

Instructions for 2001 Form NC-478 Series

Purpose of Form NC-478 Series

Use the Form NC-478 series to calculate and report tax credits that are limited to 50% of your tax less the sum of all other tax credits that you claim. Forms NC-478A through NC-478H are used to calculate the specific credits without regard to the 50% limitation. Form NC-478 is used to total the specific credits, to determine if the 50% limitation applies, and, if so, to allocate the limited total credit among the specific credits.

General Instructions

Listed below are the tax credits that are subject to the 50% of tax limitation and the NC-478 series form on which the credit is claimed:

- Creating Jobs (Form NC-478A)
- Investing in Machinery and Equipment (Form NC-478B)
- Research and Development (Form NC-478C)
- Worker Training (Form NC-478D)
- Investing in Central Office or Aircraft Facility Property (Form NC-478E)
- Investing in Business Property (Form NC-478F)
- Investing in Renewable Energy Property (Form NC-478G)
- Low-Income Housing (Form NC-478H)
- Technology Commercialization (Form NC-478, Line 9)
- Investing in Non-Hazardous Dry-Cleaning Equipment (Form NC-478, Line 10)
- Use of North Carolina Ports (Form NC-478, Line 11)
- Renewable Energy Equipment Facility (Form NC-478, Line 11)
- Contributions to Development Zone Projects (Form NC-478, Line 11)
- Manufacturing Cigarettes for Export (Form NC-478, Line 11)

Each of the above tax credits is available to individuals, partnerships, estates, trusts, and corporations except the tax credit for manufacturing cigarettes for export, which is available only to corporations. Insurance companies with a gross premiums tax liability can claim any of the credits listed above except the credit for investing in business property, the credit for investing in renewable energy property, the credit for investing in non-hazardous dry-cleaning equipment, the credit for use of North Carolina ports, the credit for construction of a renewable energy equipment facility, and the credit for manufacturing cigarettes for export.

You must file both Form NC-478 and the applicable NC-478 series form for any taxable year in which you are eligible to claim a credit or an installment of a credit against your tax liability for that year. This requirement applies even if your tax liability for that year is not large enough to benefit from the credit. You must complete Part 1 of Form NC-478A, NC-478B, or NC-478E and file this form with your return for any taxable year in which you engage in an activity that qualifies for a credit that is to be taken in installments beginning with the following year. Place Form NC-478 and any NC-478 series form at the front of your tax return. Corporations must place these forms behind CD-479, Annual Report Form. If you claim the credit for creating jobs, investing in machinery and equipment, research and development, worker training, investing in central office or aircraft facility property, or technology commercialization, you must attach the certification from the Secretary of Commerce. If you claim the credit for contributions to development zone projects, you must attach both the certification from the Secretary of Commerce and the letter from the Department of Revenue establishing the amount of the credit. Place these documents at the front of the return behind the NC-478 series. Failure to include a form or required document with your tax return may result in disallowance of these tax credits.

Deadline for filing. To claim a credit or an installment of a credit against your tax liability for the tax year, you must file both NC-478 and the applicable NC-478 series Form within 6 months after the due date for filing the tax return, including any extensions of that date.

Pass-through entities. A pass-through entity must provide sufficient information about the tax credits to its owners or beneficiaries to allow them to complete the Form NC-478 series. The information must be provided on, or as an attachment to, the NC K-1 provided to the owner or beneficiary. An owner or beneficiary should add the credits passed through by a pass-through entity to any credits the owner or beneficiary qualifies for directly when completing the Form NC-478 series.

See page 4 of these instructions for examples of the computation of these tax credits for pass-through entities.

Specific Instructions

NC-478 - Summary of Tax Credits Limited to 50% of Tax

Part 1. After completing the applicable Forms NC-478A through NC-478H, enter the totals from those forms on the appropriate lines in Part 1 of Form NC-478. If claiming credit for technology commercialization, investing in non-hazardous dry-cleaning equipment, use of North Carolina ports, manufacturing cigarettes for export, contributing to development zone projects, or renewable energy equipment facility, complete and attach a separate schedule to show how you calculated that credit and fill in the applicable circle on Line 11. Add Lines 1 through 11 and enter the total on Line 12. This is the total amount of tax credits subject to the 50% of tax limitation.

Individuals, partnerships, trusts and estates enter the credits only in the Income column because those taxpayers do not owe franchise tax.

Partnerships enter only the portion of each credit that is allocable to its nonresident partners on whose behalf the managing partner pays the tax.

Trusts and estates enter only the portion of the credit that is allocated to the fiduciary.

All corporations may elect for each credit other than the credit for use of North Carolina ports, the credit for manufacturing cigarettes for export, or the credit for renewable energy equipment facility whether to claim the credit against franchise or income tax. The credit for use of North Carolina ports, the credit for manufacturing cigarettes for export, and the credit for renewable energy equipment facility may only be claimed against income tax. The credit for technology commercialization may be divided between franchise and income tax. The election of which tax a credit will be claimed against or what percentage of the credit for technology commercialization will be applied against each tax is made at the time the first installment is claimed and is binding for all future installments of that credit.

S corporations enter the total amount of credit if the credit is being applied against franchise tax; however, if the credit is being applied against income tax, enter only the portion of each credit that is allocable to nonresident shareholders on whose behalf a composite return is filed.

Insurance companies claim the credits against their gross premiums tax by completing the Franchise column.

Part 2. Complete Part 2 to determine if the total credits reported in Part 1 must be reduced because the total credits exceed 50% of your tax less other credits.

Line 13 - *Individuals* enter the amount of tax from Form D-400, Line 13. *Partnerships* add the amounts on Form D-403, Part 3, Line 17 for each nonresident partner and enter the total here. *Trusts and estates* enter the amount of tax due from Form D-407, Line 8. *C corporations* enter the amount of franchise tax from Form CD-405, Schedule A, Line 5, in the Franchise column, and the amount of income tax due from Form CD-405, Schedule B, Line 26, in the Income column. *S corporations* enter the amount of franchise tax due from Form CD-401S, Schedule A, Line 5, in the Franchise column and the amount of income tax due for nonresident shareholders filing composite from Form CD-401S, Schedule B, Line 21, in the Income column. *Insurance companies* enter the total amount of gross premiums tax.

Line 14 - *Individuals* enter the amount from Form D-400TC, Line 26. *Corporations* enter the total amount of franchise tax credits not subject to the 50% of tax limit from Form CD-425, Line 4, in the Franchise column, and the total amount of income tax credits not subject to the 50% of tax limit from Form CD-425, Line 17, in the Income column. *Partnerships* enter the amount from Form D-403TC, Line 5. *Trusts and estates* enter the amount from Form D-407TC, Line 6.

Line 17 - Enter the lesser of Line 12 or Line 16. If Line 12 exceeds Line 16, complete Part 3; otherwise, enter the amount of Line 17 on Line 29.

Part 3. If Line 12 exceeds Line 16, your total credits in Part 1 exceed 50% of your tax less other credits and must be reduced to the amount on Line 17. You may choose how to allocate the allowable amount of credit (Line 17) among the credits for which you are eligible (Lines 1 through 11) by completing Lines 18 through 28. If the amount of eligible credit in Part 1 exceeds the amount of allocated credit in Part 3, you may be eligible to carry forward the excess amount to next year.

Line 29 - Add Lines 18 through 28 and enter the total. This amount must equal the amount on Part 2, Line 17. *Individuals* enter this amount on Form D-400TC, Part 4, Line 29. *Partnerships* enter this amount on Form D-403TC, Part 2, Line 8. *Trusts and estates* enter this amount on Form D-407TC, Part 2, Line 9. *Corporations* enter the total amount of tax credits applied against Franchise Tax on Form CD-425, Part 2, Line 8, and the total amount of tax credits applied against Income Tax on Form CD-425, Part 4, Line 21. *Insurance companies* claim this amount on Line 16 on the gross premiums tax return.

Part 4. If you claimed a tax credit for investing in business property on Line 6, enter on Line 30 the cost of business property placed in service during the current year for which the credit is allowed. If you claimed a tax credit for investing in renewable energy property on Line 7, enter on Line 31 the cost of renewable energy property placed in service during the current year for which the credit is allowed. If you claimed a tax credit for investing in non-hazardous dry-cleaning equipment on Line 10, enter on Line 32 the cost of non-hazardous dry-cleaning equipment placed in service during the current year for which the credit is allowed. Enter the amounts even if you were required to allocate credits in Part 3 and elected to enter \$0 on Lines 23, 24, or 27. *Partnerships* enter only the portion of the cost of business property, renewable energy property, or non-hazardous dry-cleaning equipment that is allocable to the nonresident partners on whose behalf the managing partner pays the tax. *Trusts and estates* enter only the portion of the cost of business property, renewable energy property, or non-hazardous dry-cleaning equipment that is allocated to the fiduciary. *S corporations* enter the total cost of business property, renewable energy property, or non-hazardous dry-cleaning equipment if the credit is being applied against franchise tax. If the credit is being applied against income tax, enter only the portion of the cost of business property, renewable energy property, or non-hazardous dry-cleaning equipment that is allocable to the nonresident shareholders on whose behalf a composite return is filed.

NC-478A - Creating New Jobs

The credit for creating new jobs is taken in four equal installments beginning in the tax year following the year in which the job is created.

Individuals, S corporations claiming this credit against franchise tax, and C corporations complete NC-478A and enter the amount from Part 3, Line 6 on Form NC-478, Line 1. *S corporations claiming the credit against income tax* complete Parts 1 and 2 as one taxpayer, then allocate the amount from Part 1, Line 7 among the shareholders. Complete Parts 3 and 4 by including the amounts allocated to those nonresident shareholders on whose behalf a composite return is being filed. On Part 3, Line 5, include only the carryforwards for those nonresident shareholders on whose behalf a composite return is filed in both the prior year and the current year. *Partnerships* complete Parts 1 and 2 as one taxpayer, then allocate the amount from Part 1, Line 7 among the partners. Complete Parts 3 and 4 by including the amounts allocated to those nonresident partners on whose behalf the managing partner pays the tax. On Part 3, Line 5, include only the carryforwards for those nonresident partners on whose behalf the partnership pays tax in both the prior year and the current year. *Trusts and estates* complete Parts 1 and 2 as one taxpayer, then allocate the amount from Part 1, Line 7 among the fiduciary and the beneficiaries. Complete Parts 3 and 4 by including only the amount allocated to the fiduciary.

NC-478B - Investing in Machinery and Equipment

The credit for investing in machinery and equipment is taken in seven equal installments beginning in the tax year following the year the machinery and equipment is placed in service.

Individuals, S corporations claiming this credit against franchise tax, and C corporations complete NC-478B and enter the amount from Part 3, Line 7 on Form NC-478, Line 2. If machinery and equipment was placed in service over a

two-year period, reduce the amount on Part 1, Line 6, by the amount entered on Line 5 of the 2000 Form NC-478B. *S corporations claiming the credit against income tax* complete Parts 1 and 2 as one taxpayer, then allocate the amount from Part 1, Line 9 among the shareholders. Complete Parts 3 and 4 by including the amounts allocated to those nonresident shareholders on whose behalf a composite return is being filed. On Part 3, Line 6, include only the carryforwards for those nonresident shareholders on whose behalf a composite return is filed in both the prior year and the current year. *Partnerships* complete Parts 1 and 2 as one taxpayer, then allocate the amount from Part 1, Line 9 among the partners. Complete Parts 3 and 4 by including the amounts allocated to those nonresident partners on whose behalf the managing partner pays the tax. On Part 3, Line 6, include only the carryforwards for those nonresident partners on whose behalf the partnership pays tax in both the prior year and the current year. *Trusts and estates* complete Parts 1 and 2 as one taxpayer, then allocate the amount from Part 1, Line 9 among the fiduciary and the beneficiaries. Complete Parts 3 and 4 by including only the amount allocated to the fiduciary.

NC-478C - Research and Development

The credit for research and development is claimed in the tax year the research and development expenses are incurred.

Individuals, S corporations claiming this credit against franchise tax, C corporations and insurance companies, complete NC-478C and enter the amount from Part 3, Line 4 on Form NC-478, Line 3. *S corporations claiming the credit against income tax* complete Parts 1 and 2 as one taxpayer, then allocate the amount from Part 1, Line 7 or Part 2, Line 6 among the shareholders. Complete Part 3 by including the amounts allocated to those nonresident shareholders on whose behalf a composite return is being filed. On Part 3, Line 3, include only the carryforwards for those nonresident shareholders on whose behalf a composite return is filed in both the prior year and the current year. *Partnerships* complete Parts 1 and 2 as one taxpayer, then allocate the amount from Part 1, Line 7 or Part 2, Line 6 among the partners. Complete Part 3 by including the amounts allocated to those nonresident partners on whose behalf the managing partner pays the tax. On Part 3, Line 3, include only the carryforwards for those nonresident partners on whose behalf the partnership pays tax in both the prior year and the current year. *Trusts and estates* complete Parts 1 and 2 as one taxpayer, then allocate the amount from Part 1, Line 7 or Part 2, Line 6 among the fiduciary and the beneficiaries. Complete Part 3 by including only the amount allocated to the fiduciary.

NC-478D - Worker Training

The credit for worker training is claimed in the tax year the workers are trained.

Individuals, S corporations claiming this credit against franchise tax, and C corporations complete NC-478D and enter the amount from Part 2, Line 3 on Form NC-478, Line 4. *S corporations claiming the credit against income tax* complete Parts 1 and 3 as one taxpayer. Add Part 1, Lines 4 and 8, and allocate the total amount among the shareholders. Complete Part 2 by including the amounts allocated to those nonresident shareholders on whose behalf a composite return is being filed. On Part 2, Line 2, include only the carryforwards for those nonresident shareholders on whose behalf a composite return is filed in both the prior year and the current year. *Partnerships* complete Part 1, Lines 1 and 5, and Part 3 as one taxpayer. Part 1, Lines 2 through 4 and Lines 6 through 8, must be completed on a partner-by-partner basis. (**Note:** The maximum credit of \$1,000 for Line 2 and \$500 for Line 6 applies to each partner.) For those lines, add the amounts calculated for each partner and enter the total on this form. Complete Part 2 by including the amounts calculated for those nonresident partners on whose behalf the managing partner pays the tax. On Part 2, Line 2, include only the carryforwards for those nonresident partners on whose behalf the partnership pays tax in both the prior year and the current year. *Trusts and estates* complete Parts 1 and 3 as one taxpayer, add Part 1, Lines 4 and 8, then allocate the total among the fiduciary and the beneficiaries. Complete Part 2 by including only the amount allocated to the fiduciary.

NC-478E - Investing in Central Office or Aircraft Facility Property

The credit for investing in central office or aircraft facility property is taken in seven equal installments beginning in the tax year following the

year in which the taxpayer begins to use the property as a central administrative office. The maximum lifetime credit for investing in central office or aircraft facility property is \$500,000.

Individuals, S corporations claiming this credit against franchise tax, C corporations, and insurance companies complete NC-478E and enter the amount from Part 3, Line 6 on Form NC-478, Line 5. *S corporations claiming the credit against income tax* complete Parts 1 and 2 as one taxpayer, then allocate the amount from Part 1, Line 13 among the shareholders. Complete Parts 3 and 4 by including the amounts allocated to those nonresident shareholders on whose behalf a composite return is being filed. On Part 3, Line 5, include only the carryforwards for those nonresident shareholders on whose behalf a composite return is filed in both the prior year and the current year. *Partnerships* complete Part 2 as one taxpayer. Complete Part 1 on a partner-by-partner basis. (**Note:** The maximum credit of \$500,000 applies to each partner.) For each line, add the amounts calculated for each partner and enter the total on this form. Complete Parts 3 and 4 by including the amounts allocated to those nonresident partners on whose behalf the managing partner pays the tax. On Part 3, Line 5, include only the carryforwards for those nonresident partners on whose behalf the partnership pays tax in both the prior year and the current year. *Trusts and estates* complete Parts 1 and 2 as one taxpayer, then allocate the amount from Part 1, Line 13 among the fiduciary and the beneficiaries. Complete Parts 3 and 4 by including only the amount that is allocated to the fiduciary.

NC-478F - Investing in Business Property

The credit for investing in business property is taken in five equal installments beginning in the tax year in which the property is placed in service. The maximum eligible credit for investing in business property in a taxable year is \$4,500.

Individuals, S corporations claiming this credit against franchise tax, and C corporations complete NC-478F and enter the amount from Part 2, Line 7 on Form NC-478, Line 6. *S corporations claiming the credit against income tax* complete Part 1 as one taxpayer, then allocate the amount from Line 5 among the shareholders. Complete Parts 2 and 3 by including the amounts allocated to those nonresident shareholders on whose behalf a composite return is being filed. On Part 2, Line 6, include only the carryforwards for those nonresident shareholders on whose behalf a composite return is filed in both the prior year and the current year. *Partnerships* complete Part 1 on a partner-by-partner basis. (**Note:** The maximum credit of \$4,500 applies to each partner.) For each line, add the amounts calculated for each partner and enter the total on this form. Complete Parts 2 and 3 by including the amounts allocated to those nonresident partners on whose behalf the managing partner pays the tax. On Part 2, Line 6, include only the carryforwards for those nonresident partners on whose behalf the partnership pays tax in both the prior year and the current year. *Trusts and estates* complete Part 1 as one taxpayer, then allocate the amount from Part 1, Line 5 among the fiduciary and the beneficiaries. Complete Parts 2 and 3 by including only the amount that is allocated to the fiduciary.

NC-478G - Investing in Renewable Energy Property

The credit for investing in renewable energy property is claimed in the tax year the renewable energy property is constructed, purchased, or leased and placed in service if the property serves a single-family dwelling. If the property does not serve a single-family dwelling, the credit is taken in five equal installments beginning in the year the property is placed in service.

Individuals, S corporations claiming this credit against franchise tax, and C corporations complete NC-478G and enter the amount from Part 3, Line 5 on Form NC-478, Line 7. *S corporations claiming the credit against income tax* complete Part 1 or Part 2 as one taxpayer, then allocate the amount from Part 1, Line 4, or Part 2, Line 5 among the shareholders. Complete Parts 3 and 4 by including the amounts allocated to those nonresident shareholders on whose behalf a composite return is being filed. On Part 3, Line 4, include only the carryforwards for those nonresident shareholders on whose behalf a composite return is filed in both the prior year and the current year. *Partnerships* complete Part 1 on a partner-by-partner basis. (**Note:** The maximum credit, Part 1, Line 3, and Part 2, Line 3, applies to each partner.) For each line, add the amounts calculated for each partner and enter the total on this form. Complete Parts 3 and 4 by including the amounts allocated to those nonresident partners on

whose behalf the managing partner pays the tax. On Part 3, Line 4, include only the carryforwards for those nonresident partners on whose behalf the partnership pays tax in both the prior year and the current year. *Trusts and estates* complete Part 1 or Part 2 as one taxpayer, then allocate the amount from Part 1, Line 4, or Part 2, Line 5 among the fiduciary and the beneficiaries. Complete Parts 3 and 4 by including only the amount that is allocated to the fiduciary.

NC-478H - Low-Income Housing

The credit for low-income housing is taken in equal installments over the five years beginning in the first taxable year in which a federal income tax credit for low-income housing is claimed. Any reduction in the amount of the first installment as a result of the federal reduction required under IRC section 42(f)(2)(A) must be carried forward and must be taken as the 6th installment amount. (See Part 1, Lines 5-7 and Line 9).

Hurricane-affected counties: The following counties were designated as counties affected by the 1999 hurricanes by the Federal Emergency Management Agency and qualify for the 75% credit: Beaufort, Bertie, Bladen, Brunswick, Carteret, Columbus, Craven, Dare, Duplin, Edgecombe, Green, Halifax, Hertford, Jones, Lenoir, Martin, Nash, New Hanover, Northampton, Onslow, Pasquotank, Pender, Pitt, Washington, Wayne, and Wilson counties.

Individuals, S corporations claiming this credit against franchise tax, and C corporations complete NC-478H and enter the amount from Part 2, Line 4 on Form NC-478, Line 8. *S corporations claiming the credit against income tax* complete Part 1 as one taxpayer, then allocate the amounts from Lines 7, 8, and 9 among the shareholders. Complete Parts 2 and 3 by including the amounts allocated to those nonresident shareholders on whose behalf a composite return is being filed. On Part 2, Line 3, include only the carryforwards for those nonresident shareholders on whose behalf a composite return is filed in both the prior year and the current year. *Partnerships* complete Part 1 as one taxpayer, then allocate the amount from Part 1, Lines 7, 8, and 9 among the partners. Complete Parts 2 and 3 by including the amounts allocated to those nonresident partners on whose behalf the managing partner pays the tax. On Part 2, Line 3, include only the carryforwards for those nonresident partners on whose behalf the partnership pays tax in both the prior year and the current year. *Trusts and estates* complete Part 1 as one taxpayer, then allocate the amount from Part 1, Lines 7, 8, and 9 among the fiduciary and the beneficiaries. Complete Parts 2 and 3 by including only the amount that is allocated to the fiduciary.

Allocation of credit by a pass-through entity: A pass-through entity may allocate the credit among any of its owners in its discretion as long as the amount of credit allocated to an owner does not exceed the owner's adjusted basis in the pass-through entity at the end of the taxable year in which the federal credit is first claimed. A pass-through entity and its owners must include with their tax returns for every taxable year in which an allocated credit is claimed a statement of the allocation made by the pass-through entity and the allocation that would have been required under the general method of allocating credits based on percentage ownership.

Forfeiture for change in ownership: An owner of a pass-through entity that has qualified for the tax credit for low-income housing forfeits a portion of the credit if the owner disposes of more than one-third of its interest in the pass-through entity within five years from the date the federal credit is first claimed. Forfeiture is not required if the change in ownership result from either the death of the owner, or a merger, consolidation, or similar transaction requiring approval of the pass-through entity's owners, to the extent that the pass-through entity does not receive cash or tangible property in the merger, consolidation, or other similar transaction. For detailed information on how to determine the amount of credit forfeited, please refer to the *Franchise Tax and Corporate Income Tax Rules and Bulletins*.

Allocation of Credits by Pass-through Entities

A pass-through entity must take extra steps in calculating and allocating the tax credits among its shareholders, partners, or beneficiaries. Page 4 of these instructions and our website, www.dor.state.nc.us, contain examples.

S corporations - If the credit is being claimed against franchise tax, no allocation is required. Complete the applicable tax credit form and enter the amount eligible to be taken in the current year on Form NC-478. If the credit is being taken against

income tax, complete the applicable tax credit form to determine the eligible credit to be allocated among the shareholders. The portion of the eligible credit allocated to nonresident shareholders on whose behalf a composite return is being filed is calculated and carried to Form NC-478. The portion of the eligible credit allocated to resident shareholders or nonresident shareholders who are not part of a composite return will not be reflected on the S-corporation's Form NC-478. Example 1 shows how the tax credit for investing in business property is calculated, allocated, and reported on NC-478 and NC-478F by an S corporation. The same principles apply to an S corporation regardless of which credit is being claimed.

Partnerships - Complete the applicable tax credit form to determine the eligible credit to be allocated among the partners. The portion of the eligible credit allocated to nonresident partners on whose behalf the partnership pays tax is calculated and carried to Form NC-478. The portion of the eligible credit allocated to resident partners or nonresident partners on whose behalf the partnership does not pay tax will not be reflected on Form NC-478. Example 1 also applies to partnerships that are claiming the tax credits for creating new jobs, investing in machinery and equipment, research and development, and low-income housing. Special rules apply to partnerships if the calculation of the tax credit involves a maximum dollar amount. In those cases, the credit is calculated on a partner-by-partner basis. Example 2 shows how the tax credit for investing in business property is calculated, allocated, and reported on NC-478 and NC-478F by a partnership. The same principles also apply to a partnership claiming the tax credits for worker training, investing in central office or aircraft facility property, and investing in renewable energy property.

Trusts and estates - Complete the applicable tax credit form to determine the eligible credit to be allocated among the trust or estate and its beneficiaries. The portion of the eligible credit allocated to the trust or estate is calculated and carried to Form NC-478. The portion of the eligible credit allocated to the trust's or estate's beneficiaries will not be reflected on Form NC-478. Example 1 also applies to trusts and estates.

Example 1

An S corporation purchases and places in service in North Carolina equipment costing \$150,000 during tax year 2001. The S corporation has three shareholders. Shareholder 1 is a North Carolina resident and owns 50% of the corporation. Shareholder 2 is a nonresident who owns 20% of the corporation. This shareholder is not part of the composite return that is filed by the S corporation. Shareholder 3 is also a nonresident, owns 30% of the corporation, and is part of the composite return. The S corporation elects to apply the tax credit against income tax.

Step 1. Calculation of Eligible Credit Amount for Investing in Business Property for the Entity (From NC-478F, Part 1)

Line 1.	Cost of business property placed in service during 2001	\$150,000
Line 2.	Multiply Line 1 by 4.5%	6,750
Line 3.	Maximum credit	4,500
Line 4.	Eligible credit amount (lesser of line 2 or line 3)	4,500
Line 5.	Amount of each installment (Divide line 4 by the number 5)	\$900

Step 2. Allocating the Eligible Credit Amount and the Annual Installment to the Shareholders

Shareholder	1	2	3
Eligible Credit Amount of S-corporation	\$ 4,500	\$ 4,500	\$ 4,500
Installment Amount of S-Corporation	\$ 900	\$ 900	\$ 900
Percentage Ownership	50%	20%	30%
Eligible Credit Amount Allocated	\$ 2,250	\$ 900	\$ 1,350
Amount of Installment Allocated	\$ 450	\$ 180	\$ 270
Non-composite Installment Amount	\$ 450	\$ 180	\$ 0
Composite Installment Amount	\$ 0	\$ 0	\$ 270

Step 3. Completing Parts 2 and 3 of Form NC-478F and Lines 6 and 28 of Form NC-478 for the entity

Form NC-478F

Part 2, Line 1.	1st Installment of 2001 Credit	\$ 270
Part 3.	Eligible Credit Amount	\$ 1,350

Form NC-478

Part 1, Line 6.	Investing in Business Property	\$ 270
Part 4, Line 30.	Cost of business property placed in service during 2001 X percentage ownership (\$150,000 X 30%)	\$ 45,000

Note: Shareholders 1 and 2 must complete Form NC-478F, Part 2 and Part 3, and Form NC-478 separately to claim the credit that is passed through to the individual shareholders.

Example 2

A partnership purchases and places in service in North Carolina equipment costing \$150,000 during tax year 2001. The partnership has three partners. Partner 1 is a North Carolina resident and owns 70% of the partnership. Partner 2 is a nonresident who owns 20% of the partnership. The partnership does not pay tax on behalf of this partner. Partner 3 is also a nonresident, owns 10% of the partnership, and the partnership pays tax on behalf of this partner.

Step 1. Allocating the Investment Among the Partners

Partner	1	2	3
Percentage Ownership	70%	20%	10%
Cost of business property placed in service	\$ 150,000	\$ 150,000	\$ 150,000
Amount of Investment Allocated	\$ 105,000	\$ 30,000	\$ 15,000

Step 2. Calculation of Eligible Credit Amount for Investing in Business Property (From NC-478F, Part 1). Complete lines 1 through 5 for each partner and then enter the totals on NC-478F.

Partner 1

Line 1.	Cost of business property placed in service during 2001	\$105,000
Line 2.	Multiply Line 1 by 4.5%	4,725
Line 3.	Maximum credit	4,500
Line 4.	Eligible credit amount (lesser of line 2 or line 3)	4,500
Line 5.	Amount of each installment (Divide line 4 by the number 5)	\$900

Partner 2

Line 1.	Cost of business property placed in service during 2001	\$30,000
Line 2.	Multiply Line 1 by 4.5%	1,350
Line 3.	Maximum credit	4,500
Line 4.	Eligible credit amount (lesser of line 2 or line 3)	1,350
Line 5.	Amount of each installment (Divide line 4 by the number 5)	\$270

Partner 3

Line 1.	Cost of business property placed in service during 2001	\$15,000
Line 2.	Multiply Line 1 by 4.5%	675
Line 3.	Maximum credit	4,500
Line 4.	Eligible credit amount (lesser of line 2 or line 3)	675
Line 5.	Amount of each installment (Divide line 4 by the number 5)	\$135

Cumulative

Line 1.	Cost of business property placed in service during 2001	\$150,000
Line 2.	Multiply Line 1 by 4.5%	6,750
Line 3.	Maximum credit	N/A
Line 4.	Eligible credit amount (lesser of line 2 or line 3)	6,525
Line 5.	Amount of each installment (Divide line 4 by the number 5)	\$1,305

Step 3. Completing Parts 2 and 3 of Form NC-478F and Lines 6 and 30 of Form NC-478 for the Partnership

Form NC-478F

Part 2, Line 1.	1st Installment of 2001 Credit	\$ 135
Part 3.	Eligible Credit Amount	\$ 675

Form NC-478

Part 1, Line 6.	Investing in Business Property	\$ 135
Part 4, Line 30.	Cost of business property placed in service during 2001 X percentage ownership (\$150,000 X 10%)	\$15,000

Note: Partners 1 and 2 must complete Form NC-478F, Part 2 and Part 3, and Form NC-478 separately to claim the credit that is passed through to the individual partners.