

**North Carolina**

**Corporation Income and Business  
Franchise Taxes**

**Tax Year 2003**

**Statistics and Trends**



**Policy Analysis and  
Statistics Division**

**North Carolina**

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Franchise Taxes**

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**Policy Analysis and Statistics Division  
May 2006**

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## **INTRODUCTION**

This report contains statistics concerning business franchise and income taxes imposed on corporations and limited liability companies under the Revenue Laws of North Carolina. It is designed to provide legislators, public officials, tax professionals, researchers, and other interested citizens of North Carolina with information about the characteristics of corporate taxpayers and how those taxpayers contribute to the State's tax revenues. The report includes both historical series of data and detailed reports for tax year 2003. It was prepared by the Department of Revenue's Policy Analysis and Statistics Division.

This report is based upon data submitted by corporations and limited liability companies on the CD-405, CD-401S, and CD-425 forms. Not all of the information on the forms is scanned into the Department's Integrated Tax Administration System (ITAS), so the amount of information available for the report was limited. Because taxpayers file these forms on a schedule related to the period of their fiscal year, and because they may file for an extension, not all of the forms for tax year 2003 were processed until October 2005.

In October 2005, all of the data elements from these forms contained in ITAS were downloaded from the system for analysis. Some of the forms upon which the report data was based had been audited by that time, but others had not yet been subject to audit. As such, the data may reflect errors made by taxpayers. The Policy Analysis and Statistics Division did examine the downloaded data in order to correct data errors that resulted from scanning the returns into ITAS.

The Policy Analysis and Statistics Division began downloading corporation income and franchise tax data for analysis in 2003, starting with the 2001 tax year. As a result, only three tax years of data are available for trend analysis. Detailed information on the 2001 and 2002 tax years was published in the 2004 and 2005 editions of the *Statistical Abstract of North Carolina Taxes*, which are available on request. This report is available on the Department's website at: <http://www.dornrc.com/publications/>.

Questions regarding this report may be directed to Karl Knapp, Director of the Policy Analysis and Statistics Division, at (919) 733-7722.

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## **TAXES COVERED BY THIS REPORT**

The following descriptions of the General Business Franchise Tax and Corporation Income Tax reflect the tax law in effect for 2003. These descriptions are not official interpretations of the Revenue Laws and should not be relied upon as representing the position of the Secretary of Revenue.

### **FRANCHISE TAX**

The general business franchise tax is levied on business corporations doing business in the State (including those electing federal S Corporation status). The tax is imposed on the largest of three alternate asset bases. These bases are (a) the amount of the capital stock, surplus, and undivided profits apportioned to the State (using the apportionment formula for corporation income); (b) 55 % of appraised value of property in the State subject to local taxation; or (c) the book value of real and tangible personal property in the State, less any debt outstanding which was created to acquire or improve real property in the State. The tax is \$1.50 per \$1,000 of taxable assets.

Limited Liability Companies (LLC's) are exempt from the franchise tax, but companies that have a significant ownership interest in an LLC may be required to pay franchise tax on their attributable share of the assets of the LLC. Electric power, water, and sewer utility companies are not subject to the general business franchise tax, but instead pay a franchise tax based on their gross receipts. The utilities franchise tax is not covered by this publication.

The minimum franchise tax for companies covered by the tax is \$35. The tax on holding companies that receive 80% of their gross income from subsidiaries is capped at \$75,000 if the company uses the capital stock, surplus, and undivided profits base.

### **CORPORATION INCOME TAX**

The Corporation income tax applies to companies that do business in North Carolina and that do not elect S-corporation status. The calculation of taxable income begins with Federal Taxable Income before Net Operating Loss, less Special Deductions. Additions to income are required for items including taxes based on income, capital loss carry-over, certain royalties paid to related members, contributions, and expenses attributable to income not taxed. Deductions from income are allowed for items including U.S. obligation interest, capital loss not deducted on the Federal return, and certain royalty payments from related members.

The portion of this adjusted income that is subject to apportionment, less contributions to donees in other States, is apportioned to North Carolina based upon North Carolina's share of the corporation's property, payroll, and sales, with sales double-weighted in the formula. For several types of industries (utilities, construction contractors, securities dealers, loan companies, and corporations that receive more than 50% of their ordinary gross income from intangible property), apportionment is based only on the sales factor. Special apportionment rules apply to interstate carriers, railroads, and air and water transportation corporations. Income not subject to apportionment is allocated to North Carolina if the business activity generating the income is located in North Carolina.

Total income allocated to North Carolina may be reduced by the value of net economic loss, percentage depletion over cost depletion, and contributions to North Carolina donees. The net taxable income is taxed at a rate of 6.9%.

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S-corporations also must file returns at the corporation level, but the income tax is paid by shareholders through the individual income tax. S-corporations do sometimes make payments on behalf of nonresident shareholders, and these payments are treated as corporation income tax. As a result, information concerning the income and tax liabilities of S-corporations also is included in this report.

**C-CORPORATIONS**

Table 1.1 shows the distribution of returns by franchise tax base. Capital stock, surplus and undivided profits base was used on 45% of the 2003 tax year returns, followed by investment in tangible property base (19%), and appraised values in property base (10%). Twenty-seven percent of the returns listed no assets because: 1) the taxpayer was exempt from franchise tax; 2) the 2003 tax year return was a final return; or 3) the taxpayer incorrectly completed the form.

**Table 1.1  
C-Corporation Returns by Tax Base Utilized  
Tax Year 2003**

Franchise Taxable Amount	Number of C-Corporation Returns				Total
	No Assets Listed	Stock, Surplus & Profits	Investment in Tangible Property in N.C.	Appraised Value of Property in N.C.	
\$0-\$23,667	21,631	8,955	3,103	2,358	36,047
\$23,668-\$100,000	-	7,334	3,890	2,192	13,416
\$100,001-\$1,000,000	-	12,820	5,270	2,419	20,509
\$1,000,001-\$5,000,000	-	3,853	1,572	521	5,946
\$5,000,001-\$20,000,000	-	1,642	663	118	2,423
\$20,000,001-\$40,000,000	-	467	183	27	677
\$40,000,001+	-	626	227	25	878
<b>Total</b>	21,631	35,697	14,908	7,660	79,896

Note: Figures are based on both audited and unaudited returns.

Table 1.2 and Figure 1.3 provide the number of C-corporation returns and net franchise tax liability by tax base utilized. The greatest share of tax paid (74%) was under the capital stock, surplus and undivided profits base. The investment in tangible property and appraised value in property bases represented much smaller shares of the net tax liability.

**Table 1.2  
C-Corporation Net Franchise Tax Liability by Tax Base Utilized  
Tax Year 2003**

Franchise Taxable Amount	Net Tax Liability (\$)				Total
	No Assets Listed	Stock, Surplus & Profits	Investment in Tangible Property in N.C.	Appraised Value of Property in N.C.	
\$0-\$23,667	565,700	306,449	102,981	75,770	1,050,900
\$23,668-\$100,000	-	579,822	284,356	150,070	1,014,248
\$100,001-\$1,000,000	-	6,320,884	2,258,472	1,006,971	9,586,327
\$1,000,001-\$5,000,000	-	12,126,077	4,557,090	1,421,291	18,104,458
\$5,000,001-\$20,000,000	-	23,503,834	8,918,799	1,571,981	33,994,614
\$20,000,001-\$40,000,000	-	18,278,853	6,764,689	1,034,189	26,077,731
\$40,000,001+	-	120,234,686	33,266,551	3,325,404	156,826,641
<b>Total</b>	565,700	181,350,605	56,152,938	8,585,676	246,654,919

Note: Figures are based on both audited and unaudited returns.



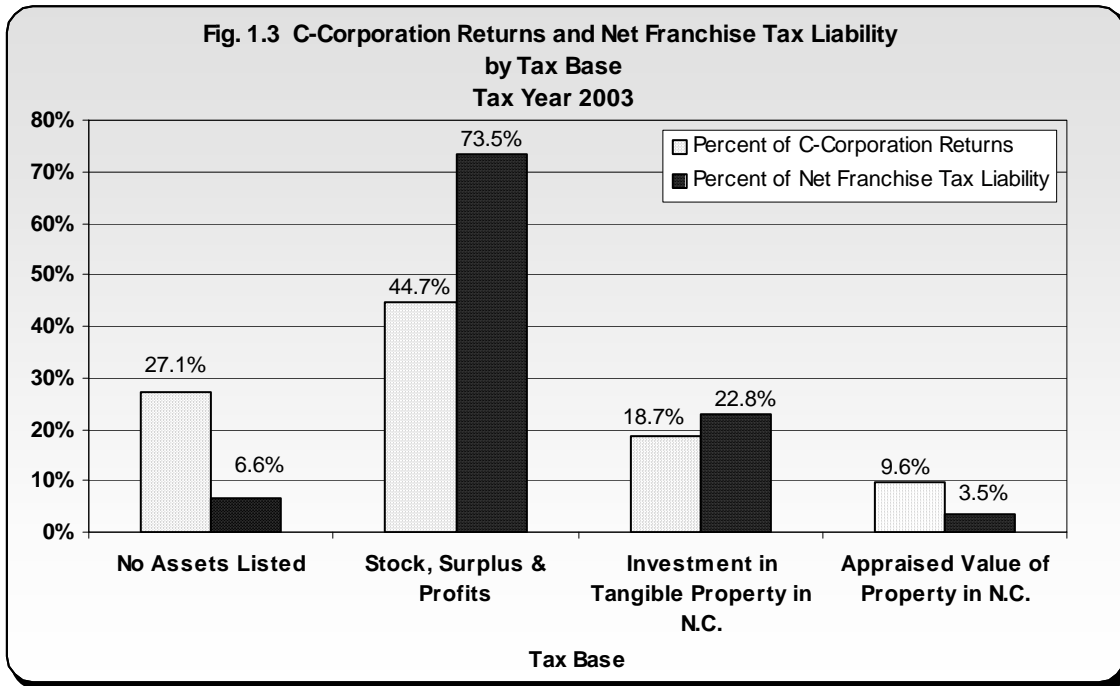


Table 1.4 and Figure 1.5 provide the distribution of C-corporation returns and net franchise tax liability. The top 5% of the returns, by taxable amount, paid 88% of the tax. Taxpayers with franchise taxable amount over \$40 million made up 1% of the returns, but paid 64% of net franchise tax.

**Table 1.4  
C-Corporation Returns and Net Franchise Tax Liability by Franchise Taxable Amount  
Tax Year 2003**

Franchise Taxable Amount	Number of Returns		Net Franchise Tax Liability (\$)	
	Number	Percent	Liability	Percent
\$0-\$23,667	36,047	45.1%	1,050,900	0.4%
\$23,668-\$100,000	13,416	16.8%	1,014,248	0.4%
\$100,001-\$1,000,000	20,509	25.7%	9,586,327	3.9%
\$1,000,001-\$5,000,000	5,946	7.4%	18,104,458	7.3%
\$5,000,001-\$20,000,000	2,423	3.0%	33,994,614	13.8%
\$20,000,001-\$40,000,000	677	0.8%	26,077,731	10.6%
\$40,000,001+	878	1.1%	156,826,641	63.6%
<b>Total</b>	<b>79,896</b>	<b>100.0%</b>	<b>246,654,919</b>	<b>100.0%</b>

Note: Figures are based on both audited and unaudited returns. Detail may not add to totals due to rounding or taxpayer error.

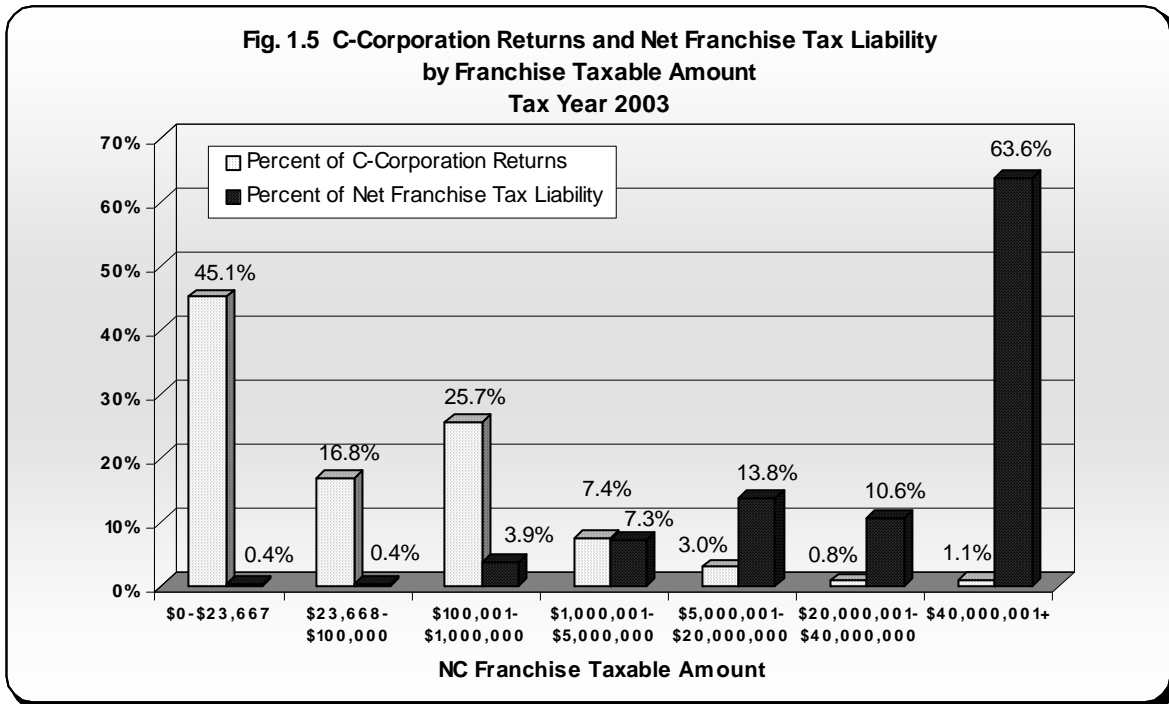


Table 1.6 and Figure 1.7 show the number of returns claiming franchise tax credits and amount of credits taken. Returns with franchise taxable amount greater than \$40 million, comprised of only 3.5% of the returns claiming credits, but claimed 82% of the credits.

**Table 1.6  
C-Corporation Returns Claiming Franchise Tax Credits and Amount of Credits Taken  
Tax Year 2003**

Franchise Taxable Amount	Number of Returns		Amount of Credits	
	Claiming Credits	Percent	Taken (\$)	Percent
\$0-\$23,667	1,174	10.1%	19,243	0.0%
\$23,668-\$100,000	2,258	19.4%	86,830	0.2%
\$100,001-\$1,000,000	5,052	43.4%	1,044,291	2.3%
\$1,000,001-\$5,000,000	1,792	15.4%	1,816,664	4.1%
\$5,000,001-\$20,000,000	727	6.2%	2,745,811	6.2%
\$20,000,001-\$40,000,000	238	2.0%	2,194,963	4.9%
\$40,000,001+	402	3.5%	36,619,620	82.2%
<b>Total</b>	<b>11,643</b>	<b>100.0%</b>	<b>44,527,422</b>	<b>100.0%</b>

Note: Figures are based on both audited and unaudited returns. Detail may not add to totals due to rounding or taxpayer error.

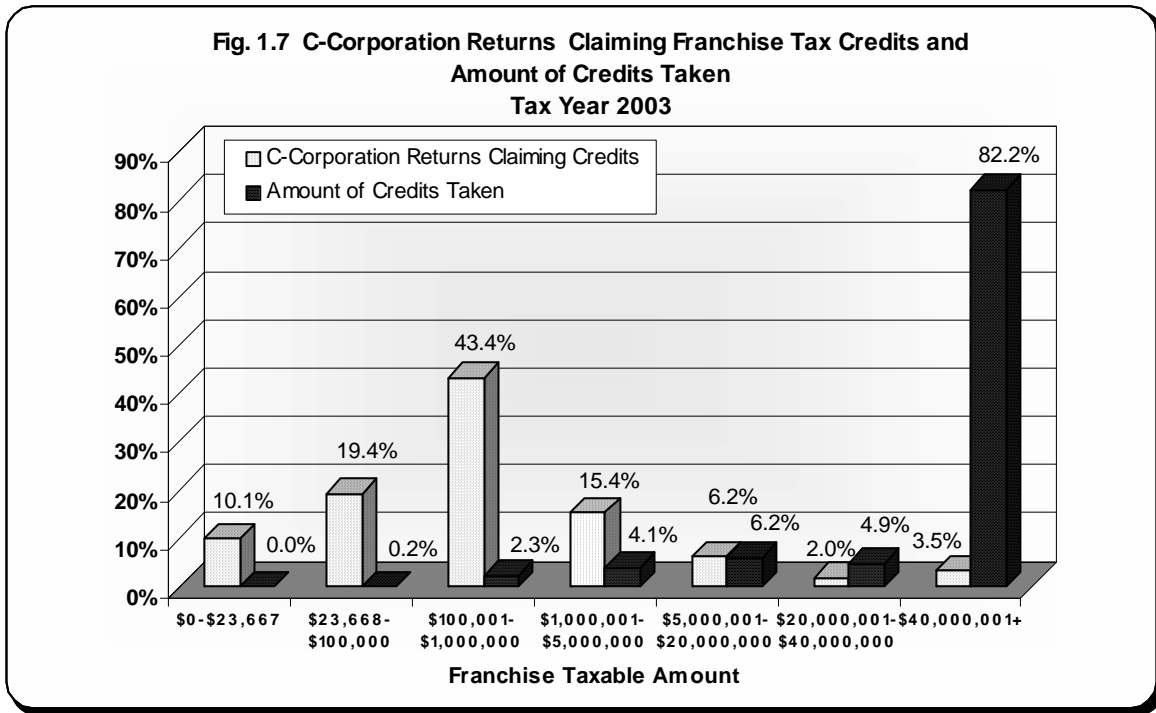


Table 1.8 shows the amount of franchise tax credits by credit type and franchise taxable amount.

**Table 1.8  
C-Corporation Franchise Tax Credits Taken by Credit Type and Franchise Taxable Amount  
Tax Year 2003**

Income Tax Credits	All Returns		Taxable Amount <\$5,000,001		Taxable Amount \$5,000,001+	
	Number of Credits *	Amount Claimed (\$)	Number of Credits	Amount Claimed (\$)	Number of Credits	Amount Claimed (\$)
Short Period Credit for Change in Income Year	415	3,577,999	307	249,237	108	3,328,762
Piped Natural Gas	5	31,781,162	w	w	w	w
Investing in Recycling Facilities	3	888,340	w	w	w	w
Lee Act and Other Limited Credits	11,286	37,531,102	10,000	2,800,342	1,286	34,730,760
<b>Credits Claimed</b>	<b>11,709</b>	<b>73,778,603</b>	<b>10,308</b>	<b>3,049,584</b>	<b>1,401</b>	<b>70,729,019</b>
<b>Credits Not Taken **</b>	--	29,251,181	--	82,556	--	29,168,625
<b>Credits Taken</b>	--	44,527,422	--	2,967,028	--	41,560,394

w Withheld to protect taxpayer confidentiality.

\* The total number of credits does not equal to the total number of returns claiming credits stated in Table 1.6.

\*\* Credits were not taken against tax because taxpayer's liability was less than the amount of credits claimed or because of taxpayer error.

Note: Confidentiality prevents the disclosure of the individual credits and credits amount. Figures are based on both audited and unaudited returns. Detail may not add to totals due to rounding or taxpayer error.

**S-CORPORATIONS**

Table 1.9 shows the distribution of returns by franchise tax base. Capital stock, surplus and undivided profits base was used on 38% of 2003 tax year returns, followed by investment in tangible property base (26%), and appraised values in property (15%). Twenty percent of the returns listed no assets because: 1) the taxpayer was exempt from franchise tax; 2) the 2003 tax year return was a final return; or 3) the taxpayer incorrectly completed the form.

**Table 1.9  
S-Corporation Returns by Tax Base Utilized  
Tax Year 2003**

Franchise Taxable Amount	Number of S-Corporation Returns				Total
	No Assets Listed	Stock, Surplus & Profits	Investment in Tangible Property in N.C.	Appraised Value of Property in N.C.	
\$0-\$23,667	22,868	18,438	9,196	6,683	57,185
\$23,668-\$100,000	-	11,244	9,730	4,523	25,497
\$100,001-\$1,000,000	-	10,324	8,312	4,357	22,993
\$1,000,001-\$5,000,000	-	1,807	1,291	838	3,936
\$5,000,001-\$20,000,000	-	319	337	99	755
\$20,000,001-\$40,000,000	-	34	25	10	69
\$40,000,001+	-	19	16	4	39
<b>Total</b>	22,868	42,185	28,907	16,514	110,474

Note: Figures are based on both audited and unaudited returns.

Table 1.10 and Figure 1.11 provide the number of S-corporation returns and net franchise tax liability by tax base utilized. The greatest share of tax paid (45%) was under the capital stock, surplus and undivided profits base. The investment in tangible property and appraised value in property bases represented smaller shares of the net tax liability.

**Table 1.10  
S-Corporation Net Franchise Tax Liability by Tax Base Utilized  
Tax Year 2003**

Franchise Taxable Amount	Net Tax Liability (\$)				Total
	No Assets Listed	Stock, Surplus & Profits	Investment in Tangible Property in N.C.	Appraised Value of Property in N.C.	
\$0-\$23,667	649,755	636,574	312,870	225,865	1,825,064
\$23,668-\$100,000	-	861,915	735,730	329,416	1,927,061
\$100,001-\$1,000,000	-	4,585,174	3,312,229	2,016,171	9,913,574
\$1,000,001-\$5,000,000	-	4,791,942	3,747,871	2,206,899	10,746,712
\$5,000,001-\$20,000,000	-	3,888,718	4,176,549	1,195,122	9,260,389
\$20,000,001-\$40,000,000	-	1,331,074	866,039	349,635	2,546,748
\$40,000,001+	-	1,919,971	1,486,816	329,093	3,735,880
<b>Total</b>	649,755	18,015,368	14,638,104	6,652,201	39,955,428

Note: Figures are based on both audited and unaudited returns.

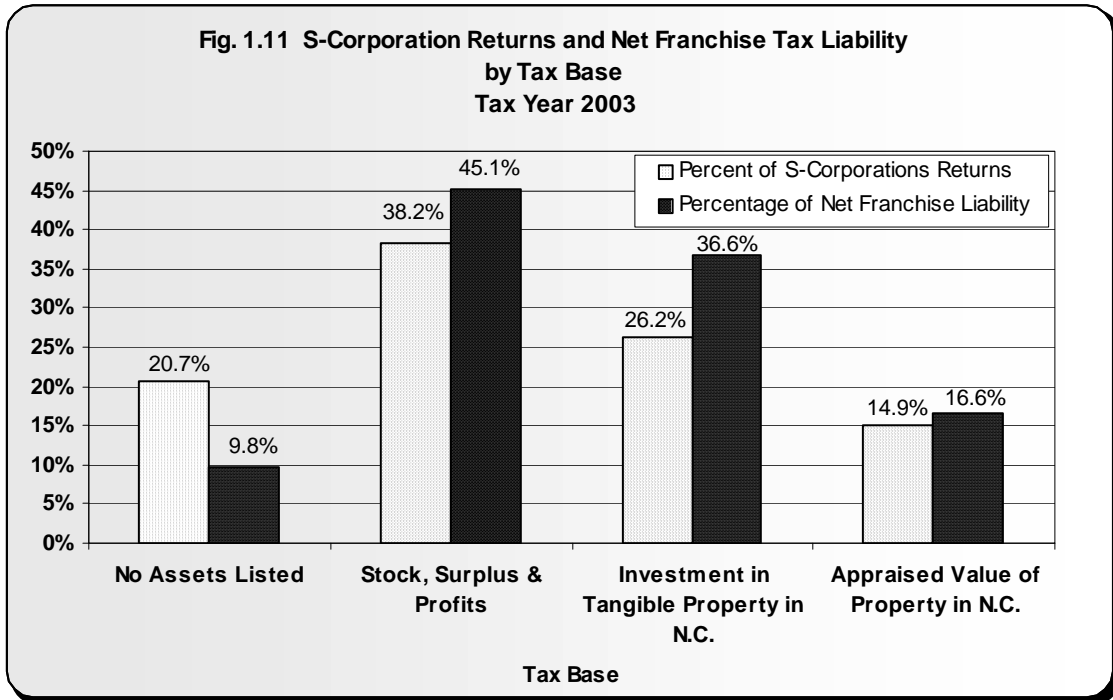


Table 1.12 and Figure 1.13 provide the distribution of S-corporation returns and net franchise tax liability. The top 5% of returns, by taxable amount, paid 66% of the tax. Taxpayers with franchise taxable amount between \$1 million and \$5 million, paid the largest amount of net franchise tax.

**Table 1.12  
S-Corporation Returns and Net Franchise Tax Liability by Franchise Taxable Amount  
Tax Year 2003**

Franchise Taxable Amount	Number of Returns		Net Franchise Tax Liability (\$)	
	Number	Percent	Liability	Percent
\$0-\$23,667	57,185	51.8%	1,825,064	4.6%
\$23,668-\$100,000	25,497	23.1%	1,927,061	4.8%
\$100,001-\$1,000,000	22,993	20.8%	9,913,574	24.8%
\$1,000,001-\$5,000,000	3,936	3.6%	10,746,712	26.9%
\$5,000,001-\$20,000,000	755	0.7%	9,260,389	23.2%
\$20,000,001-\$40,000,000	69	0.1%	2,546,748	6.4%
\$40,000,001+	39	0.0%	3,735,880	9.4%
<b>Total</b>	<b>110,474</b>	<b>100.0%</b>	<b>39,955,428</b>	<b>100.0%</b>

Note: Figures are based on both audited and unaudited returns. Detail may not add to totals due to rounding or taxpayer error.

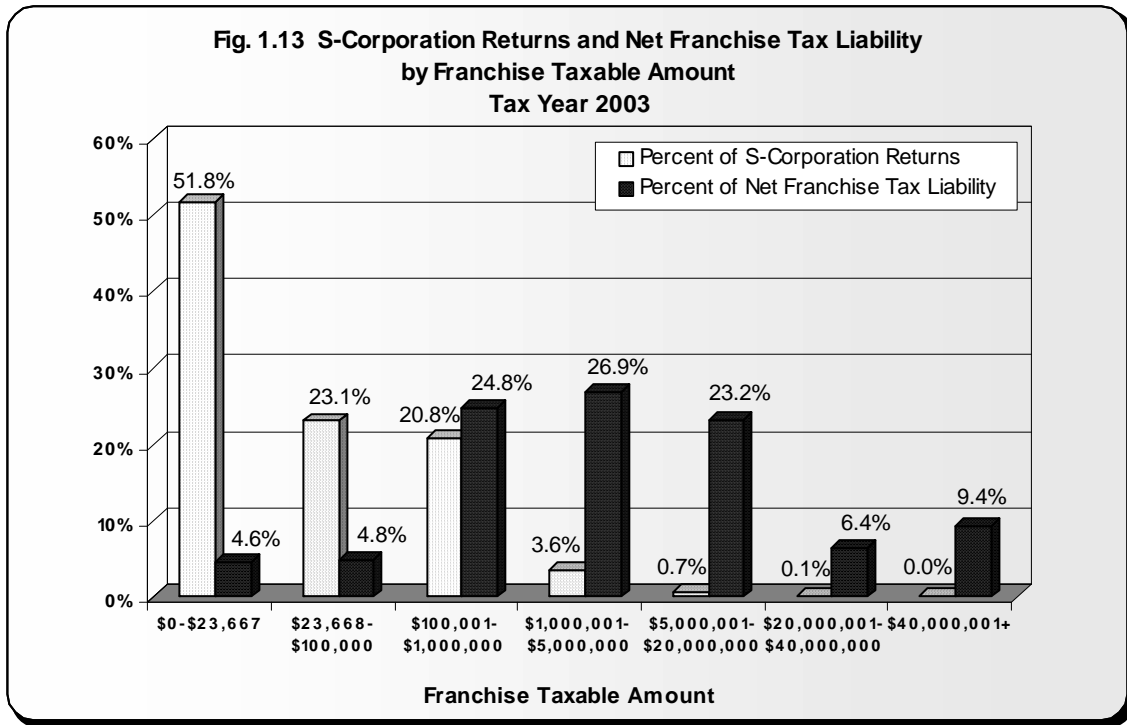


Table 1.14 and Figure 1.15 show the number of returns claiming franchise tax credits and amount of credits taken. Returns with a franchise taxable amount between \$1 million and \$5 million comprised 16% of the returns claiming credits and claimed 36% of the credits.

**Table 1.14  
S-Corporation Returns Claiming Franchise Tax Credits and Amount of Credits Taken  
Tax Year 2003**

Franchise Taxable Amount	Number of Returns Claiming Credits		Amount of Credits Taken (\$)	
	Number	Percent	Amount	Percent
\$0-\$23,667	1,451	15.0%	22,520	0.6%
\$23,668-\$100,000	2,191	22.6%	77,721	2.0%
\$100,001-\$1,000,000	4,021	41.4%	797,338	20.7%
\$1,000,001-\$5,000,000	1,531	15.8%	1,365,415	35.5%
\$5,000,001-\$20,000,000	440	4.5%	970,578	25.2%
\$20,000,001-\$40,000,000	41	0.4%	183,975	4.8%
\$40,000,001+	28	0.3%	433,142	11.2%
<b>Total</b>	<b>9,703</b>	<b>100.0%</b>	<b>3,850,689</b>	<b>100.0%</b>

Note: Figures are based on both audited and unaudited returns. Detail may not add to totals due to rounding or taxpayer error.

**SECTION I  
FRANCHISE TAX**

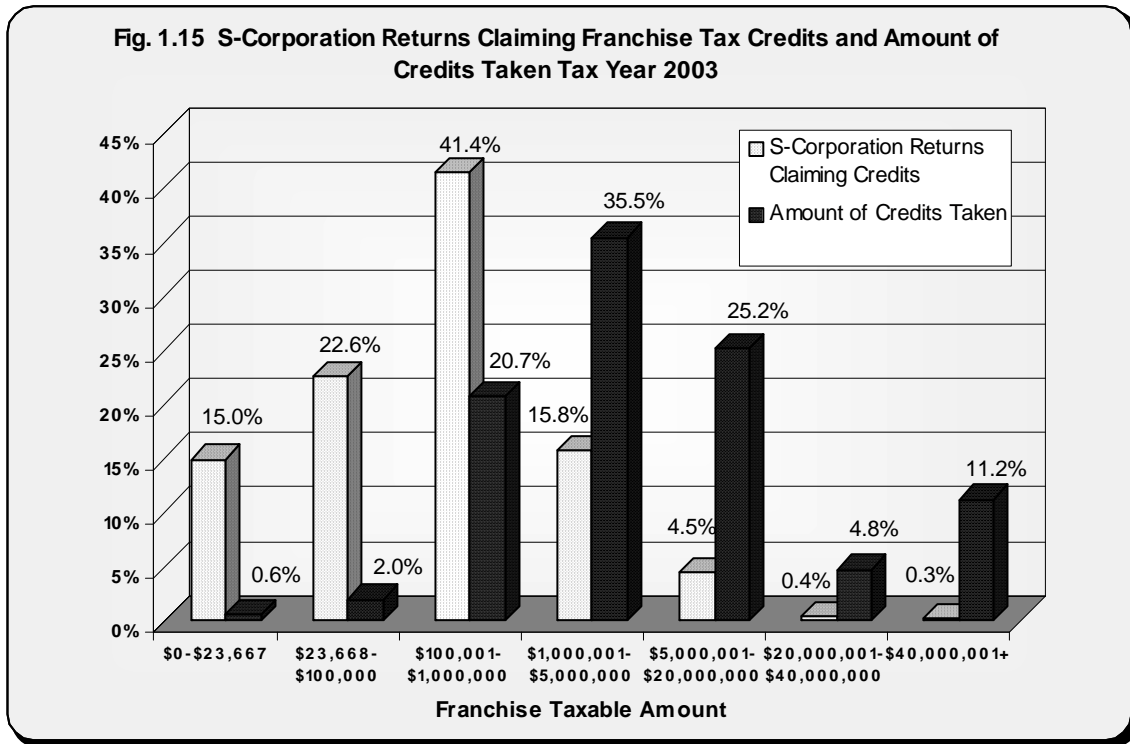


Table 1.16 shows the amount of franchise tax credits by credit type and franchise taxable amount.

**Table 1.16  
S-Corporation Franchise Tax Credits Taken by Credit Type and Franchise Taxable Amount  
Tax Year 2003**

Income Tax Credits	All Returns		Taxable Amount <\$5,000,001		Taxable Amount \$5,000,001+	
	Number of Credits*	Amount Claimed (\$)	Number of Credits	Amount Claimed (\$)	Number of Credits	Amount Claimed (\$)
Short Period Credit for Change in Income Year	109	73,360	104	47,443	5	25,917
Lee Act and Other Limited Credits	9,628	3,786,432	9,121	2,228,058	507	1,558,374
Piped Natural Gas/Investing in Recycling Facilities	4	7,952	w	w	w	w
<b>Credits Claimed</b>	<b>9,741</b>	<b>3,867,744</b>	<b>9,228</b>	<b>2,275,538</b>	<b>513</b>	<b>1,592,206</b>
<b>Credits Not Taken **</b>	--	17,055	--	12,544	--	4,511
<b>Credits Taken</b>	--	<b>3,850,689</b>	--	<b>2,262,994</b>	--	<b>1,587,695</b>

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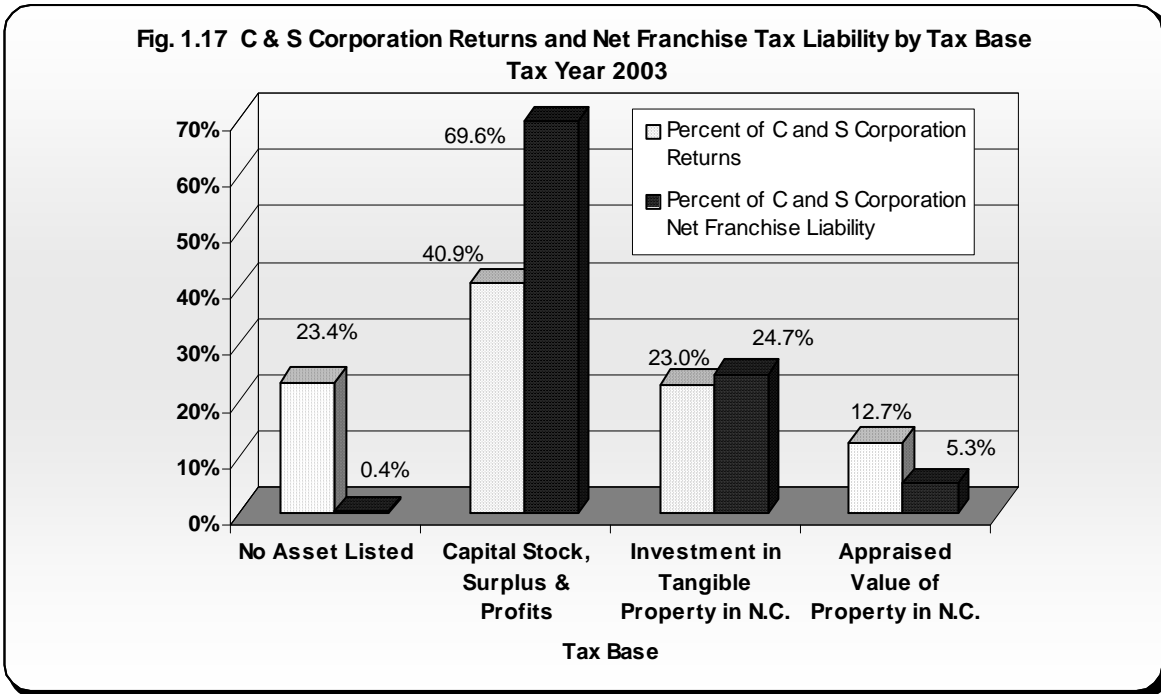
\* The total number of credits does not equal to the total number of returns claiming credits stated in Table 1.14.

\*\* Credits were not taken against tax because taxpayer's liability was less than the amount of credits claimed or because of taxpayer error.

Note: Confidentiality prevents the disclosure of the individual credits and credits amount. Figures are based on both audited and unaudited returns. Detail may not add to totals due to rounding or taxpayer error.

**C & S CORPORATIONS COMBINED**

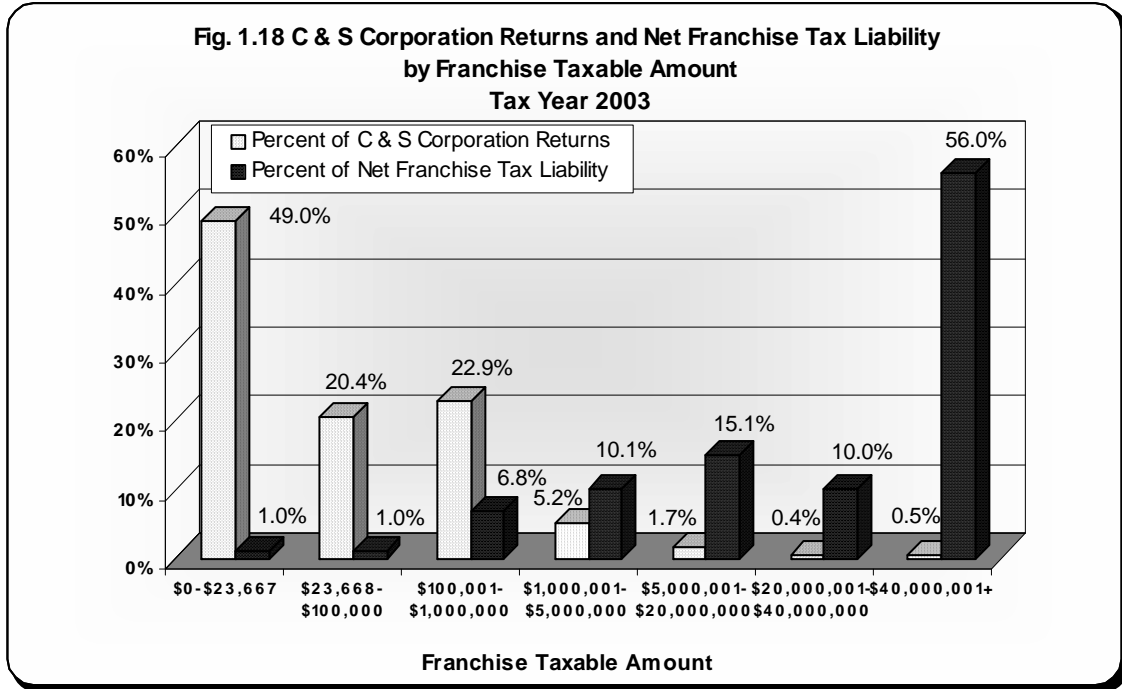
Figure 1.17 shows the number of returns and net franchise tax liability for all C and S corporations combined. The largest amount of net franchise tax was paid by the returns having capital stock, surplus and profits as the tax base. Twenty-three percent of the returns listed no assets because: 1) the taxpayer was exempt from franchise tax; 2) the 2003 tax year return was a final return; 3) or the taxpayer incorrectly completed the form.





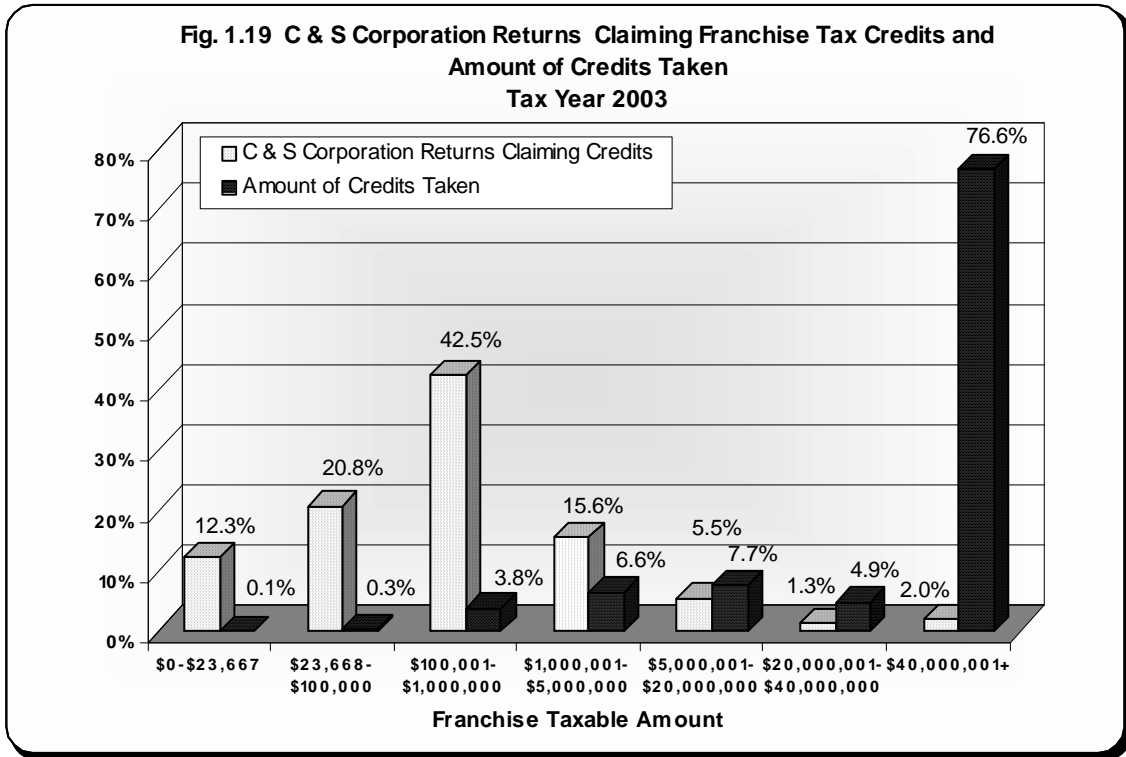
**SECTION I  
FRANCHISE TAX**

Figure 1.18 shows the number of C and S corporation returns and net franchise tax liability. The top 3% of returns, by taxable amount, paid 81% of the tax. Taxpayers with franchise taxable amount over \$40 million made up 1% of the returns, but paid 56% of net franchise tax.



**SECTION I  
FRANCHISE TAX**

Figure 1.19 shows the number of C and S corporation returns claiming franchise tax credits and the amount of credits claimed. Corporations with over \$40 million as their franchise taxable amount claimed the greatest amount of credits.



**C-CORPORATIONS**

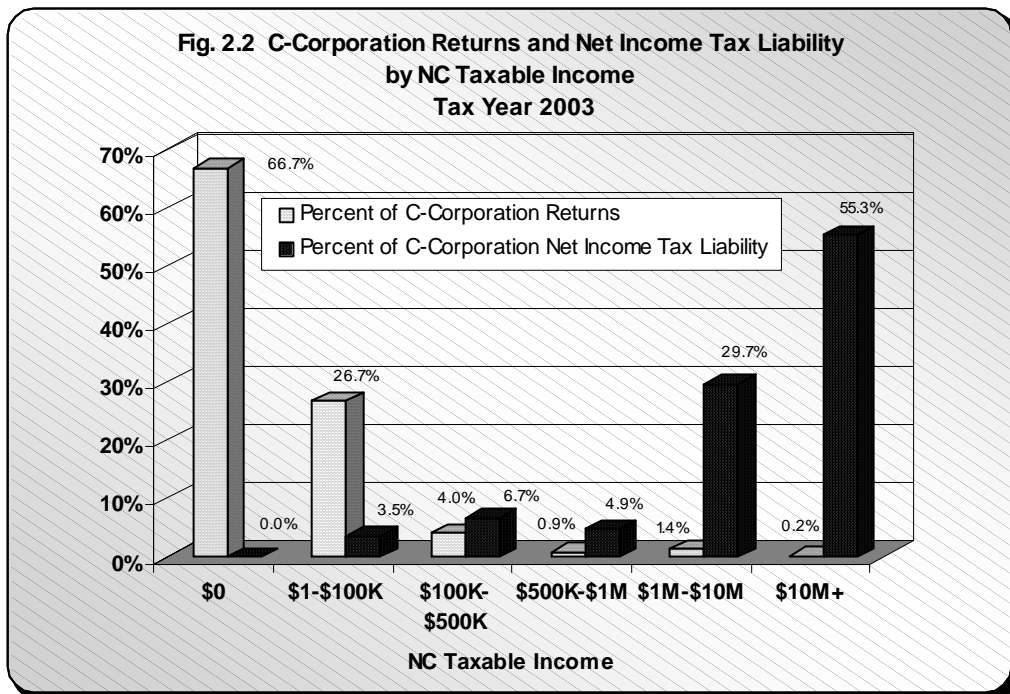
**Table 2.1  
C-Corporation Returns and Net Income Tax Liability by NC Taxable Income  
Tax Year 2003**

NC Taxable Income	Number of Returns	Percent	Net Income Tax Liability * [\$]	Percent
\$0 **	53,308	66.72%	--	--
\$1-\$15,000	13,397	16.77%	3,776,491	0.52%
\$15,001-30,000	3,156	3.95%	4,519,503	0.62%
\$30,001-\$50,000	2,256	2.82%	5,788,197	0.80%
\$50,001-\$100,000	2,517	3.15%	11,676,194	1.61%
\$100,001-\$500,000	3,218	4.03%	48,488,171	6.67%
\$500,001-\$1,000,000	739	0.92%	35,376,798	4.87%
\$1,000,001-\$10,000,000	1,151	1.44%	215,641,627	29.66%
\$10,000,001+	154	0.19%	401,674,284	55.26%
<b>Total</b>	<b>79,896</b>	<b>100.00%</b>	<b>726,941,265</b>	<b>100.00%</b>

\* Net tax liability is prior to the application of the refundable credit in G.S. 105-129.28. Because this credit is limited to a very small number of taxpayers, including its effects would violate taxpayer confidentiality.

\*\* Includes both returns with no Federal Taxable Income and those that have Federal Taxable Income, but no NC Taxable Income.

Note: Figures are based on both audited and unaudited returns. Detail may not add to totals due to rounding or taxpayer error.



## SECTION II INCOME TAX

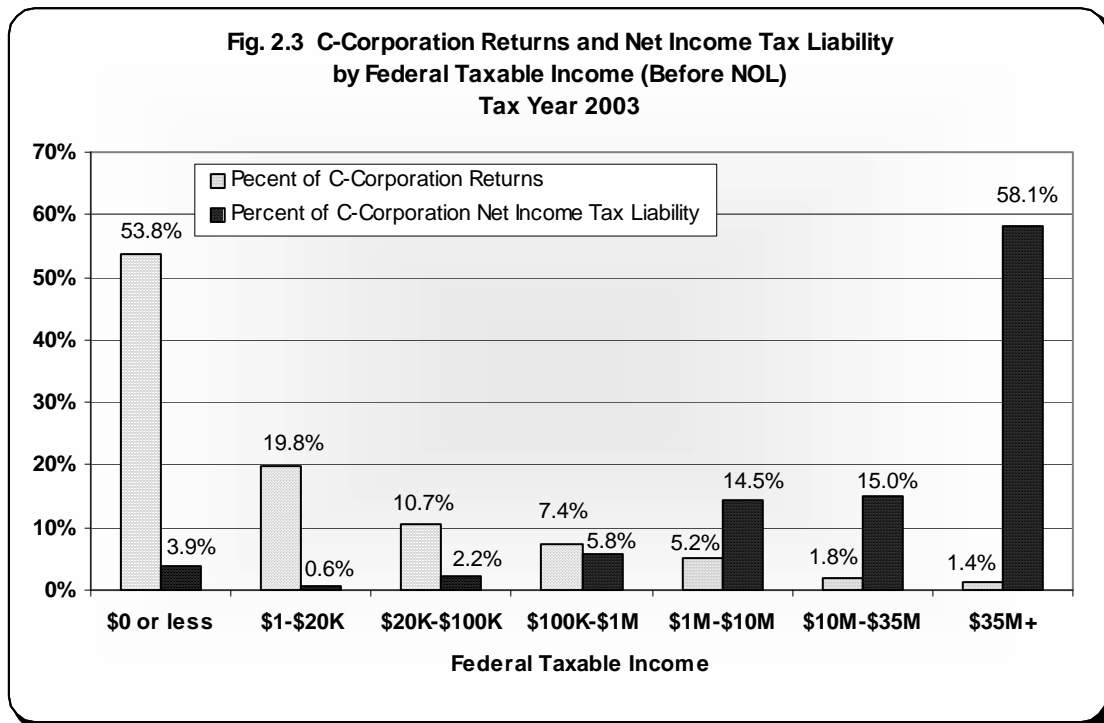
Table 2.1 and Figure 2.2 show the distribution of returns and net income tax liability by taxable income. Some corporations have no federal taxable income but pay North Carolina taxes because provisions of the State tax code require that they add back certain amounts, such as income taxes paid, to their taxable income. Other corporations have a positive federal taxable income but pay no tax in North Carolina because some of their income is not subject to taxation by states or because provisions of the State tax code allow them to reduce their taxable income to zero.

Although almost 80,000 C-corporations were subject to the corporation income tax in tax year 2003, only one-third of the corporations that filed a return actually had a tax liability.

Two-thirds of the C-corporation returns filed for tax year 2003 had no North Carolina Taxable Income. Within this group of 53,308 corporations, 41,384 (78%) had a Federal Taxable Income of zero or less. The remaining C-corporations had positive Federal Taxable Income, but their adjustments to income, non-apportionable income allocated to other States, net economic loss, or other reductions reduced the taxable income to zero.

Among those C-corporations that did have a tax liability, over half had NC Taxable Income of less than \$15,000. Less than 1% of the total C-corporation income tax liability was attributable to this group of corporations. At the other end of the spectrum, corporations with a North Carolina Taxable Income of over \$1 million represented nearly 85% of the C-corporation income tax liability, but made up less than 2% of the corporations filing returns. Over half of the total corporation income tax liability was attributable to the 154 corporations with North Carolina Taxable Income of over \$10 million.

Figure 2.3 provides the distribution of returns and tax liability by federal taxable income. Corporations with federal taxable income over \$35 million paid the largest amount of net income tax.



**SECTION II  
INCOME TAX**

Table 2.4 and Figure 2.6 show the distribution of returns by apportionment percentage and federal taxable income. A corporation's apportionment percentage is used to determine how much of the corporation's income may be taxed by North Carolina. The percentage is based on how much of the corporation's property, payroll, and sales are in North Carolina, with sales being given a double weight.

**Table 2.4  
C-Corporation Returns by Federal Taxable Income (Before NOL) and  
Apportionment Percentage  
Tax Year 2003**

Federal Taxable Income	NC Apportionment Percentage					Total
	<5%	5% - 24%	25% - 49%	50% - 99%	100%	
\$0 or less	11,976	1,917	717	1,132	27,259	43,001
\$1 - \$20,000	803	243	126	299	14,332	15,803
\$20,001 - \$100,000	1,112	381	177	377	6,476	8,523
\$100,001 - \$ 1,000,000	2,360	650	262	495	2,121	5,888
\$1,000,001 - \$10,000,000	2,889	580	200	194	277	4,140
\$10,000,001-\$35,000,000	1,159	195	46	32	23	1,455
\$35,000,001+	928	123	22	10	3	1,086
<b>Total</b>	<b>21,227</b>	<b>4,089</b>	<b>1,550</b>	<b>2,539</b>	<b>50,491</b>	<b>79,896</b>

Note: Figures are based on unaudited returns.

**Table 2.5  
C-Corporation Net Income Tax Liability by Federal Taxable Income (Before NOL) and  
Apportionment Percentage \*  
Tax Year 2003**

Federal Taxable Income	NC Apportionment Percentage					Total
	<5% [\$]	5% - 24% [\$]	25% - 49% [\$]	50% - 99% [\$]	100% [\$]	
\$0 or less	7,270,434	4,904,396	492,359	12,740,092	2,626,179	28,033,460
\$1 - \$20,000	153,572	41,988	33,234	168,486	3,937,431	4,334,711
\$20,001 - \$100,000	167,313	226,194	182,347	910,054	14,486,090	15,971,998
\$100,001 - \$ 1,000,000	876,038	2,037,049	2,480,216	6,723,130	30,267,819	42,384,252
\$1,000,001 - \$10,000,000	9,803,975	15,119,768	15,051,740	25,701,106	39,484,914	105,161,503
\$10,000,001-\$35,000,000	21,914,289	23,129,642	17,173,915	23,250,128	23,569,401	109,037,375
\$35,000,001+	126,167,298	166,172,966	48,588,446	64,625,117	16,464,139	422,017,966
<b>Total</b>	<b>166,352,919</b>	<b>211,632,003</b>	<b>84,002,257</b>	<b>134,118,113</b>	<b>130,835,973</b>	<b>726,941,265</b>

\* Net tax liability is prior to the application of the refundable credit in G.S. 105-129.28. Because this credit is limited to a very small number of taxpayers, including its effects would violate taxpayer confidentiality.

Note: Figures are based on both audited and unaudited returns.

Table 2.5 and Figure 2.6 show the net income tax liability by apportionment percentage and federal taxable income. C-corporations that operate exclusively within North Carolina, and so apportion all of their income to the state, made up over 60% of the returns filed for tax year 2003. These corporations accounted for less than 18% of the corporation income tax liability, however, largely because the majority of them had Federal Taxable Income of zero or less.

The State receives a significant portion of its corporation income taxes from a small number of large multi-state firms. Over 40% of corporation income tax was attributable to 1,051 corporations with Federal Taxable Income of over \$35 million that apportioned less than 25% of their income to North Carolina. The economic success, sales patterns, and tax planning decisions of this relatively small number of large, multi-state companies can significantly affect North Carolina's corporation income tax revenues.

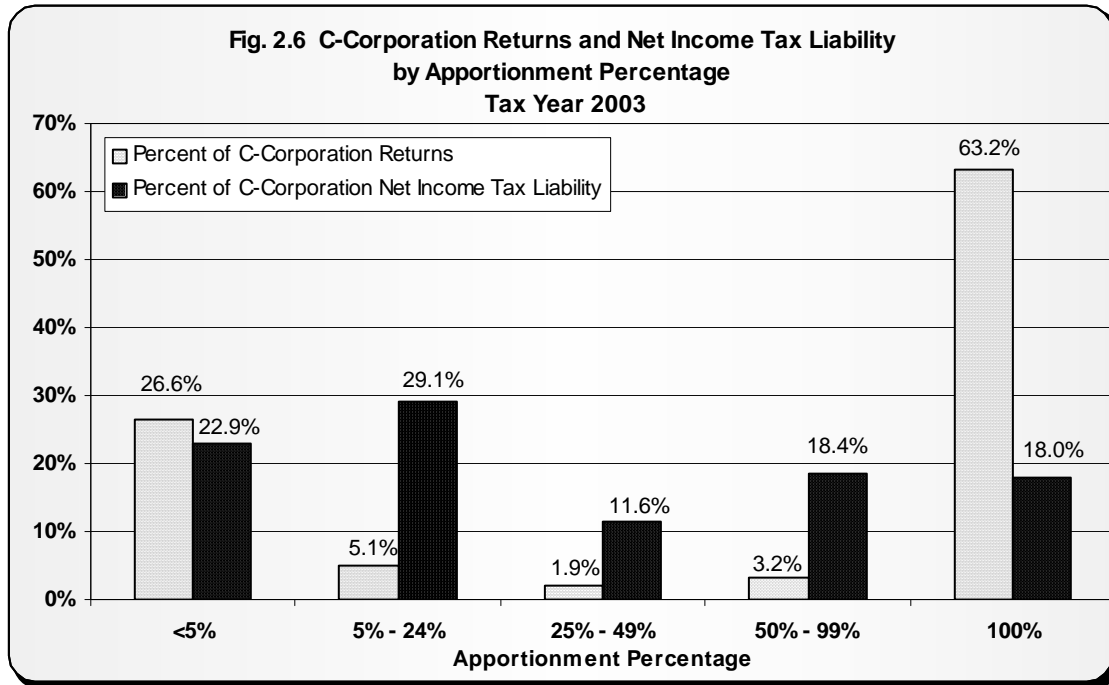


Table 2.7 shows the income tax calculation detail by federal taxable income. Out of almost 80,000 returns, 33% were taxable returns and 67% were nontaxable returns. Taxable returns with a federal taxable income over \$50 million, made up only 2% of the returns but accounted for 85% of the federal taxable income before NOL and 54% of the tax liability.

Of the 43,001 returns with federal taxable income of zero or less, 1,579 had a North Carolina tax liability as a result of adjustment to income or the allocation of nonapportionable income to North Carolina. Of the remaining 36,895 returns that did show a federal taxable income, 12,089 did not have a net North Carolina liability. Within this group, 2,748 did not apportion any income to North Carolina. Of those apportioning income to North Carolina, 8,504 did not have any tax liability because their taxable income was reduced to zero as a result of deductions for Net Economic Loss.

**SECTION II  
INCOME TAX**

**Table 2.7  
C-Corporation Income Tax Calculation Detail by Federal Taxable Income (Before NOL)  
Tax Year 2003**

			(+)	(-)	(-)	(-)	(=)
<b>FTI of Corporation</b>	<b>Number of Returns</b>	<b>Federal Taxable Income, Before NOL</b>	<b>Adjustments to Federal Income</b>	<b>Contributions to Donees Outside NC</b>	<b>Nonapportionable Income</b>	<b>Reduction Due To Apportionment</b>	<b>Income Apportioned to NC</b>
		[\$]	[\$]	[\$]	[\$]	[\$]	[\$]
<b>Taxable Returns</b>							
\$0 or less	1,579	(8,706,439,441)	16,123,473,100	140,934,456	54,254,054	6,734,634,523	487,294,072
\$1-\$20,000	10,174	61,248,801	77,560,552	2,836,722	619,040	62,285,748	73,067,895
\$20,001-\$100,000	5,930	283,573,230	188,958,827	1,499,831	3,121,482	198,004,025	269,902,676
\$100,001-\$1,000,000	3,982	1,413,524,602	446,949,426	9,443,617	20,444,950	1,139,282,217	691,303,244
\$1,000,001-\$10,000,000	2,849	10,624,921,560	2,846,820,476	58,183,921	73,398,505	11,611,211,776	1,728,947,826
\$10,000,001-\$50,000,000	1,275	28,500,065,880	6,318,189,901	171,532,810	207,263,879	32,206,611,889	2,232,847,151
\$50,000,001+	596	178,826,483,614	10,002,456,914	1,335,011,861	2,529,774,516	178,593,454,825	6,370,699,408
<b>Total, Taxable</b>	<b>26,385</b>	<b>211,003,378,246</b>	<b>36,004,409,196</b>	<b>1,719,443,218</b>	<b>2,888,876,426</b>	<b>230,545,485,003</b>	<b>11,854,062,272</b>
<b>Nontaxable Returns</b>							
\$0 or less	41,422	(268,641,610,548)	16,918,078,007	43,887,724	1,672,093,643	(242,199,472,133)	(11,047,857,560)
More than \$0	12,089	82,751,650,316	(18,809,297,677)	341,198,215	1,984,441,576	60,029,638,984	1,477,955,238
<b>Total, Nontaxable</b>	<b>53,511</b>	<b>(185,889,960,232)</b>	<b>(1,891,219,670)</b>	<b>385,085,939</b>	<b>3,656,535,219</b>	<b>(182,169,833,149)</b>	<b>(9,569,902,322)</b>

		(+)	(-)	(-)	(-)	(=)	(6.9%)	(-)	(=)
<b>FTI of Corporation</b>	<b>Income Apportioned to NC</b>	<b>Nonapportionable Income Allocated to NC</b>	<b>Percentage Depletion Over Cost Depletion</b>	<b>Net Economic Loss</b>	<b>Contributions to NC Donees</b>	<b>Net Taxable Income</b>	<b>Computed Income Tax</b>	<b>Tax Credits</b>	<b>Net Tax Liability *</b>
	[\$]	[\$]	[\$]	[\$]	[\$]	[\$]	[\$]	[\$]	[\$]
<b>Taxable Returns</b>									
\$0 or less	487,294,072	4,136,771	12,917,297	7,847,855	1,416,207	469,287,300	32,380,852	4,347,392	28,033,460
\$1-\$20,000	73,067,895	302,511	13,652	6,065,547	744,704	66,547,889	4,591,908	257,197	4,334,711
\$20,001-\$100,000	269,902,676	1,062,930	-	23,189,051	2,348,027	245,427,628	16,933,272	961,274	15,971,998
\$100,001-\$1,000,000	691,303,244	7,826,160	1,637	53,144,791	4,565,296	641,417,680	44,257,813	1,873,562	42,384,252
\$1,000,001-\$10,000,000	1,728,947,826	6,500,766	2,094,045	110,935,271	8,124,429	1,614,294,847	111,386,341	6,224,838	105,161,503
\$10,000,001-\$50,000,000	2,232,847,151	44,832,714	294,005	134,833,028	10,711,184	2,131,841,648	147,097,080	9,959,680	137,137,400
\$50,000,001+	6,370,699,408	(16,252,267)	7,878,190	120,639,916	45,279,173	6,180,651,933	426,464,988	32,547,047	393,917,941
<b>Total, Taxable</b>	<b>11,854,062,272</b>	<b>48,409,585</b>	<b>23,198,826</b>	<b>456,655,459</b>	<b>73,189,020</b>	<b>11,349,468,925</b>	<b>783,112,254</b>	<b>56,170,990</b>	<b>726,941,265</b>
<b>Nontaxable Returns</b>									
\$0 or less	(11,047,857,560)	(36,863,289)	25,753,271	9,824,672,501	4,849,160	(20,939,943,176)	813	813	-
More than \$0	1,477,955,238	(10,178)	15,816,097	5,843,858,813	37,202,976	(4,416,925,386)	8,945	8,945	-
<b>Total, Nontaxable</b>	<b>(9,569,902,322)</b>	<b>(36,873,467)</b>	<b>41,569,368</b>	<b>15,668,531,314</b>	<b>42,052,136</b>	<b>(25,356,868,562)</b>	<b>9,758</b>	<b>9,758</b>	<b>-</b>

\* Net tax liability is prior to the application of the refundable credit in G.S. 105-129.28. Because this credit is limited to a very small number of taxpayers, including its effects would violate taxpayer confidentiality.

Note: Figures are based on both audited and unaudited returns. Detail may not add to totals due to rounding or taxpayer error.

**SECTION II  
INCOME TAX**

Table 2.8 and 2.9 show the distribution of taxable returns and income tax credits taken by tax credit as a percent of tax and federal taxable income. Ninety-five percent of the returns did not take any income tax credit. Forty-three percent of the returns taking credits had over 40% of their tax relieved by the income tax credits. These returns accounted for 37% of the total credits taken.

**Table 2.8  
C-Corporation Returns by Income Tax Credits as a Percentage of Tax  
Tax Year 2003**

Federal Taxable Income	Income Tax Credits as a Percentage of Tax						Total
	0%	0%-4.9%	5%-9.9%	10%-19.9%	20%-39.9%	40%+	
\$0 or less	42,729	19	12	18	24	199	43,001
\$1 - \$20,000	14,749	79	48	89	126	712	15,803
\$20,001- \$100,000	7,300	237	166	203	206	411	8,523
\$100,001 - \$ 1,000,000	5,242	227	131	109	79	100	5,888
\$1,000,001 - \$10,000,000	3,895	101	31	22	24	67	4,140
\$10,000,001-\$35,000,000	1,606	25	10	25	14	36	1,716
\$50,000,001+	754	22	7	9	11	22	825
<b>Total</b>	<b>76,275</b>	<b>710</b>	<b>405</b>	<b>475</b>	<b>484</b>	<b>1,547</b>	<b>79,896</b>

Note: The table does not include the refundable credit in G.S. 105-129.28. Because this credit is limited to a very small number of taxpayers, including its effects would violate taxpayer confidentiality. Figures are based on both audited and unaudited returns.

**Table 2.9  
C-Corporation Tax Credits for Taxable Returns Income Tax Credits as a Percentage of Tax  
Tax Year 2003**

Federal Taxable Income	Income Tax Credits as a Percentage of Tax						Total
	0% [\$]	0%-4.9% [\$]	5%-9.9% [\$]	10%-19.9% [\$]	20%-39.9% [\$]	40%+ [\$]	
\$0 or less	-	20,929	943,227	15,990	658,695	2,709,364	4,348,205
\$1 - \$20,000	-	1,672	3,793	15,350	40,428	196,680	257,923
\$20,001- \$100,000	-	26,285	54,309	150,182	237,355	501,362	969,493
\$100,001 - \$ 1,000,000	-	142,342	182,419	214,887	325,057	1,008,857	1,873,562
\$1,000,001 - \$10,000,000	-	192,305	338,322	261,884	863,300	4,569,027	6,224,838
\$10,000,001-\$35,000,000	-	235,916	176,001	1,946,363	1,561,663	6,039,737	9,959,680
\$50,000,001+	-	543,646	2,235,935	7,839,656	15,682,005	6,245,805	32,547,047
<b>Total</b>		<b>1,163,095</b>	<b>3,934,006</b>	<b>10,444,312</b>	<b>19,368,503</b>	<b>21,270,832</b>	<b>56,180,748</b>

Note: The table does not include the refundable credit in G.S. 105-129.28. Because this credit is limited to a very small number of taxpayers, including its effects would violate taxpayer confidentiality. Figures are based on both audited and unaudited returns.

Figure 2.10 shows income tax credits by federal taxable income for North Carolina taxable returns. Corporations with federal taxable income over \$50 million took over half of the tax credits.



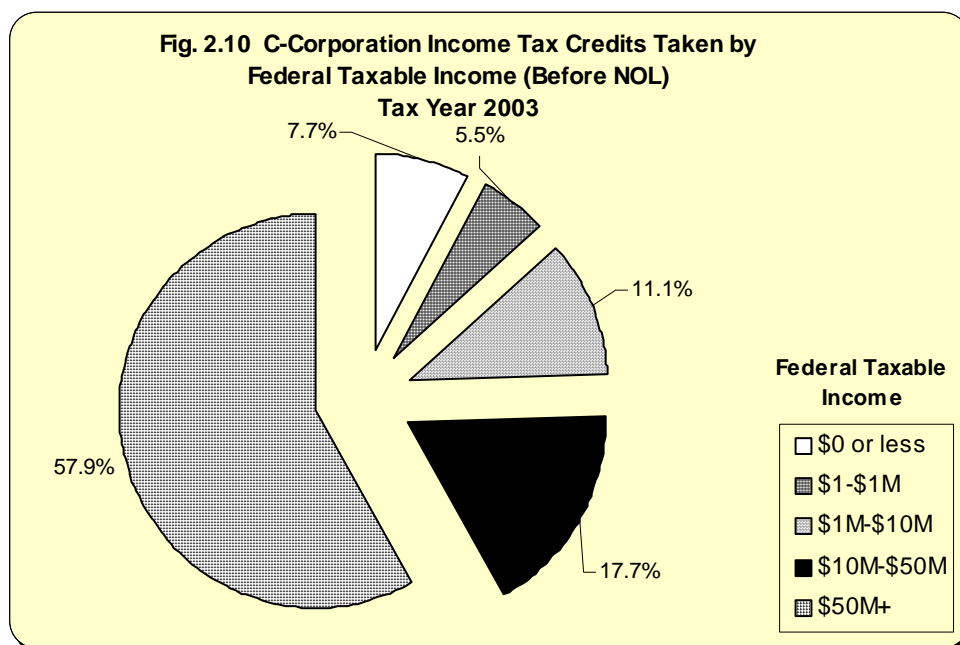


Table 2.11 provides the distribution of income tax credits by credit type and federal taxable income. Corporations with federal taxable income over \$1 million took 90% of the credits. The most claimed credits were in the category, Lee Act and Other Limited Credits.

**Table 2.11**  
**C-Corporation Income Tax Credits by Credit Type and Federal Taxable Income (Before NOL)**  
**Tax Year 2003**

Income Tax Credits	All Returns		FTI <\$1,000,001		FTI \$1,000,001+	
	Number of Credits *	Amount Claimed (\$)	Number of Credits	Amount Claimed (\$)	Number of Credits	Amount Claimed (\$)
Rehabilitating a Historic Structure	16	3,148,940	6	239,487	10	2,909,453
Savings and Loan Supervisory Fees	14	157,804	6	19,218	8	138,586
Carryover from Previous Years Credits	8	1,757,168	5	487,896	3	1,269,272
Lee Act and Other Limited Credits	3,565	48,882,783	3,159	5,162,134	406	43,720,649
Others **	37	8,370,470	25	2,747,386	12	5,623,084
<b>Credits Claimed ***</b>	<b>3,640</b>	<b>62,317,165</b>	<b>3,201</b>	<b>8,656,121</b>	<b>439</b>	<b>53,661,044</b>
<b>Credits Not Taken ****</b>	--	<b>6,136,417</b>	--	<b>3,080,500</b>	--	<b>3,055,917</b>
<b>Credits Taken ***</b>	--	<b>56,180,748</b>	--	<b>5,575,621</b>	--	<b>50,605,127</b>

\* The total number of credits does not equal to the total number of returns claiming credits stated in Table 2.7 and 2.8.

\*\* This category includes Certain Real Property Donation, Reinvestments by Major Recycling Facilities, and Other Non-Limited Credits.

\*\*\* The credit is greater than the amount stated due to the refundable credit in G.S. 105-129.28. Because this credit is limited to a very small number of taxpayers, including its effects would violate taxpayer confidentiality.

\*\*\*\* Credits were not taken against tax because taxpayer's liability was less than the amount of credits claimed or because of taxpayer error.

Note: Figures are based on both audited and unaudited returns. Detail may not add to totals due to rounding or taxpayer error.

**S-CORPORATIONS**

S-Corporations pass their income tax liability along to shareholders, who pay tax on the income according to the individual income tax rate schedule. S-Corporations that have shareholders who are not North Carolina residents may pass the tax liability to those shareholders only if the nonresidents sign an agreement to pay North Carolina taxes on their share of the corporation's income. For nonresident shareholders who fail to sign such an agreement, the S-corporations must file a composite return and pay the tax for the shareholders. The tax for nonresidents filing composite is calculated according to the individual income tax rate schedule, but the collections are considered corporate income tax receipts.

**Table 2.12  
S-Corporation Returns and Net Income Tax Liability by NC Taxable Income  
Tax Year 2003**

NC Taxable Income	Number of Returns	Percent	Number With Tax Due for Nonresidents	Net Tax Liability [\$]	Percent
\$0 or less*	45,450	41.14%	23	11,531	0.03%
\$1-\$15,000	23,300	21.09%	1,616	411,971	1.10%
\$15,001-30,000	11,113	10.06%	431	508,839	1.36%
\$30,001-\$50,000	8,591	7.78%	291	607,737	1.63%
\$50,001-\$100,000	9,857	8.92%	378	1,486,371	3.98%
\$100,001-\$500,000	9,956	9.01%	552	6,805,245	18.22%
\$500,001-\$1,000,000	1,217	1.10%	107	4,623,761	12.38%
\$1,000,001+	990	0.90%	110	22,900,120	61.30%
<b>Total</b>	<b>110,474</b>	<b>100.00%</b>	<b>3,508</b>	<b>37,355,575</b>	<b>100.00%</b>

\* Includes both returns with no Federal Taxable Income and those that have Federal Taxable Income but no North Carolina Taxable Income. The Net Tax Liability in this bracket is positive due to taxpayer error.

Note: Figures are based on both audited and unaudited returns. Detail may not add to totals due to rounding or taxpayer error.

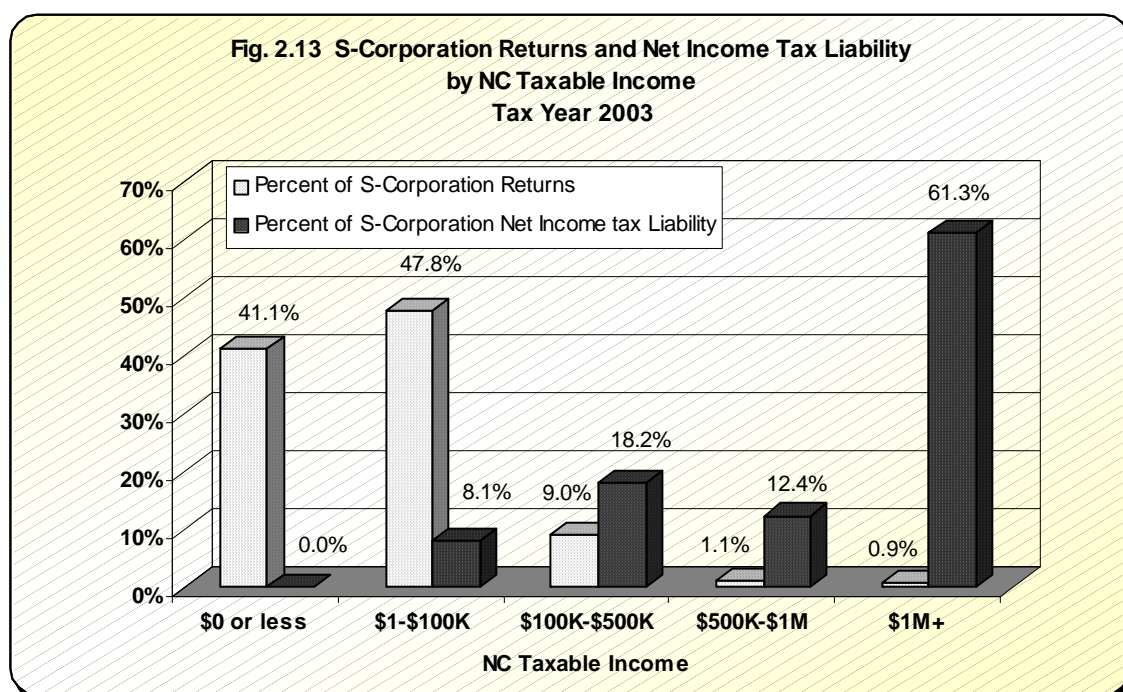
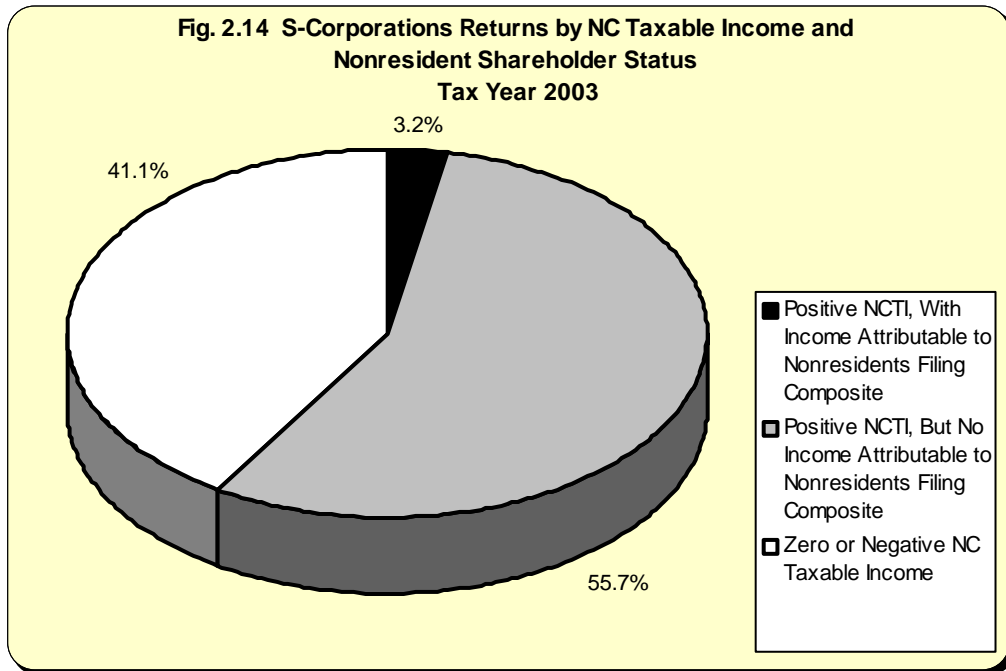


Table 2.12 and Figure 2.13 show the number of returns and net income tax liability by North Carolina taxable income. Corporations with taxable income of \$1 million or more accounted for over 60% of the tax liability.

Figure 2.14 shows the distribution of returns by North Carolina taxable income and nonresident shareholder filing status. Only 3.2% of S-corporation returns had a tax liability attributable to nonresidents.



**SECTION II  
INCOME TAX**

**Table 2.15  
S-Corporation Income Tax Calculation Detail  
Tax Year 2003**

		(+) Corporation Income [\$]	(+) Adjustments to Federal Income [\$]	(-) Nonapportionable Income [\$]	(-) Reduction Due To Apportionment [\$]	(=) Income Apportioned to NC [\$]
<b>NC Taxable Income</b>	<b>Number of Returns</b>					
<b>Taxable Returns</b>						
<b>Zero or Negative</b>	45,427	(1,902,251,275)	191,508,959	307,288,067	(1,528,516,334)	(1,820,246,658)
<b>Positive, But No Income Attributable to Nonresidents Filing Composite</b>	61,539	14,564,213,202	701,029,433	364,995,083	8,313,722,197	6,579,440,435
<b>Positive, With Income Attributable to Nonresidents Filing Composite</b>	3,508	13,821,049,495	836,803,186	1,186,417,510	12,773,874,599	585,115,818
<b>Total</b>	110,474	26,483,011,422	1,729,341,578	1,858,700,660	19,559,080,462	5,344,309,595

	(+) Nonapportionable Income Allocated to NC [\$]	(-) Percentage Depletion Over Cost Depletion [\$]	(=) Net Taxable Income [\$]	(+) Adjustment for Shareholders Paying Tax on Shares Income [\$]	(=) Taxable Income Attributable to Nonresidents Filing Composite [\$]	(Tax Rates%) Computed Net Income Tax [\$]	(-) Tax Credits [\$]	(=) Net Tax Liability [\$]
<b>NC Taxable Income</b>								
<b>Taxable Returns</b>								
<b>Zero or Negative*</b>	(2,890,916)	412,197,168	(2,314,304,751)	2,261,491,606	(52,813,145)	1,241	-	1,241
<b>Positive, But No Income Attributable to Nonresidents Filing Composite*</b>	62,006,600	101,328	6,641,387,063	(6,641,442,179)	(55,116)	34,923	-	34,743
<b>Positive, With Income Attributable to Nonresidents Filing Composite</b>	12,666,604	39	597,768,705	(93,268,904)	504,499,801	37,780,429	460,838	37,319,591
<b>Total</b>	71,782,288	412,298,535	4,924,851,017	(4,473,219,477)	451,631,540	37,816,593	460,838	37,355,575

\* The computed Net Income and Net Tax Liability in these categories are positive due to taxpayer error.

Note: Figures are based on both audited and unaudited returns. Detail may not add to totals due to rounding or taxpayer error.

**SECTION II  
INCOME TAX**

Table 2.16 shows the income tax credits by credit type and taxable income. Corporations with taxable income over \$500,000 took 77% of the credits.

**Table 2.16  
S-Corporation Income Tax Credits by Credit Type and Taxable Income  
Tax Year 2003**

Income Tax Credits	All Returns		Taxable Income <\$500,001		Taxable Income \$500,001+	
	Number of Credits *	Amount Claimed (\$)	Number of Credits	Amount Claimed (\$)	Number of Credits	Amount Claimed (\$)
Lee Act and Other Limited Credits	242	539,051	147	70,785	95	468,266
Others **	30	49,291	21	21,007	9	28,284
<b>Credits Claimed</b>	272	588,342	168	91,792	104	496,550
<b>Credits Not Taken ***</b>	--	127,504	--	(14,656)	--	142,160
<b>Credits Taken</b>	--	460,838	--	106,448	--	354,390

\* The total number of credits does not equal to the total number of returns claiming credits stated in Table 2.7.

\*\* This category includes Rehabilitating a Historic Structure, Certain Real Property Donation, Savings and Loan Supervisory Fees, Other Non-Limited Credits, Carryover from Previous Years Credits, and Reinvestments by Major Recycling Facilities credits.

\*\*\* Credits were not taken against tax because taxpayer's liability was less than the amount of credits claimed or because of taxpayer error.

Note: Total numbers of credits are unavailable for Credits Not Taken and for Credits Taken. Confidentiality prevents the disclosure of the individual credits and credits amount. Figures are based on unaudited returns. Detail may not add to totals due to rounding or taxpayer error.

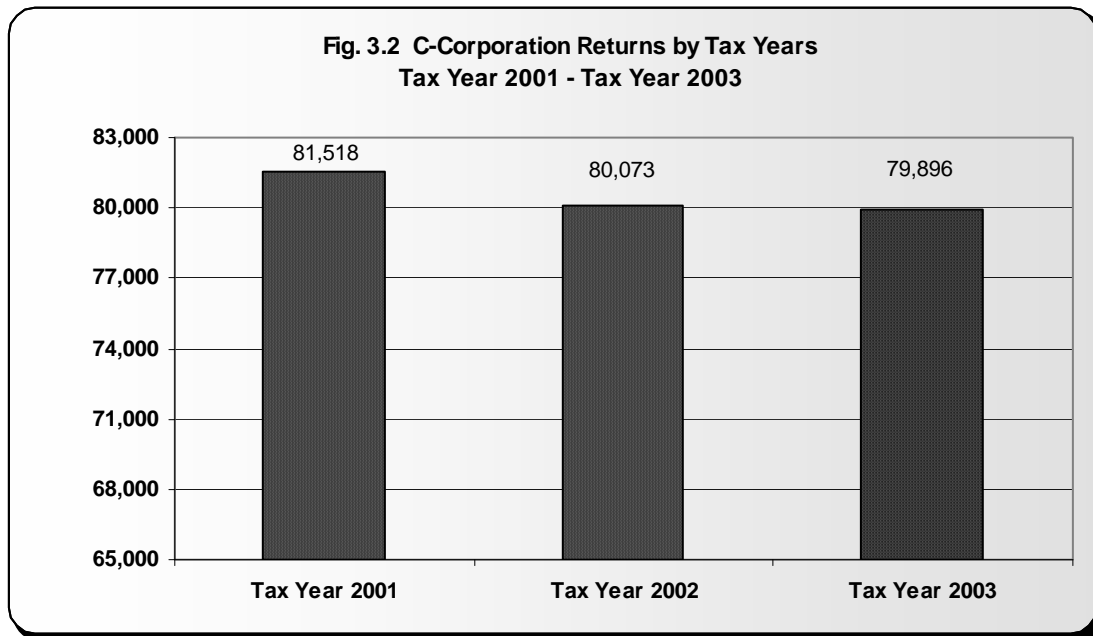
**C-CORPORATIONS**

Table 3.1, Figure 3.2 and Figure 3.3 compare the number of returns by tax years. In 2002, the number of returns decreased by 1,445, and in 2003, it decreased by 177 returns. These decreases were due to conversions of C-corporations to S-corporations, which offset growth in the number of C-corporations. In 2002, 1,990 C-corporations converted to S-corporations, and in 2003, 1,932 C-corporations converted.

**Table 3.1  
C-Corporation Returns by NC Taxable Income  
Tax Year 2001 – Tax Year 2003**

NC Taxable Income	Number of Returns TY 2001	Number of Returns TY 2002	% Change	Number of Returns TY 2003	% Change
\$0 or less	53,559	53,515	-0.08%	53,308	-0.39%
\$1-\$15,000	14,059	13,193	-6.16%	13,397	1.55%
\$15,001-\$30,000	3,392	3,275	-3.45%	3,156	-3.63%
\$30,001-\$50,000	2,540	2,369	-6.73%	2,256	-4.77%
\$50,001-\$100,000	2,829	2,608	-7.81%	2,517	-3.49%
\$100,001-\$500,000	3,257	3,158	-3.04%	3,218	1.90%
\$500,001-\$1,000,000	733	744	1.50%	739	-0.67%
\$1,000,001-\$10,000,000	997	1,053	5.62%	1,151	9.31%
\$10,000,001+	152	158	3.95%	154	-2.53%
<b>Total</b>	<b>81,518</b>	<b>80,073</b>	<b>-1.77%</b>	<b>79,896</b>	<b>-0.22%</b>

Note: Figures are based on both audited and unaudited returns. Detail may not add to totals due to rounding or taxpayer error.



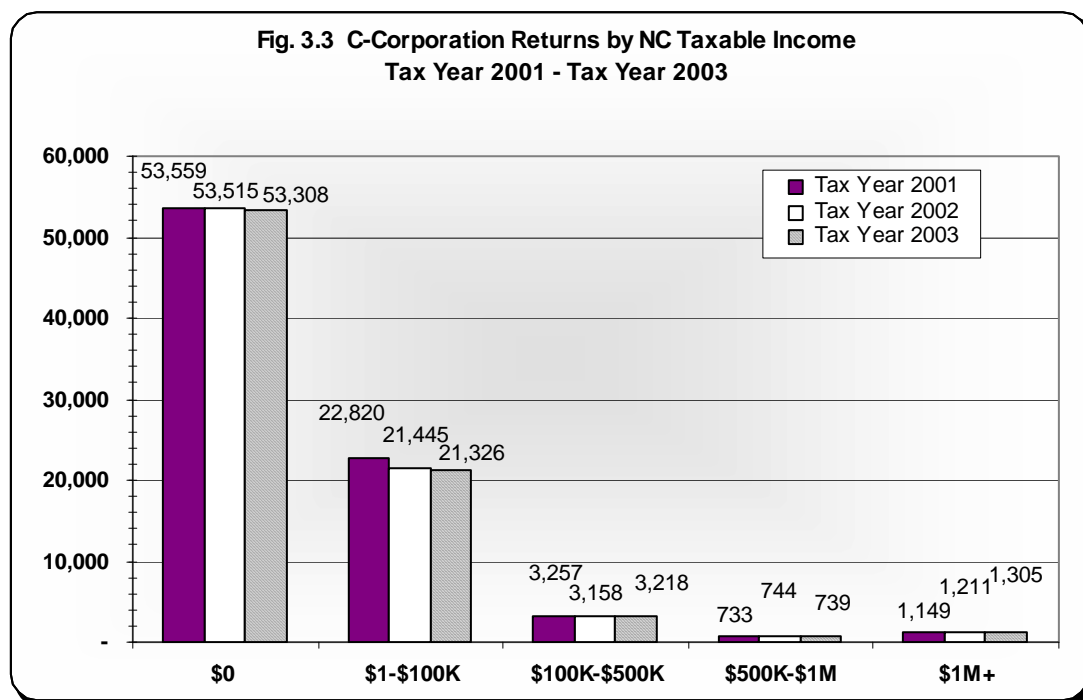


Table 3.4 and Figure 3.5 show the net income tax liability by North Carolina taxable income. In 2002, the liability increased by \$40 million, and in 2003, it declined by \$9 million. This trend was the result of a one year \$36 million spike in the tax liability of returns with NC taxable income of over \$10 million, and growth in the liability of returns with taxable income between \$1 million and \$10 million. Within the highest income group, the spike in tax liability was attributable largely to a single multi-state corporation that realized a significant capital gain during 2002.

**Table 3.4  
C-Corporation Net Income Tax Liability by NC Taxable Income  
Tax Year 2001 – Tax Year 2003**

NC Taxable Income	Net Income Tax Liability * TY 2001	Net Income Tax Liability * TY 2002	% Change	Net Income Tax Liability * TY 2003	% Change
\$0 or less	--	--	--	--	--
\$1-\$15,000	3,964,846	3,833,480	-3.31%	3,776,491	-1.49%
\$15,001-\$30,000	4,784,904	4,611,579	-3.62%	4,519,503	-2.00%
\$30,001-\$50,000	6,430,697	6,032,744	-6.19%	5,788,197	-4.05%
\$50,001-\$100,000	12,813,774	11,894,096	-7.18%	11,676,194	-1.83%
\$100,001-\$500,000	47,407,894	46,160,786	-2.63%	48,488,171	5.04%
\$500,001-\$1,000,000	34,698,782	35,054,191	1.02%	35,376,798	0.92%
\$1,000,001-\$10,000,000	185,023,140	191,705,268	3.61%	215,641,627	12.49%
\$10,000,001+	401,098,604	437,518,061	9.08%	401,674,284	-8.19%
<b>Total</b>	<b>696,222,641</b>	<b>736,810,205</b>	<b>5.83%</b>	<b>726,941,265</b>	<b>-1.34%</b>

\* Net tax liability is prior to the application of the refundable credit in G.S. 105-129.28. Because this credit is limited to a very small number of taxpayers, including its effects would violate taxpayer confidentiality.

Note: Figures are based on both audited and unaudited returns. Detail may not add to totals due to rounding or taxpayer error.

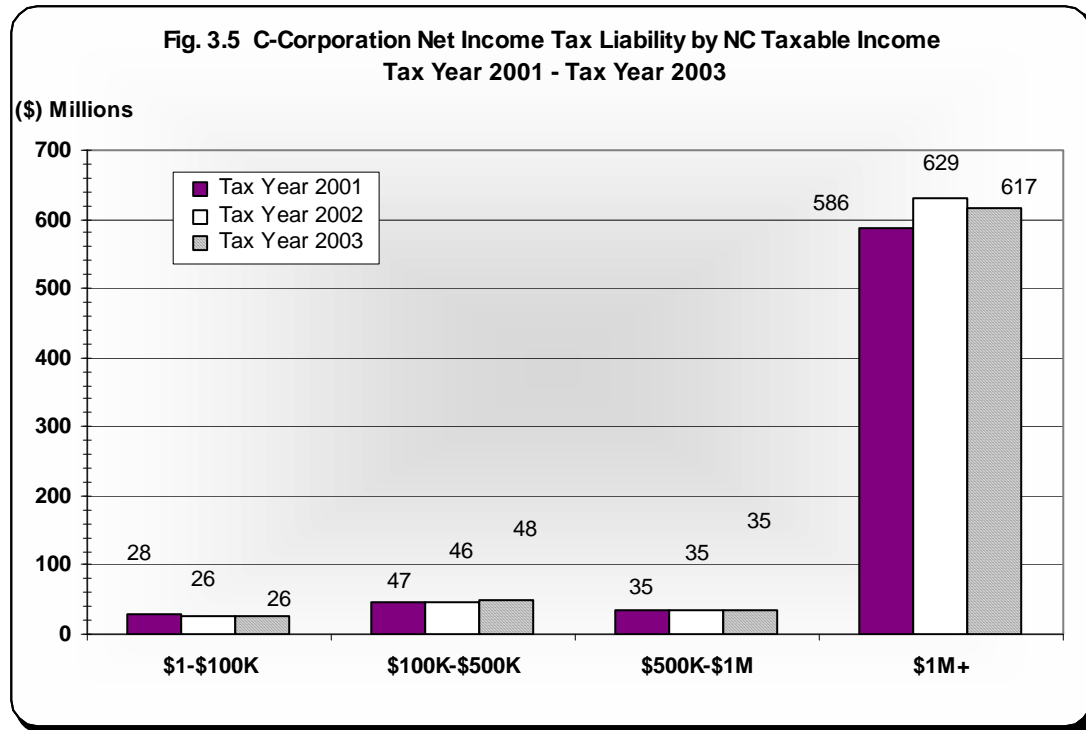


Table 3.6 shows the tax credits by credit type. In 2002, credits increased by \$6 million due largely to increased use of the Lee Act credits by a small number of taxpayers.

**Table 3.6  
C-Corporation Income Tax Credits by Credit Type  
Tax Year 2001 – Tax Year 2003**

Income Tax Credits	Tax Year 2001		Tax Year 2002		Tax Year 2003	
	Number of Credits	Amount Claimed (\$)	Number of Credits	Amount Claimed (\$)	Number of Credits	Amount Claimed (\$)
Rehabilitating a Historic Structure	13	3,034,512	21	4,623,755	16	3,148,940
Savings and Loan Supervisory Fees	13	277,090	20	218,440	14	157,804
Carryover from Previous Years Credits	15	490,205	18	1,418,388	8	1,757,168
Lee Act and Other Limited Credits	4,967	45,065,260	4,270	60,893,338	3,565	48,882,783
Others *	33	4,047,421	54	4,978,747	37	8,370,470
<b>Credits Claimed **</b>	<b>5,041</b>	<b>52,914,488</b>	<b>4,383</b>	<b>72,132,668</b>	<b>3,640</b>	<b>62,317,165</b>
<b>Credits Not Taken ***</b>	--	<b>3,955,026</b>	--	<b>16,306,663</b>	--	<b>6,136,426</b>
<b>Credits Taken *</b>	--	<b>48,959,462</b>	--	<b>55,826,005</b>	--	<b>56,180,748</b>

\* This category includes Certain Real Property Donation, Reinvestments by Major Recycling Facilities and Other Non-Limited Credits.  
 \*\* The credit is greater than the amount stated due to the refundable credit in G.S. 105-129.28. Because this credit is limited to a very small number of taxpayers, including its effects would violate taxpayer confidentiality.  
 \*\*\* Credits were not taken against tax because taxpayer's liability was less than the amount of credits claimed or because of taxpayer error.

Note: Figures are based on both audited and unaudited returns. Detail may not add to totals due to rounding or taxpayer error.



**SECTION III  
TRENDS**

Tables 3.7 and 3.8 show the number of returns and credits by the percentage of income tax relieved by income tax credits. Less than one-fifth of the returns with a tax liability made use of available tax credits. The majority of these reduced their tax by at least 40% through use of tax credits.

**Table 3.7  
C-Corporation Returns by Percentage of Income Tax Relieved by Income Tax Credits  
Tax Year 2001 – Tax Year 2003**

<b>% of Tax Relieved by Credits</b>	<b>Number of Taxpayers TY 2001</b>	<b>Number of Taxpayers TY 2002</b>	<b>Number of Taxpayers TY 2003</b>
<b>0%</b>	76,503	75,760	76,275
<b>0 - 4.9 %</b>	905	755	710
<b>5 - 9.9 %</b>	566	502	405
<b>10 - 19.9 %</b>	721	585	475
<b>20 - 39.9 %</b>	776	652	484
<b>40 % +</b>	2,047	1,819	1,547
<b>Total</b>	81,518	80,073	79,896

Note: Figures are based on both audited and unaudited returns. Detail may not add to totals due to rounding or taxpayer error.

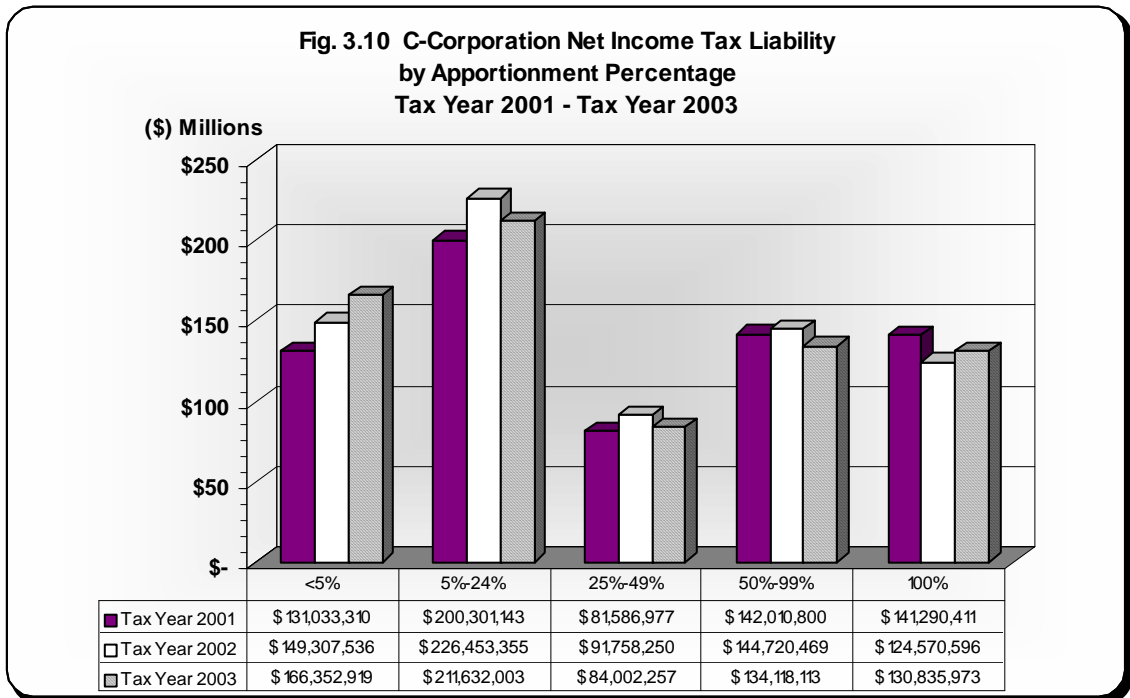
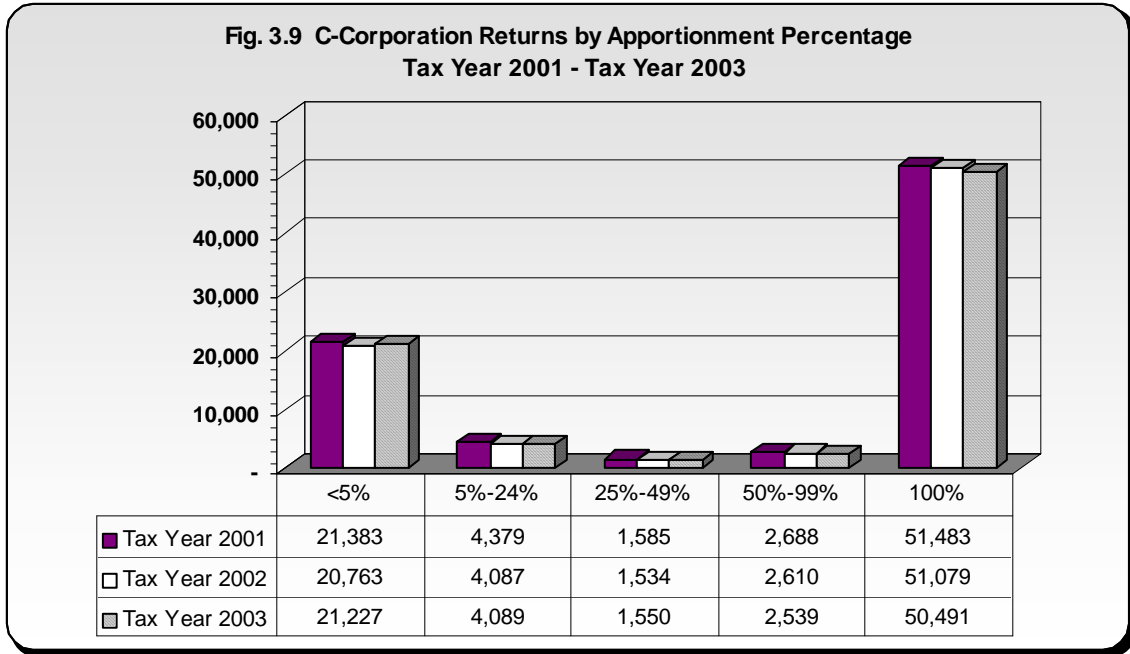
**Table 3.8  
C-Corporation Credits by Percentage of Income Tax Relieved by Income Tax Credits \*  
Tax Year 2001 – Tax Year 2003**

<b>% of Tax Relieved by Credits</b>	<b>Amount of Tax Relieved TY 2001</b>	<b>Amount of Tax Relieved TY 2002</b>	<b>Amount of Tax Relieved TY 2003</b>
<b>0%</b>	-	-	-
<b>0 - 4.9 %</b>	2,349,558	2,374,899	1,163,095
<b>5 - 9.9 %</b>	3,398,659	3,443,826	3,934,006
<b>10 - 19.9 %</b>	16,929,489	6,330,879	10,444,312
<b>20 - 39.9 %</b>	6,138,221	24,870,686	19,368,503
<b>40 % +</b>	20,143,535	18,805,715	21,270,832
<b>Total</b>	48,959,462	55,826,005	56,180,748

\* Net tax liability is prior to the application of the refundable credit in G.S. 105-129.28. Because this credit is limited to a very small number of taxpayers, including its effects would violate taxpayer confidentiality.

Note: Figures are based on both audited and unaudited returns. Detail may not add to totals due to rounding or taxpayer error.

Figures 3.9 and 3.10 show the distribution of returns and net income tax liability by apportionment percentage. The distribution of returns for all categories were fairly similar in all tax years, but the portion of the tax liability attributable to corporations apportioning less than 5% of their income to North Carolina has increased.



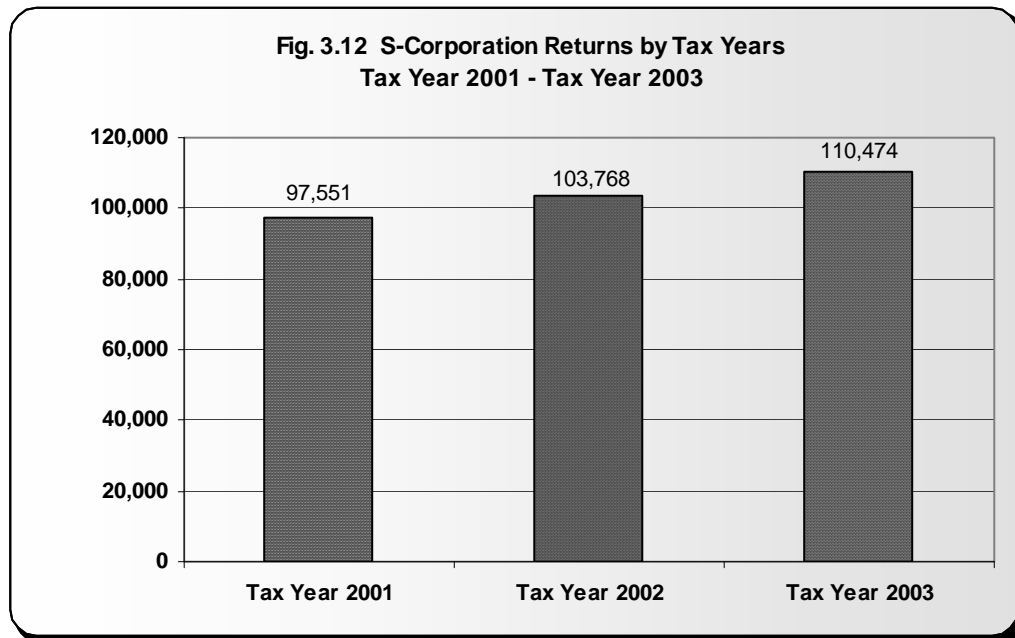
**S-CORPORATIONS**

Table 3.11, Figure 3.12, and Figure 3.13 compare the number of returns by tax years. In 2002, the number of returns increased by 6,217, and in 2003, it increased by 6,706. In 2002, 1,990 C-corporations converted to S-corporations, and in 2003, 1,932 C-corporations converted.

**Table 3.11  
S-Corporation Returns by NC Taxable Income  
Tax Year 2001 – Tax Year 2003**

NC Taxable Income	Number of Returns TY 2001	Number of Returns TY 2002	% Change	Number of Returns TY 2003	% Change
<b>\$0 or less</b>	41,432	43,360	4.65%	45,450	4.82%
<b>\$1-\$15,000</b>	19,983	21,689	8.54%	23,300	7.43%
<b>\$15,001-\$30,000</b>	9,749	10,401	6.69%	11,113	6.85%
<b>\$30,001-\$50,000</b>	7,564	8,210	8.54%	8,591	4.64%
<b>\$50,001-\$100,000</b>	8,454	9,019	6.68%	9,857	9.29%
<b>\$100,001-\$500,000</b>	8,509	9,066	6.55%	9,956	9.82%
<b>\$500,001-\$1,000,000</b>	1,072	1,169	9.05%	1,217	4.11%
<b>\$1,000,001+</b>	788	854	8.38%	990	15.93%
<b>Total</b>	<b>97,551</b>	<b>103,768</b>	<b>6.37%</b>	<b>110,474</b>	<b>6.46%</b>

Note: Figures are based on both audited and unaudited returns. Detail may not add to totals due to rounding or taxpayer error.



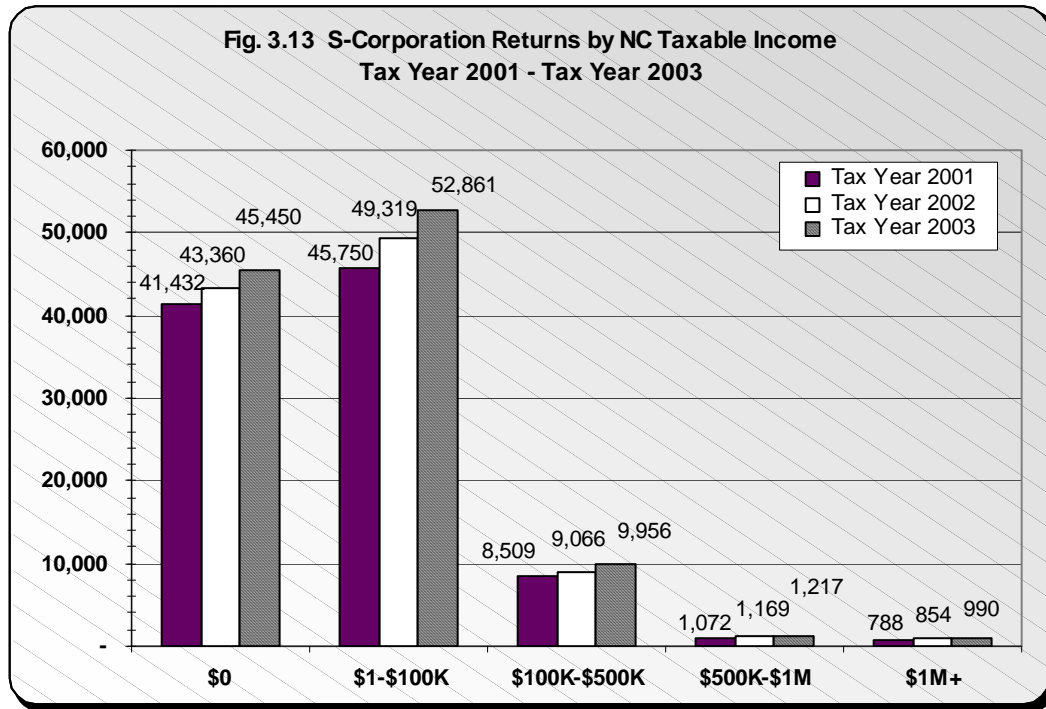


Table 3.14 and Figure 3.15 show the net income tax liability by taxable income. In 2002, the liability increased by \$5 million, and in 2003, it increased by \$8 million. The increase was due almost entirely to higher taxes paid for nonresident shareholders of corporations with taxable income over \$1 million.

**Table 3.14  
S-Corporation Net Income Tax Liability by NC Taxable Income  
Tax Year 2001 – Tax Year 2003**

NC Taxable Income	Net Income Tax Liability TY 2001	Net Income Tax Liability TY 2002	% Change	Net Income Tax Liability TY 2003	% Change
\$0 or less	3,787	7,240	91.18%	11,531	59.27%
\$1-\$15,000	380,158	390,908	2.83%	411,971	5.39%
\$15,001-\$30,000	415,316	459,594	10.66%	508,839	10.71%
\$30,001-\$50,000	548,170	640,279	16.80%	607,737	-5.08%
\$50,001-\$100,000	1,220,923	1,427,036	16.88%	1,486,371	4.16%
\$100,001-\$500,000	6,526,510	6,725,469	3.05%	6,805,245	1.19%
\$500,001-\$1,000,000	4,038,374	4,883,568	20.93%	4,623,761	-5.32%
\$1,000,001+	10,087,916	14,167,431	40.44%	22,900,120	61.64%
<b>Total</b>	<b>23,221,154</b>	<b>28,701,525</b>	<b>23.60%</b>	<b>37,355,575</b>	<b>30.15%</b>

Note: Figures are based on both audited and unaudited returns. Detail may not add to totals due to rounding or taxpayer error.

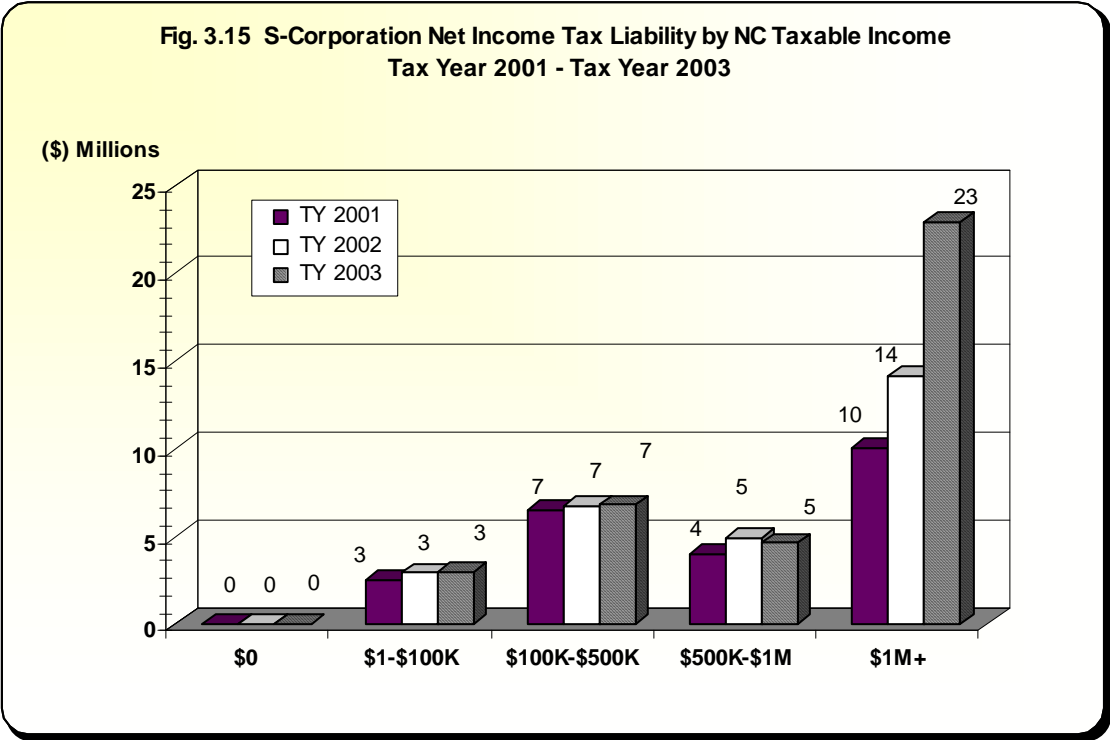
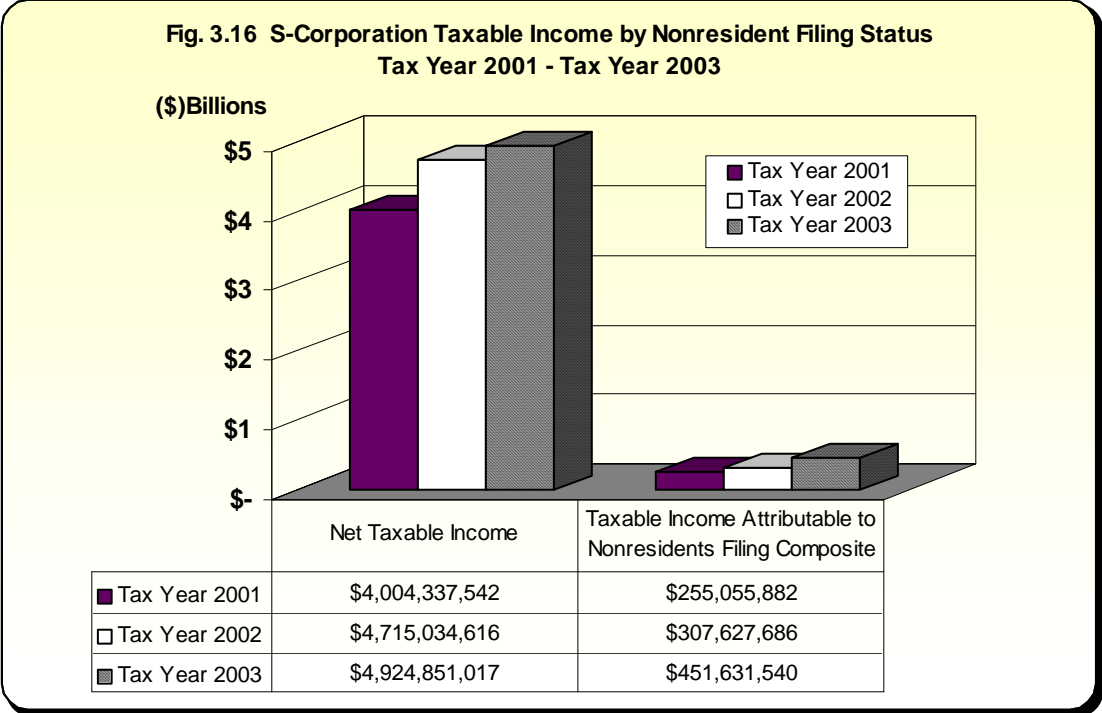


Figure 3.16 shows the net taxable income and taxable income attributable to nonresidents filing composite. There was an increase in the net taxable income and in the nonresident taxable income for all three tax years.



**SECTION III  
TRENDS**

Table 3.17 shows the income tax credits by credit type for three tax years. In 2002, the credits taken increased by \$107,000, and in 2003, it increased by \$60,000. The most claimed credits were in the category, Lee Act and Other Limited Credits for all tax years.

**Table 3.17  
S-Corporation Income Tax Credits by Credit Type  
Tax Year 2001 – Tax Year 2003**

Income Tax Credits	Tax Year 2001		Tax Year 2002		Tax Year 2003	
	Number of Credits	Amount Claimed (\$)	Number of Credits	Amount Claimed (\$)	Number of Credits	Amount Claimed (\$)
Carryover from Previous Years Credits	-	-	12	5,118	12	11,426
Lee Act and Other Limited Credits	144	289,410	330	574,716	245	539,054
Others *	4	26,923	27	101,241	34	37,989
<b>Credits Claimed</b>	<b>148</b>	<b>316,333</b>	<b>369</b>	<b>681,075</b>	<b>291</b>	<b>588,469</b>
<b>Credits Not Taken **</b>	<b>--</b>	<b>23,735</b>	<b>--</b>	<b>280,928</b>	<b>--</b>	<b>127,631</b>
<b>Credits Taken</b>	<b>--</b>	<b>292,598</b>	<b>--</b>	<b>400,147</b>	<b>--</b>	<b>460,838</b>

\* This category includes Rehabilitating a Historic Structure, Savings and Loan Supervisory Fees, Other Non-Limited Credits, Certain Real Property Donation, and Reinvestments by Major Recycling Facilities credits.

\*\* Credits were not taken against tax because taxpayer's liability was less than the amount of credits claimed or because of taxpayer error.

Note: Figures are based on both audited and unaudited returns. Detail may not add to totals due to rounding or taxpayer error.