 9 through 11 - Payroll Factor</u>

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.

<u>Lines 12 and 13 - Sales Factor</u>

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. Receipts from any casual sale of property, receipts exempt from taxation, and the portion of receipts realized from the sale or maturity of securities or other obligations that represent a return of principal are excluded from both the numerator and the denominator of the sales factor. 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. The respective tax statutes should be consulted for specific allocation requirements.

Excluded Corporations. Any corporation engaged in business as a 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 its income by using the sales factor alone.

Contractors. A multistate building or construction contractor must use a one factor sales (gross receipts) formula to apportion its income to this State. A building or construction contractor is a business so classified under the North American Industry Classification System.

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.

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. *(See 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. *(See 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)*........................ ___ . ____%

Forms and Instructions for the NC-478 Series

Forms and Instructions for the NC-478 series are available from the Department's website, www.dornc.com, or by calling toll free 1-877-252-3052.

Instructions for Form NC-478V

Every individual, partnership, corporation (domestic or foreign), limited liability company, estate, trust, and insurance company that engages in an activity for which an Article 3A credit is allowed and that intends to claim the credit must pay a fee of $500.00 for each credit if the establishment at which the activity occurred is in an enterprise tier 3, 4, or 5 area. **The maximum fee is $1500 per year. This fee, along with Form NC-478V, must be filed with Form CD-405 at the time the return is due.** *(For more information concerning Form NC-478V go to the Department's website,* ***www.dornc.com****, click on* ***"Tax Forms"*** *and select* ***"NC-478V"****.)*

A personalized Form NC-478V can be obtained from the Department's website. *The personalized version of Form NC-478V prints personalized data on the voucher that allows for faster processing with fewer errors. The Department encourages the use of the personalized version of Form NC-478V.*