

North Carolina

**Corporation Income and Business
Franchise Taxes**

Tax Year 2004

Statistics and Trends



**Policy Analysis and
Statistics Division**

North Carolina

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**Policy Analysis and Statistics Division
July 2007**

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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 2004. 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 2004 were processed until October 2006.

In October 2006, 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 four 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.

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 2004. 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%.

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.

**SECTION I
FRANCHISE TAX**

C-CORPORATIONS

Table 1.1 shows the distribution of returns by franchise tax base. Capital stock, surplus and undivided profits base was used on 44% of the 2004 tax year returns, followed by investment in tangible property base (17%), and appraised values in property base (9%). Thirty percent of the returns listed no assets because: 1) the taxpayer was exempt from franchise tax; 2) the 2004 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 2004**

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	23,847	8,764	2,817	2,265	37,693
\$23,668-\$100,000	-	7,349	3,583	2,095	13,027
\$100,001-\$1,000,000	-	12,559	4,910	2,353	19,822
\$1,000,001-\$5,000,000	-	3,958	1,565	449	5,972
\$5,000,001-\$20,000,000	-	1,667	682	119	2,468
\$20,000,001-\$40,000,000	-	520	181	33	734
\$40,000,001+	-	664	227	22	913
Total	23,847	35,481	13,965	7,336	80,629

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 (75%) 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 2004**

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	727,869	299,948	94,190	73,453	1,195,460
\$23,668-\$100,000	-	587,379	270,617	143,165	1,001,161
\$100,001-\$1,000,000	-	6,291,608	2,210,254	976,147	9,478,009
\$1,000,001-\$5,000,000	-	12,573,961	4,728,310	1,325,108	18,627,379
\$5,000,001-\$20,000,000	-	23,882,566	9,449,501	1,611,048	34,943,115
\$20,000,001-\$40,000,000	-	20,815,955	6,520,472	1,243,309	28,579,736
\$40,000,001+	-	135,743,772	33,610,795	2,992,165	172,346,732
Total	727,869	200,195,189	56,884,139	8,364,395	266,171,592

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

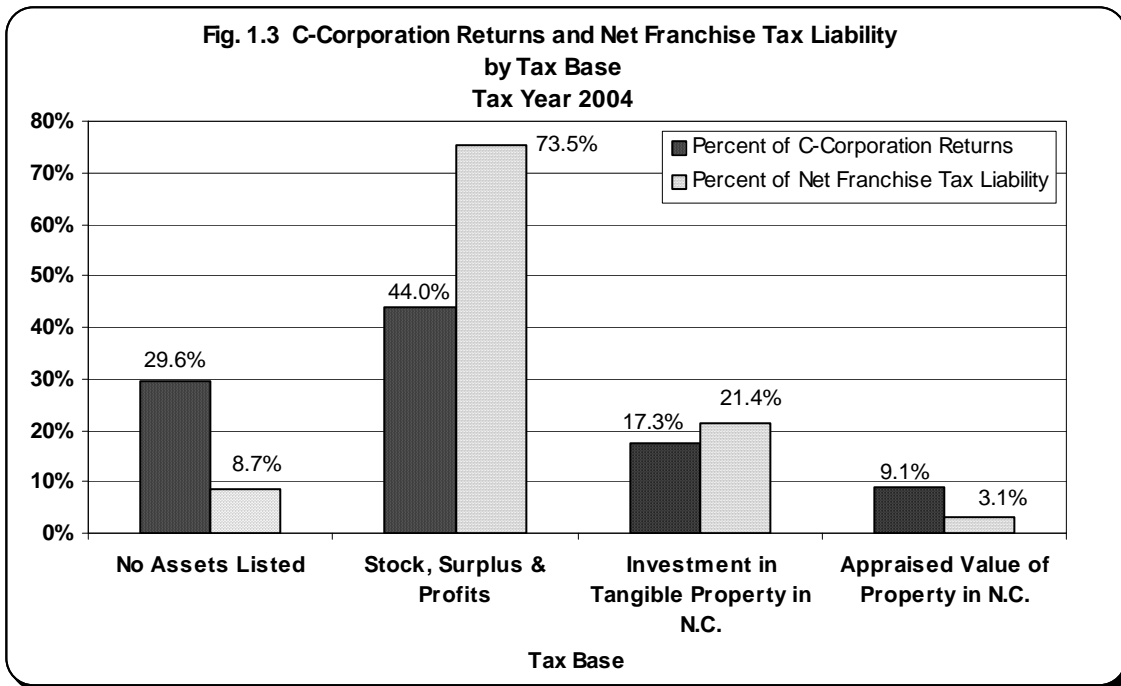


Table 1.4 and Figure 1.5 provide the distribution of C-corporation returns and net franchise tax liability. The top 5% of the returns, by taxable amount, paid 89% of the tax. Taxpayers with franchise taxable amount over \$40 million made up 1% of the returns, but paid 65% of net franchise tax.

**Table 1.4
C-Corporation Returns and Net Franchise Tax Liability by Franchise Taxable Amount
Tax Year 2004**

Franchise Taxable Amount	Number of Returns		Net Franchise Tax Liability (\$)	
	Number	Percent	Liability	Percent
\$0-\$23,667	37,693	46.7%	1,195,460	0.4%
\$23,668-\$100,000	13,027	16.2%	1,001,161	0.4%
\$100,001-\$1,000,000	19,822	24.6%	9,478,009	3.6%
\$1,000,001-\$5,000,000	5,972	7.4%	18,627,379	7.0%
\$5,000,001-\$20,000,000	2,468	3.1%	34,943,115	13.1%
\$20,000,001-\$40,000,000	734	0.9%	28,579,736	10.7%
\$40,000,001+	913	1.1%	172,346,732	64.8%
Total	80,629	100.0%	266,171,592	100.0%

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

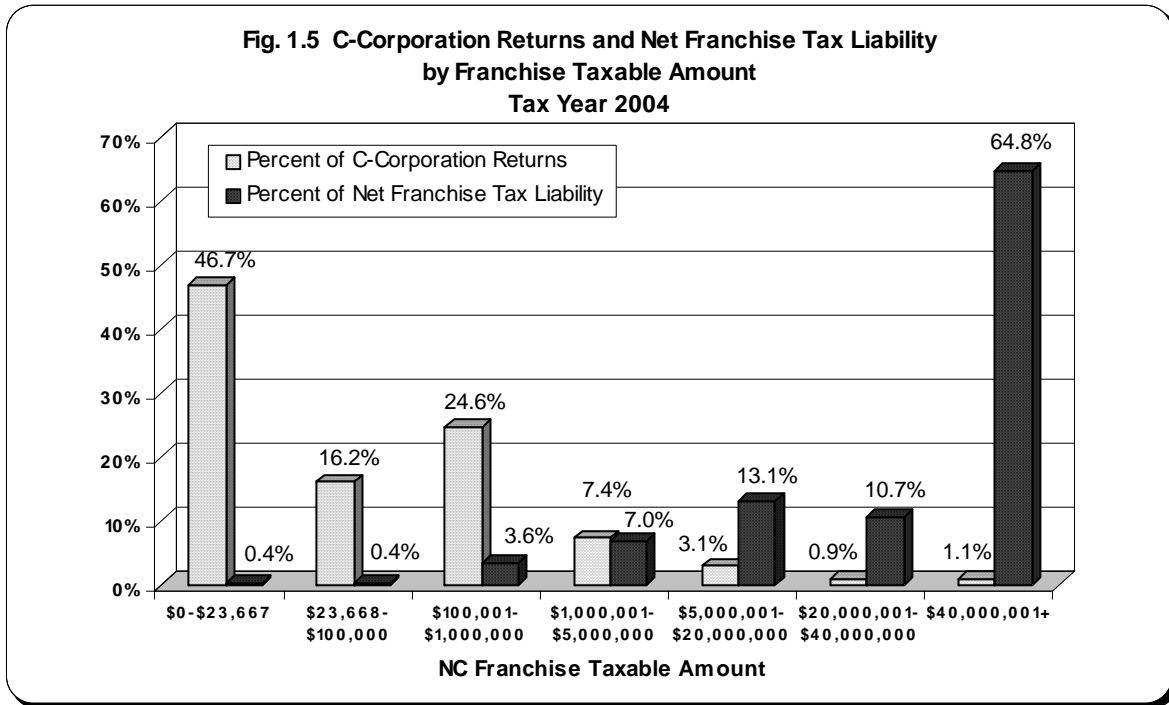


Table 1.6 and Figure 1.7 show the number of returns claiming franchise tax credits and amount of credits taken. Returns with franchise taxable amount greater than \$40 million, comprised of only 4% of the returns claiming credits, but claimed 84% of the credits.

**Table 1.6
C-Corporation Returns Claiming Franchise Tax Credits and Amount of Credits Taken
Tax Year 2004**

Franchise Taxable Amount	Number of Returns		Amount of Credits	
	Claiming Credits	Percent	Taken (\$)	Percent
\$0-\$23,667	971	9.9%	16,104	0.0%
\$23,668-\$100,000	1,886	19.3%	73,087	0.2%
\$100,001-\$1,000,000	4,136	42.3%	854,939	2.0%
\$1,000,001-\$5,000,000	1,486	15.2%	1,387,460	3.2%
\$5,000,001-\$20,000,000	700	7.2%	2,417,693	5.6%
\$20,000,001-\$40,000,000	231	2.4%	2,242,785	5.2%
\$40,000,001+	377	3.9%	36,187,085	83.8%
Total	9,787	100.0%	43,179,153	100.0%

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

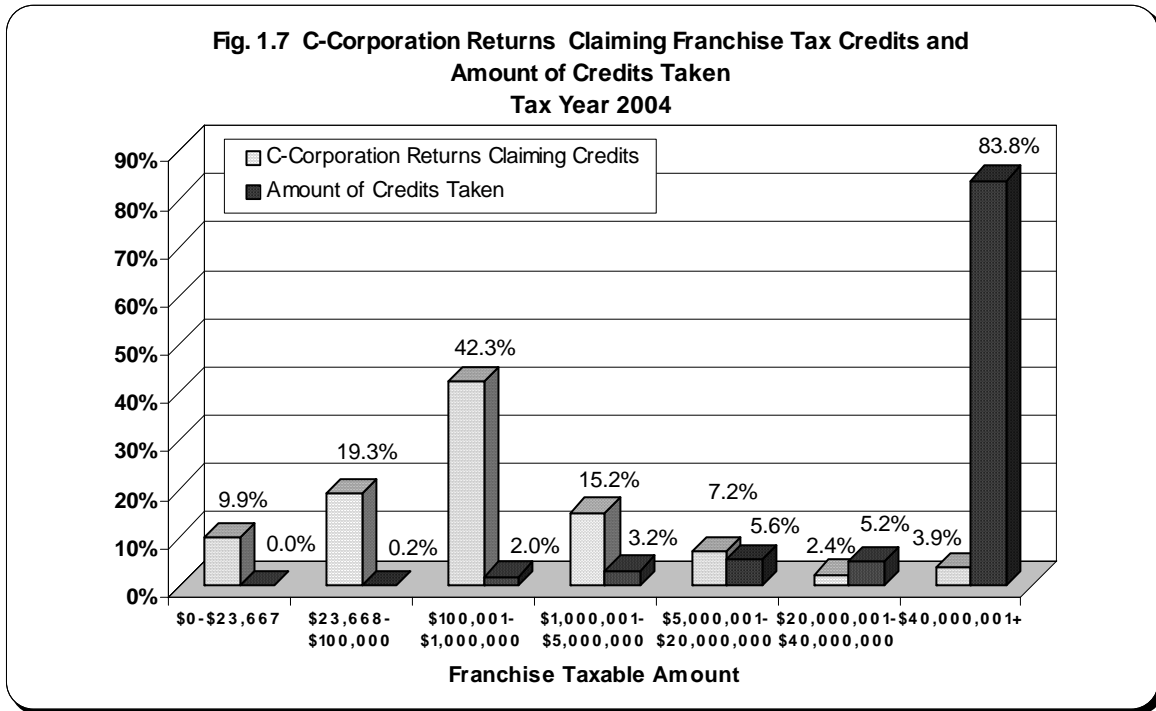


Table 1.8 shows the amount of franchise tax credits by credit type and franchise taxable amount.

**Table 1.8
C-Corporation Franchise Tax Credits Taken by Credit Type and Franchise Taxable Amount
Tax Year 2004**

	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 (\$)
Income Tax Credits						
Short Period Credit for Change in Income Year	370	2,226,260	266	255,995	104	1,970,265
Lee Act and Other Limited Credits	9,458	36,800,605	8,242	2,134,458	1,216	34,666,147
Others**	6	12,051,359	-	-	6	12,051,359
Credits Claimed	9,834	51,078,224	8,508	2,390,453	1,326	48,687,771
Credits Not Taken ***	--	8,821,075	--	980,867	--	7,840,208
Credits Taken	--	42,257,149	--	1,409,586	--	40,847,563

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

** This category includes Piped Natural Gas, and Expenses Related to Dividends.

*** 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 37% of 2004 tax year returns, followed by investment in tangible property base (25%), and appraised values in property (15%). Twenty-three percent of the returns listed no assets because: 1) the taxpayer was exempt from franchise tax; 2) the 2004 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 2004**

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	27,126	18,893	9,385	7,069	62,473
\$23,668-\$100,000	-	11,616	9,822	4,898	26,336
\$100,001-\$1,000,000	-	11,038	8,463	4,709	24,210
\$1,000,001-\$5,000,000	-	2,052	1,363	904	4,319
\$5,000,001-\$20,000,000	-	332	352	115	799
\$20,000,001-\$40,000,000	-	46	34	9	89
\$40,000,001+	-	20	17	5	42
Total	27,126	43,997	29,436	17,709	118,268

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 2004**

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	771,287	654,135	321,126	240,501	1,987,049
\$23,668-\$100,000	-	894,829	758,345	361,136	2,014,310
\$100,001-\$1,000,000	-	5,003,039	3,458,703	2,163,300	10,625,042
\$1,000,001-\$5,000,000	-	5,853,518	3,995,271	2,484,761	12,333,550
\$5,000,001-\$20,000,000	-	4,177,164	4,421,497	1,492,699	10,091,360
\$20,000,001-\$40,000,000	-	1,741,277	1,199,533	372,212	3,313,022
\$40,000,001+	-	2,091,804	1,847,006	400,934	4,339,744
Total	771,287	20,415,766	16,001,481	7,515,543	44,704,077

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

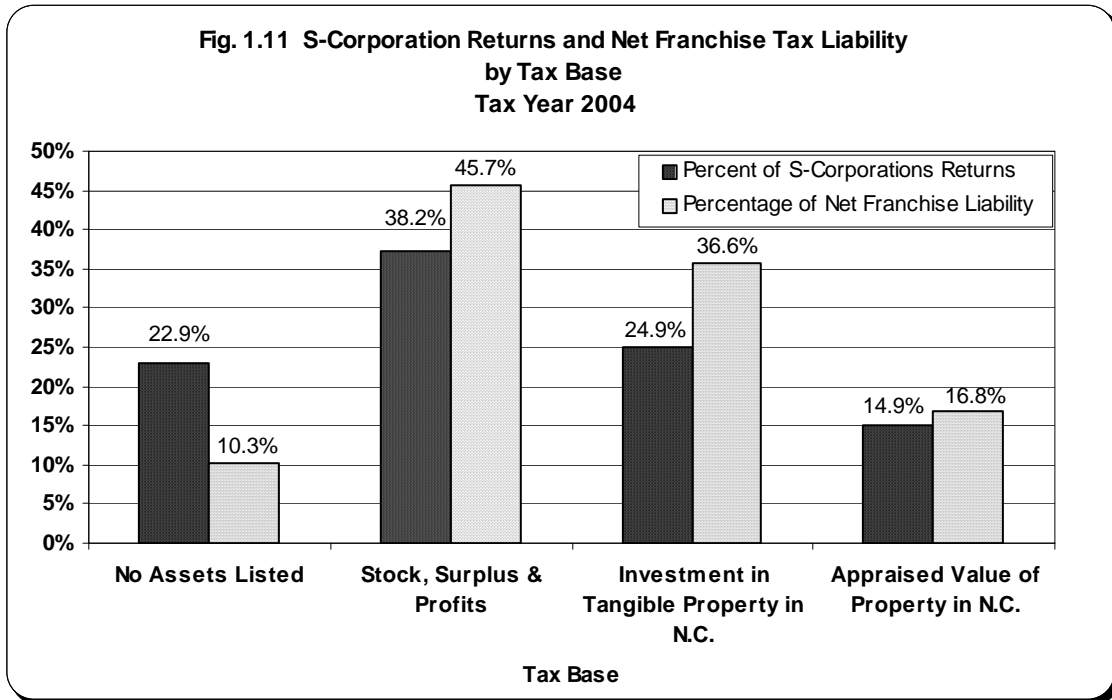


Table 1.12 and Figure 1.13 provide the distribution of S-corporation returns and net franchise tax liability. The top 5% of returns, by taxable amount, paid 67% of the tax. Taxpayers with franchise taxable amount between \$1 million and \$5 million, paid the largest amount of net franchise tax.

**Table 1.12
S-Corporation Returns and Net Franchise Tax Liability by Franchise Taxable Amount
Tax Year 2004**

Franchise Taxable Amount	Number of Returns		Net Franchise Tax Liability (\$)	
	Number of Returns	Percent	Liability (\$)	Percent
\$0-\$23,667	62,473	52.8%	1,987,049	4.4%
\$23,668-\$100,000	26,336	22.3%	2,014,310	4.5%
\$100,001-\$1,000,000	24,210	20.5%	10,625,042	23.8%
\$1,000,001-\$5,000,000	4,319	3.7%	12,333,550	27.6%
\$5,000,001-\$20,000,000	799	0.7%	10,091,360	22.6%
\$20,000,001-\$40,000,000	89	0.1%	3,313,022	7.4%
\$40,000,001+	42	0.0%	4,339,744	9.7%
Total	118,268	100.0%	44,704,077	100.0%

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

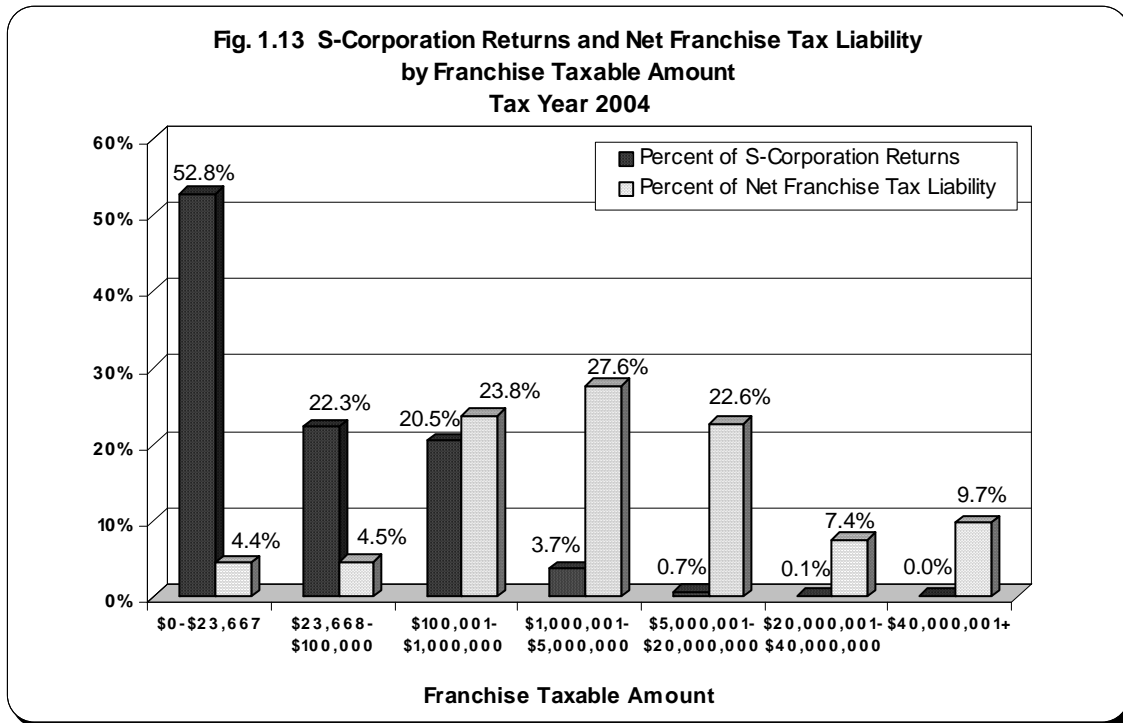


Table 1.14 and Figure 1.15 show the number of returns claiming franchise tax credits and amount of credits taken. Returns with a franchise taxable amount between \$1 million and \$5 million comprised 17% of the returns claiming credits and claimed 32% of the credits.

**Table 1.14
S-Corporation Returns Claiming Franchise Tax Credits and Amount of Credits Taken
Tax Year 2004**

Franchise Taxable Amount	Number of Returns		Amount of Credits	
	Claiming Credits	Percent	Taken (\$)	Percent
\$0-\$23,667	1,157	14.4%	18,040	0.6%
\$23,668-\$100,000	1,754	21.9%	61,663	1.9%
\$100,001-\$1,000,000	3,237	40.4%	615,565	18.8%
\$1,000,001-\$5,000,000	1,350	16.8%	1,055,825	32.3%
\$5,000,001-\$20,000,000	433	5.4%	783,938	24.0%
\$20,000,001-\$40,000,000	52	0.6%	294,366	9.0%
\$40,000,001+	29	0.4%	437,786	13.4%
Total	8,012	100.0%	3,267,183	100.0%

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**

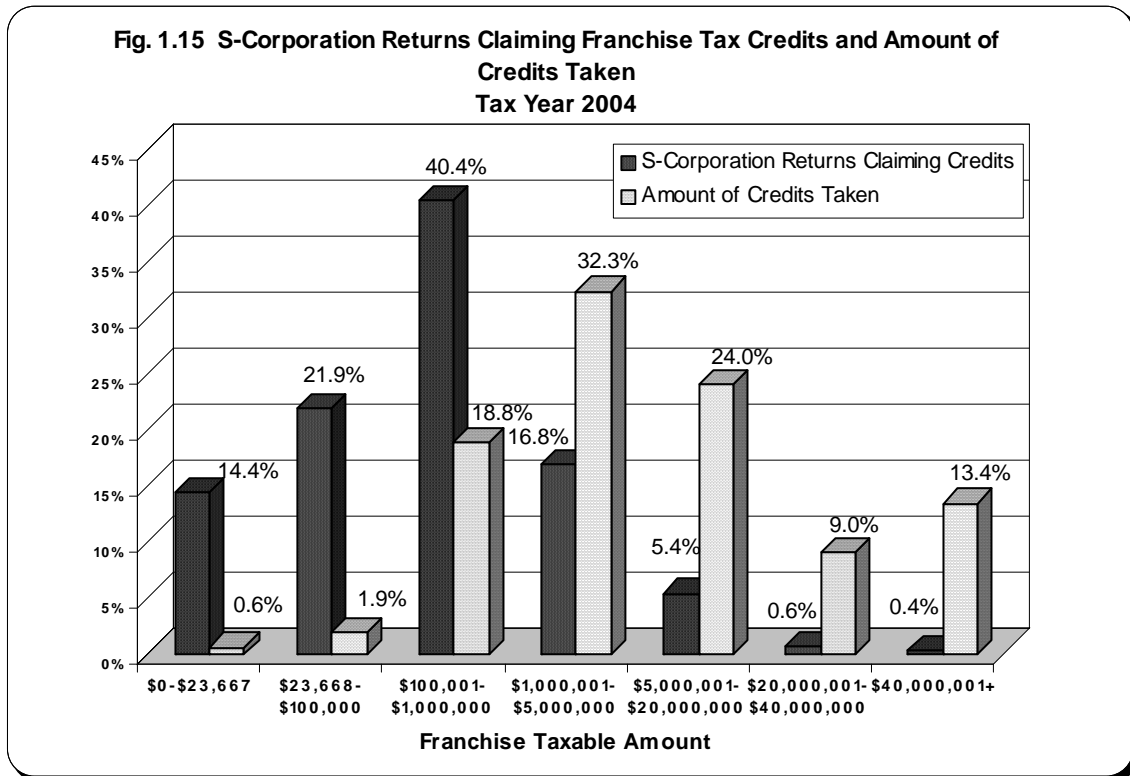


Table 1.16 shows the amount of franchise tax credits by credit type and franchise taxable amount.

**Table 1.16
S-Corporation Franchise Tax Credits Taken by Credit Type and Franchise Taxable Amount
Tax Year 2004**

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 (\$)
Lee Act and Other Limited Credits	7,915	3,114,618	7,407	1,715,214	508	1,399,404
Others**	135	155,540	122	38,854	13	116,686
Credits Claimed	8,050	3,270,158	7,529	1,754,068	521	1,516,090
Credits Not Taken ***	--	2,975	--	2,975	--	-
Credits Taken	--	3,267,183	--	1,751,093	--	1,516,090

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

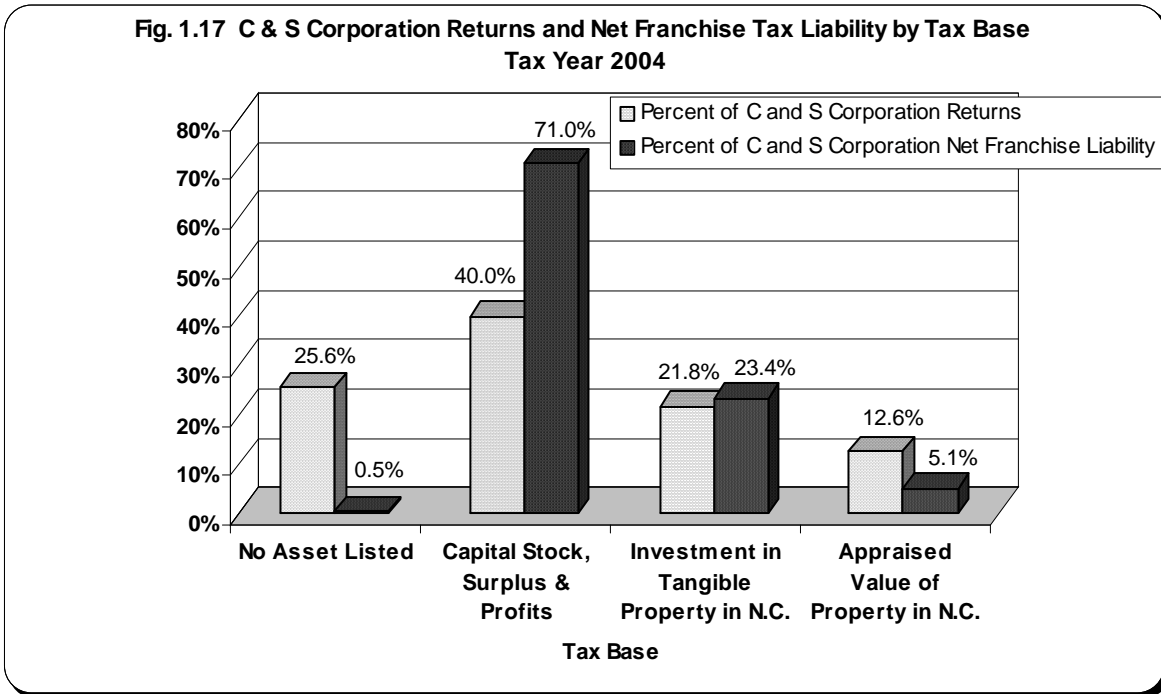
** This category include Short Period Credit, Piped Natural Gas, and Expenses Related to Dividends

*** 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-six percent of the returns listed no assets because: 1) the taxpayer was exempt from franchise tax; 2) the 2004 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 82% of the tax. Taxpayers with franchise taxable amount over \$40 million made up 1% of the returns, but paid 57% of net franchise tax.

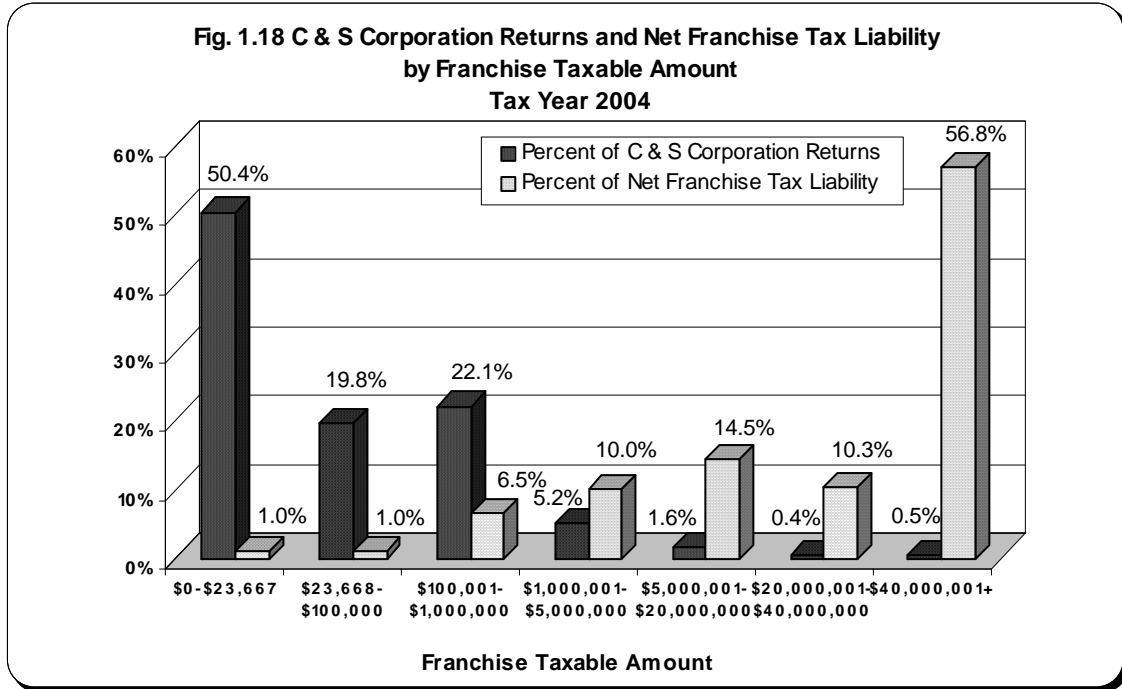
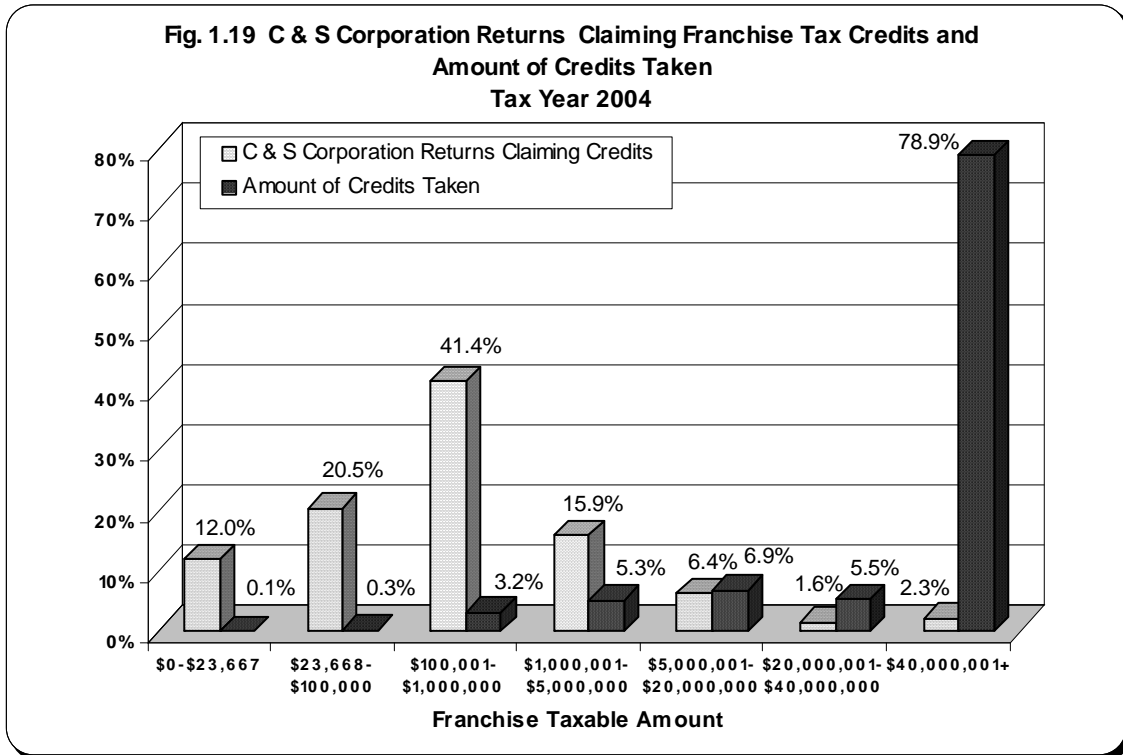


Figure 1.19 shows the number of C and S corporation returns claiming franchise tax credits and the amount of credits claimed. Corporations with over \$40 million as their franchise taxable amount claimed the greatest amount of credits.



C-CORPORATIONS

**Table 2.1
C-Corporation Returns and Net Income Tax Liability by NC Taxable Income
Tax Year 2004**

NC Taxable Income	Number of Returns	Percent	Net Income Tax Liability [\$]	Percent
\$0 *	52,788	65.47%	--	--
\$1-\$15,000	13,533	16.78%	3,878,329	0.43%
\$15,001-\$30,000	3,230	4.01%	4,641,577	0.52%
\$30,001-\$50,000	2,380	2.95%	6,231,735	0.69%
\$50,001-\$100,000	2,810	3.49%	13,201,031	1.47%
\$100,001-\$500,000	3,488	4.33%	53,494,741	5.95%
\$500,001-\$1,000,000	868	1.08%	41,639,618	4.63%
\$1,000,001-\$10,000,000	1,333	1.65%	257,387,712	28.61%
\$10,000,001+	199	0.25%	519,188,521	57.71%
Total	80,629	100.00%	899,663,264	100.00%

* 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.

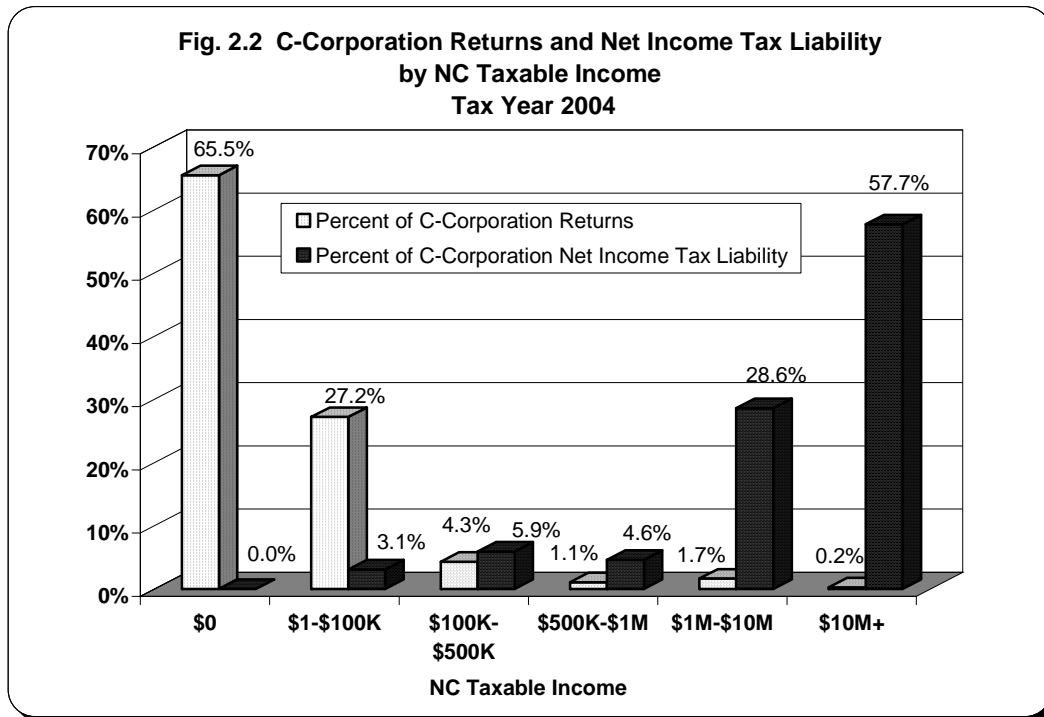


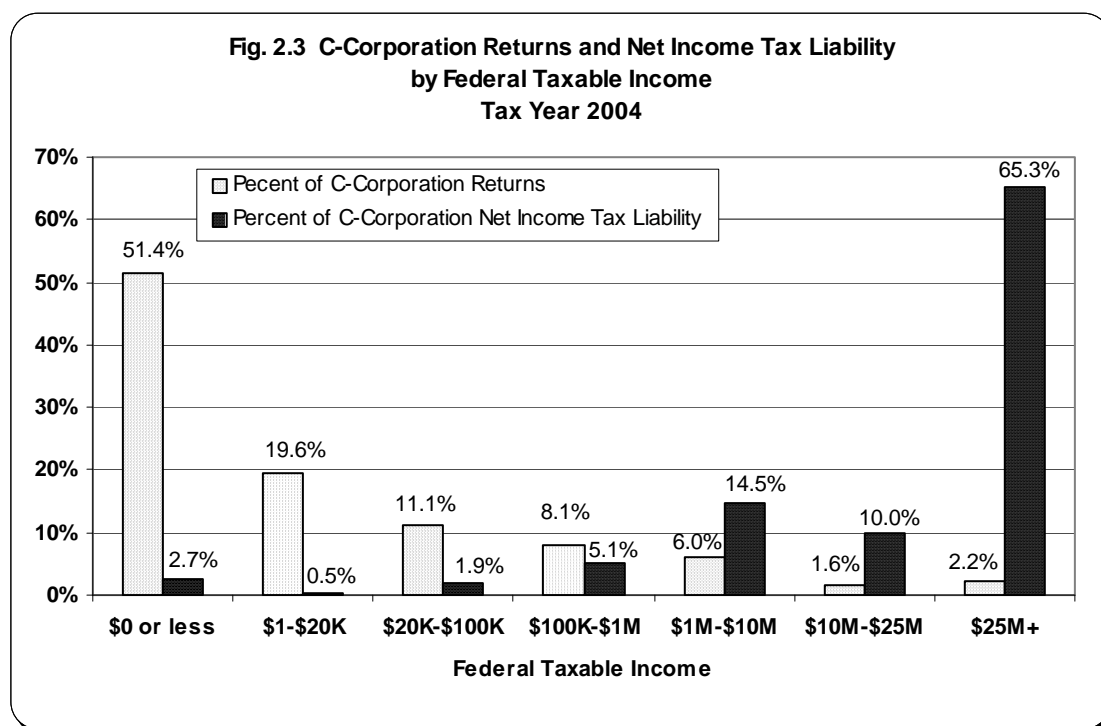
Table 2.1 and Figure 2.2 show the distribution of returns and net income tax liability by taxable income. Some corporations have no federal taxable income but pay North Carolina taxes because provisions of the State tax code require that they add back certain amounts, such as income taxes paid, to their 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 more than 80,000 C-corporations were subject to the corporation income tax in tax year 2004, 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 2004 had no North Carolina Taxable Income. Within this group of 52,788 corporations, 31,540 (60%) 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, 49% had NC Taxable Income of less than \$15,000. Less than 0.5% 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 86% 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 199 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 2004**

Federal Taxable Income	NC Apportionment Percentage					Total
	<5%	5% - 24%	25% - 49%	50% - 99%	100%	
\$0 or less	10,984	1,684	608	955	27,187	41,418
\$1 - \$20,000	764	216	121	268	14,448	15,817
\$20,001- \$100,000	1,163	419	173	448	6,737	8,940
\$100,001 - \$ 1,000,000	2,621	728	295	546	2,374	6,564
\$1,000,001 - \$10,000,000	3,335	662	225	242	340	4,804
\$10,000,001-\$25,000,000	1,055	179	34	31	24	1,323
\$25,000,001+	1,506	194	42	16	5	1,763
Total	21,428	4,082	1,498	2,506	51,115	80,629

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

**Table 2.5
C-Corporation Net Income Tax Liability by Federal Taxable Income (Before NOL) and
Apportionment Percentage
Tax Year 2004**

Federal Taxable Income	NC Apportionment Percentage					Total
	<5% [\$]	5% - 24% [\$]	25% - 49% [\$]	50% - 99% [\$]	100% [\$]	
\$0 or less	7,530,790	2,787,415	544,539	11,907,157	1,202,369	23,972,270
\$1 - \$20,000	15,241	18,367	19,964	128,983	3,906,640	4,089,195
\$20,001- \$100,000	86,322	201,490	235,782	913,343	15,264,367	16,701,304
\$100,001 - \$ 1,000,000	1,073,499	2,033,969	2,083,856	7,840,988	33,220,686	46,252,998
\$1,000,001 - \$10,000,000	12,070,973	22,999,859	14,857,553	31,688,204	49,251,851	130,868,440
\$10,000,001-\$25,000,000	14,082,725	19,953,794	11,232,473	17,607,661	27,174,955	90,051,608
\$25,000,001+	192,743,693	211,830,682	65,877,233	105,903,992	11,371,849	587,727,449
Total	227,603,243	259,825,576	94,851,400	175,990,328	141,392,717	899,663,264

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 63% of the returns filed for tax year 2004. These corporations accounted for less than 16% 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. Forty-five percent of corporation income tax was attributable to 1,700 corporations with Federal Taxable Income of over \$25 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.

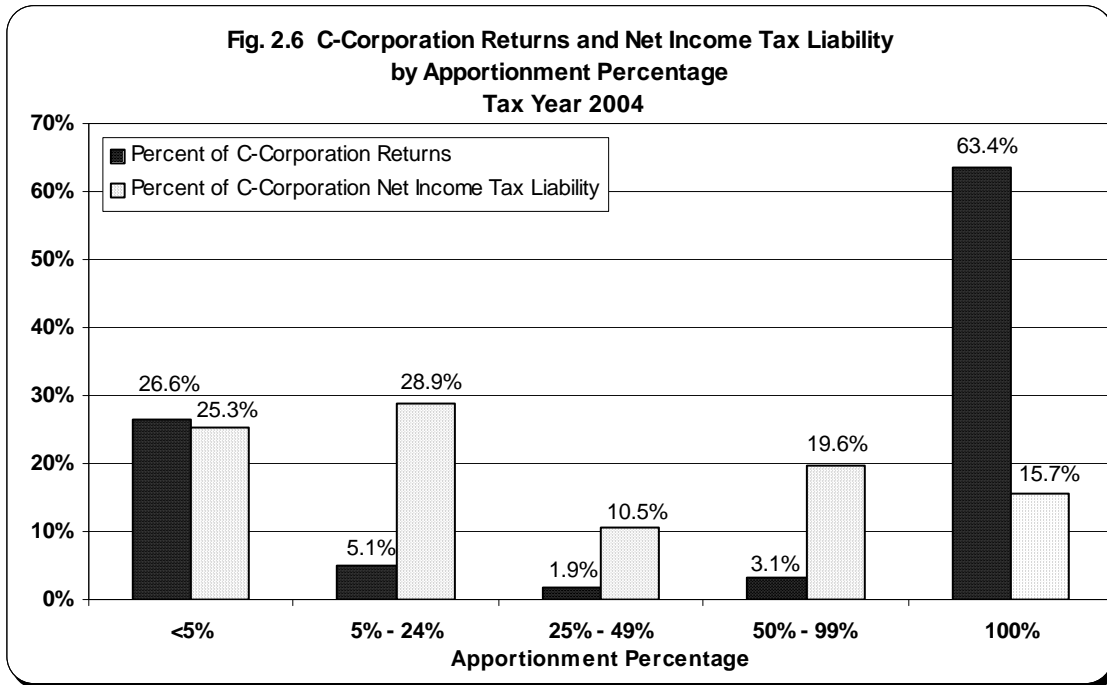


Table 2.7 shows the income tax calculation detail by federal taxable income. Out of almost 80,000 returns, 34% were taxable returns and 66% were nontaxable returns. Taxable returns with a federal taxable income over \$50 million, made up only 3% of the returns but accounted for 85% of the federal taxable income before NOL and 57% of the tax liability.

Of the 41,418 returns with federal taxable income of zero or less, 1,407 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 39,211 returns that did show a federal taxable income, 12,979 did not have a net North Carolina liability. Within this group, 2,927 did not apportion any income to North Carolina. Of those apportioning income to North Carolina, 9,261 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 2004**

			(+)	(-)	(-)	(-)	(=)
FTI of Corporation	Number of Returns	Federal Taxable Income, Before NOL	Adjustments to Federal Income	Contributions to Donees Outside NC	Nonapportionable Income	Reduction Due To Apportionment	Income Apportioned to NC
		[\$]	[\$]	[\$]	[\$]	[\$]	[\$]
Taxable Returns							
\$0 or less	1,407	(6,190,916,780)	12,521,688,675	31,964,343	36,248,796	5,857,733,500	404,825,317
\$1-\$20,000	10,066	60,907,300	26,604,836	252,799	387,032	19,057,349	67,814,819
\$20,001-\$100,000	6,223	303,083,647	71,375,893	1,838,047	3,190,130	89,542,193	279,889,172
\$100,001-\$1,000,000	4,392	1,559,297,345	483,959,456	8,848,261	26,324,642	1,254,407,847	753,891,043
\$1,000,001-\$10,000,000	3,312	12,292,955,406	4,845,017,821	85,060,251	47,588,084	14,818,273,813	2,187,051,107
\$10,000,001-\$50,000,000	1,456	33,409,385,930	8,132,841,732	225,496,063	321,905,332	38,294,637,341	2,700,188,939
\$50,000,001+	783	234,477,769,714	21,872,703,314	1,864,119,012	3,488,244,719	242,540,578,234	8,457,530,616
Total, Taxable	27,639	275,912,482,562	47,954,191,727	2,217,578,776	3,923,888,735	302,874,230,277	14,851,191,013
Nontaxable Returns							
\$0 or less	40,011	(261,021,809,810)	18,051,703,715	15,060,189	2,960,160,642	(236,091,715,077)	(9,863,169,127)
More than \$0	12,979	82,199,640,318	(10,968,151,733)	334,364,467	2,720,174,749	66,531,162,656	1,654,480,906
Total, Nontaxable	52,990	(178,822,169,492)	7,083,551,982	349,424,656	5,680,335,391	(169,560,552,421)	(8,208,688,221)

		(+)	(-)	(-)	(-)	(=)	(6.9%)	(-)	(=)
FTI of Corporation	Income Apportioned to NC	Nonapportionable Income Allocated to NC	Percentage Depletion Over Cost Depletion	Net Economic Loss	Contributions to NC Donees	Net Taxable Income	Computed Income Tax	Tax Credits	Net Tax Liability
	[\$]	[\$]	[\$]	[\$]	[\$]	[\$]	[\$]	[\$]	[\$]
Taxable Returns									
\$0 or less	404,825,317	1,906,151	-	11,269,455	530,302	394,942,834	27,251,056	3,278,786	23,972,270
\$1-\$20,000	67,814,819	169,493	2,536	5,362,042	598,871	62,020,867	4,279,270	190,115	4,089,195
\$20,001-\$100,000	279,889,172	2,180,631	21,353	25,865,963	2,469,139	253,686,534	17,504,502	803,198	16,701,304
\$100,001-\$1,000,000	753,891,043	6,196,351	759,279	61,077,940	5,524,127	692,719,597	47,796,592	1,543,594	46,252,998
\$1,000,001-\$10,000,000	2,187,051,107	(23,661,796)	1,338,198	108,928,822	13,174,634	2,039,948,131	140,753,016	9,934,175	130,868,440
\$10,000,001-\$50,000,000	2,700,188,939	34,548,078	14,955,568	89,766,405	9,353,120	2,620,727,157	180,830,164	11,808,934	169,021,230
\$50,000,001+	8,457,530,616	(13,649,044)	8,369,217	389,036,585	53,657,206	7,992,818,564	551,504,477	42,746,650	508,757,827
Total, Taxable	14,851,191,013	7,689,864	25,446,151	691,307,212	85,307,399	14,056,863,684	969,919,077	70,305,452	899,663,264
Nontaxable Returns									
\$0 or less	(9,863,169,127)	(50,746,268)	27,789,954	10,478,780,833	2,805,743	(20,418,338,786)	-	-	-
More than \$0	1,654,480,906	7,088,362	24,346,290	6,804,556,736	4,973,990	(5,166,452,629)	6,044,134	6,044,134	-
Total, Nontaxable	(8,208,688,221)	(43,657,906)	52,136,244	17,283,337,569	7,779,733	(25,584,791,415)	6,044,134	6,044,134	-

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-six percent of the returns did not take any income tax credit. Forty-one percent of the returns taking credits had over 40% of their tax relieved by the income tax credits. These returns accounted for 42% of the total credits taken.

**Table 2.8
C-Corporation Returns by Income Tax Credits as a Percentage of Tax
Tax Year 2004**

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	41,240	14	7	11	18	128	41,418
\$1 - \$20,000	14,988	65	48	59	84	573	15,817
\$20,001- \$100,000	7,872	209	151	167	174	367	8,940
\$100,001 - \$ 1,000,000	5,888	284	136	75	55	126	6,564
\$1,000,001 - \$10,000,000	4,540	126	21	25	16	76	4,804
\$10,000,001-\$50,000,000	1,914	31	18	15	21	35	2,034
\$50,000,001+	958	28	9	13	17	27	1,052
Total	77,400	757	390	365	385	1,332	80,629

Note: 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 2004**

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	-	12,952	7,896	1,402,028	1,507,067	348,843	3,278,786
\$1 - \$20,000	-	2,046	3,358	9,396	20,129	155,187	190,116
\$20,001- \$100,000	-	20,888	48,506	102,275	214,857	416,674	803,200
\$100,001 - \$ 1,000,000	-	165,123	164,366	169,667	232,988	837,754	1,569,898
\$1,000,001 - \$10,000,000	-	230,374	268,948	354,445	2,651,884	6,527,847	10,033,498
\$10,000,001-\$50,000,000	-	212,401	611,548	1,637,038	2,404,216	6,943,731	11,808,934
\$50,000,001+	-	3,600,863	2,662,506	7,590,275	17,980,304	16,831,206	48,665,154
Total		4,244,647	3,767,128	11,265,124	25,011,445	32,061,242	76,349,586

Note: 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 more than half of the tax credits.

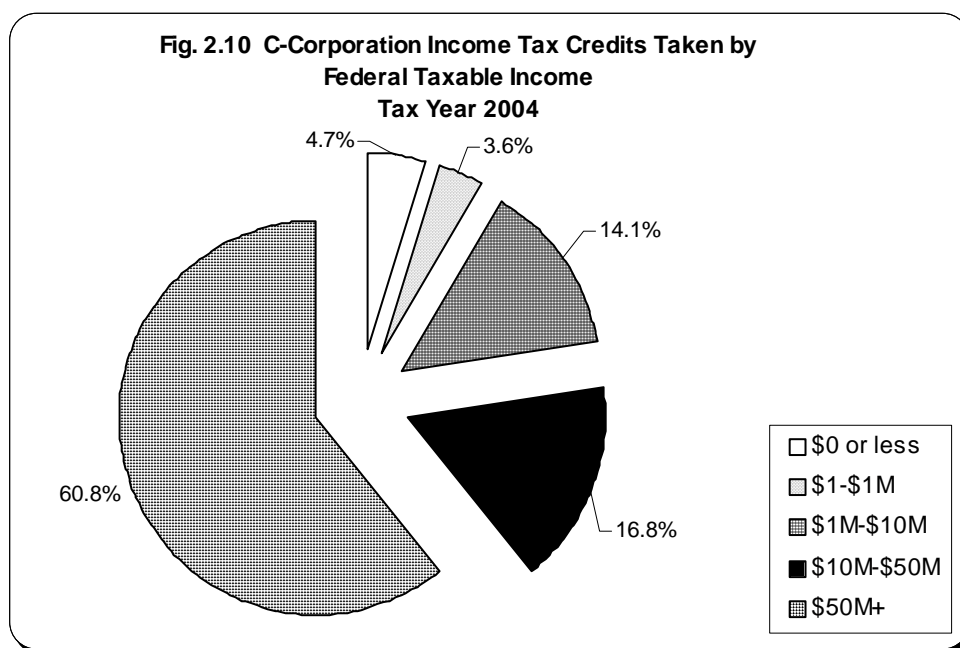


Table 2.11 provides the distribution of income tax credits by credit type and federal taxable income. Corporations with federal taxable income over \$1 million took 94% of the credits. The most claimed credits were in the category, Lee Act and Other Limited Credits.

**Table 2.11
C-Corporation Income Tax Credits by Credit Type and Federal Taxable Income (Before NOL)
Tax Year 2004**

Income Tax Credits	All Returns		FTI =<\$1,000,000		FTI >=\$1,000,001+	
	Number of Credits*	Amount Claimed (\$)	Number of Credits	Amount Claimed (\$)	Number of Credits	Amount Claimed (\$)
Rehabilitating a Historic Structure	36	8,711,674	23	3,433,054	13	5,278,620
Certain Real Property Donation	6	1,068,576	3	58,128	3	1,010,448
Savings and Loan Supervisory Fees	12	157,899	6	36,422	6	121,477
Other Non-Limited Credits	34	7,508,571	18	26,297	16	7,482,274
Carryover from Previous Years Credits	19	222,043,398	14	1,968,160	5	220,075,238
Reinvestments by Major Recycling Facilities	3	35,273	3	35,273	-	-
Lee Act and Other Limited Credits	3,179	74,829,154	2,727	4,425,425	452	70,403,729
Credits Claimed	3,289	314,354,545	2,794	9,982,759	495	304,371,786
Credits Not Taken **	--	238,004,959	--	5,710,657	--	232,294,302
Credits Taken	--	76,349,586	--	4,272,102	--	72,077,484

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

** 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 2004**

NC Taxable Income	Number of Returns	Percent	Number With Tax Due for Nonresidents	Net Tax Liability [\$]	Percent
\$0 or less*	46,507	39.32%	25	11,476	0.03%
\$1-\$15,000	24,593	20.79%	1,632	518,508	1.27%
\$15,001-30,000	11,911	10.07%	457	569,783	1.39%
\$30,001-\$50,000	9,568	8.09%	358	793,292	1.94%
\$50,001-\$100,000	11,000	9.30%	392	1,574,001	3.85%
\$100,001-\$500,000	11,839	10.01%	638	8,626,365	21.10%
\$500,001-\$1,000,000	1,593	1.35%	147	5,660,866	13.85%
\$1,000,001+	1,257	1.06%	136	23,125,904	56.57%
Total	118,268	100.00%	3,785	40,880,195	100.00%

* 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.

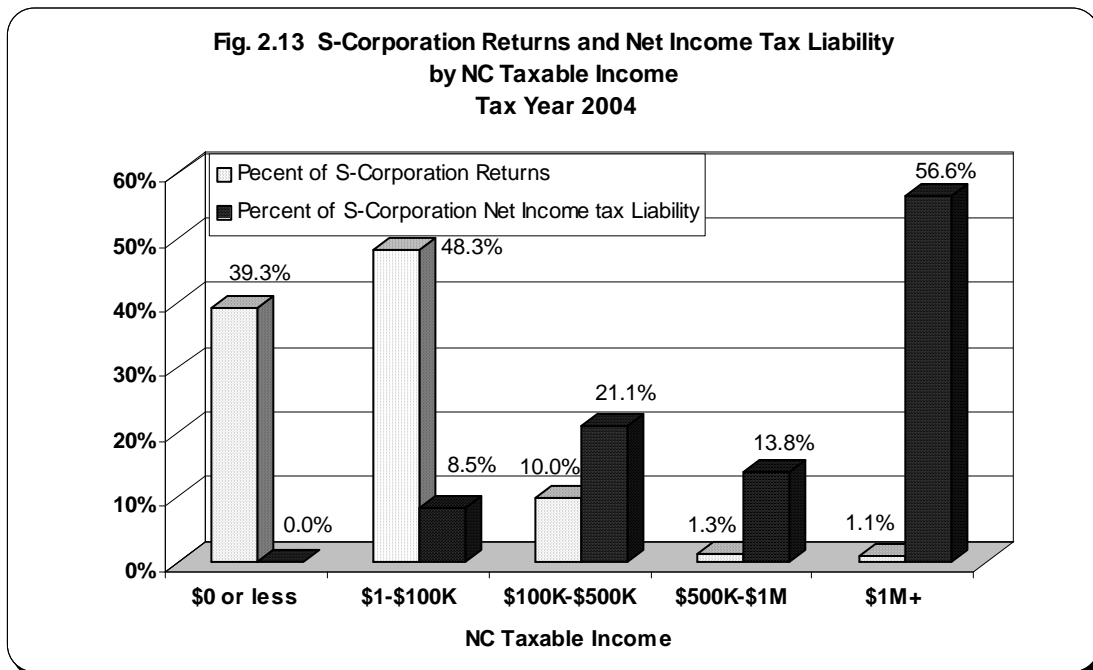
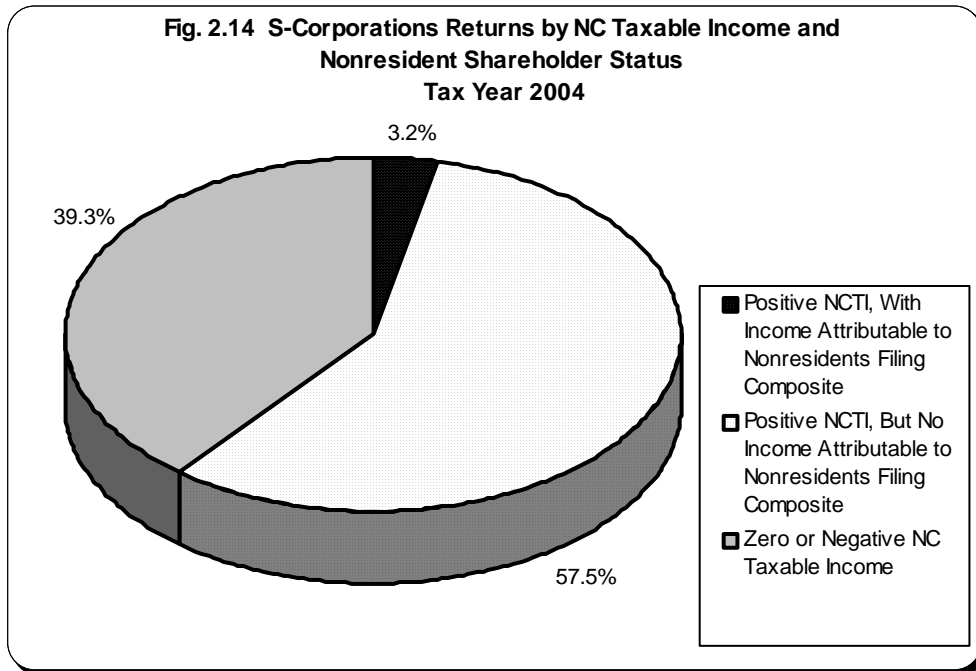


Table 2.12 and Figure 2.13 show the number of returns and net income tax liability by North Carolina taxable income. Corporations with taxable income of \$1 million or more accounted for 57% of the tax liability.

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 2004**

		(+)	(+)	(-)	(-)	(=)	(+)
	Number of Returns	Corporation Income [\$]	Adjustments to Federal Income [\$]	Nonapportionable Income [\$]	Reduction Due To Apportionment [\$]	Income Apportioned to NC [\$]	Nonapportionable Income Allocated to NC [\$]
NC Taxable Income							
Taxable Returns							
Zero or Negative	46,483	11,622,395,996	(11,116,148,322)	1,927,100,577	(2,108,936,117)	(1,609,702,494)	(11,103,948)
Positive, But No Income Attributable to Nonresidents Filing Composite	68,002	19,949,142,208	365,668,068	389,985,214	11,870,382,955	7,869,630,891	83,028,591
Positive, With Income Attributable to Nonresidents Filing Composite	3,783	18,021,936	1,288,711,954	1,111,090,374	17,448,644,911	669,910,993	13,742,405
Total	118,268	31,589,560,140	(9,461,768,300)	3,428,176,165	27,210,091,749	6,929,839,390	85,667,048

	(-)	(=)	(+)	(=)	Separately Stated Income Attributable to Nonresidents	(Tax Rates%) Computed Net Income Tax [\$]	(-) Tax Credits [\$]	(=) Net Tax Liability [\$]
NC Taxable Income								
Taxable Returns								
Zero or Negative*	636,209	(1,621,534,350)	1,564,094,552	(57,439,798)	113,195	2,664	-	5,379
Positive, But No Income Attributable to Nonresidents Filing Composite*	16,054,750	7,936,626,631	(7,936,642,604)	(15,973)	188,076	599,650	-	599,650
Positive, With Income Attributable to Nonresidents Filing Composite	572,059	683,081,339	(117,912,844)	565,168,495	2,353,254	40,729,548	454,390	40,275,166
Total	17,263,018	6,998,173,620	(6,490,460,896)	507,712,724	2,654,525	41,331,862	454,390	40,880,195

* 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 \$100,000 took 82% of the credits.

**Table 2.16
S-Corporation Income Tax Credits by Credit Type and Taxable Income
Tax Year 2004**

Income Tax Credits	All Returns		Taxable Income <\$100,001		Taxable Income \$100,001+	
	Number of Credits *	Amount Claimed (\$)	Number of Credits	Amount Claimed (\$)	Number of Credits	Amount Claimed (\$)
Rehabilitating a Historic Structure	11	89,186	6	554	5	88,632
Carryover from Previous Years Credits	6	91,124	w	w	w	w
Lee Act and Other Limited Credits	123	416,669	47	26,712	76	389,957
Other **	10	169,214	6	105,350	4	63,864
Credits Claimed	150	766,193	63	221,840	87	544,353
Credits Not Taken ***	--	311,803	--	141,946	--	169,857
Credits Taken	--	454,390	--	79,894	--	374,496

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

** This category includes Certain Real Property Donation, and Other Non-Limited 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.

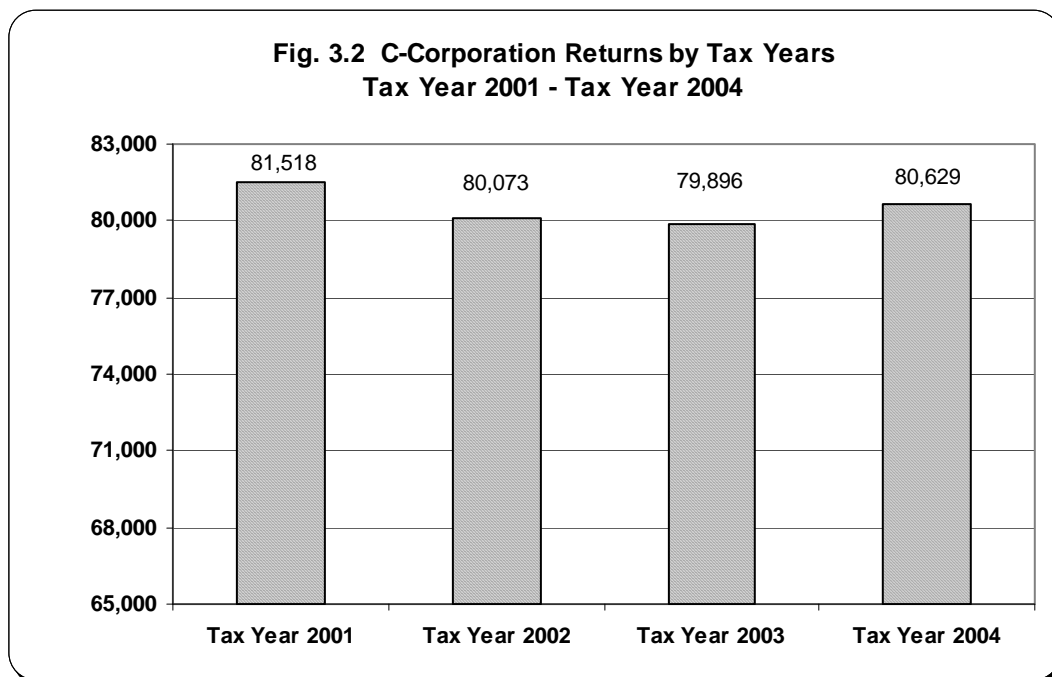
C-CORPORATIONS

Table 3.1, Figure 3.2 and Figure 3.3 compare the number of returns by tax years. In 2002 and 2003 , the number of returns decreased by 1,445 and 177 returns but in 2004 it increased by 733 returns. The 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, in 2003, 1,932 C-corporations converted, and in 2004 it was 1,922 C-corporations. The increase in 2004 was due to 4,973 first time C-corporation filers.

**Table 3.1
C-Corporation Returns by NC Taxable Income
Tax Year 2001 – Tax Year 2004**

NC Taxable Income	Number of Returns TY 2001	Number of Returns TY 2002	% Change	Number of Returns TY 2003	% Change	Number of Returns TY 2004	% Change
\$0 or less	53,559	53,515	-0.08%	53,308	-0.39%	52,788	-0.98%
\$1-\$15,000	14,059	13,193	-6.16%	13,397	1.55%	13,533	1.02%
\$15,001-\$30,000	3,392	3,275	-3.45%	3,156	-3.63%	3,230	2.34%
\$30,001-\$50,000	2,540	2,369	-6.73%	2,256	-4.77%	2,380	5.50%
\$50,001-\$100,000	2,829	2,608	-7.81%	2,517	-3.49%	2,810	11.64%
\$100,001-\$500,000	3,257	3,158	-3.04%	3,218	1.90%	3,488	8.39%
\$500,001-\$1,000,000	733	744	1.50%	739	-0.67%	868	17.46%
\$1,000,001-\$10,000,000	997	1,053	5.62%	1,151	9.31%	1,333	15.81%
\$10,000,001+	152	158	3.95%	154	-2.53%	199	29.22%
Total	81,518	80,073	-1.77%	79,896	-0.22%	80,629	0.92%

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



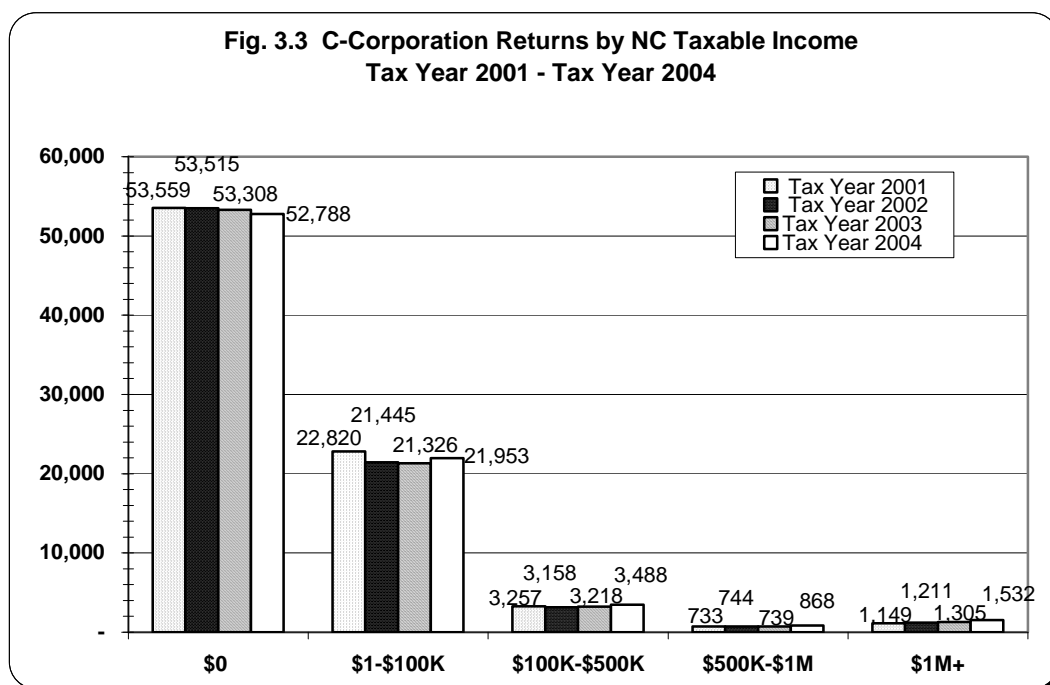


Table 3.4 and Figure 3.5 show the net income tax liability by North Carolina taxable income. In 2002, the liability increased by \$40 million, in 2003, it declined by \$9 million, and again in 2004 it increased by \$172 million. This trend in 2002 was the result of a one year \$36 million spike in the 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 2004**

NC Taxable Income	Net Income Tax Liability * TY 2001	Net Income Tax Liability * TY 2002	% Change	Net Income Tax Liability * TY 2003	% Change	Net Income Tax Liability * TY 2004	% Change
\$0 or less	--	--	--	--	--	--	--
\$1-\$15,000	3,964,846	3,833,480	-3.31%	3,776,491	-1.49%	3,878,329	2.70%
\$15,001-\$30,000	4,784,904	4,611,579	-3.62%	4,519,503	-2.00%	4,641,577	2.70%
\$30,001-\$50,000	6,430,697	6,032,744	-6.19%	5,788,197	-4.05%	6,231,735	7.66%
\$50,001-\$100,000	12,813,774	11,894,096	-7.18%	11,676,194	-1.83%	13,201,031	13.06%
\$100,001-\$500,000	47,407,894	46,160,786	-2.63%	48,488,171	5.04%	53,494,741	10.33%
\$500,001-\$1,000,000	34,698,782	35,054,191	1.02%	35,376,798	0.92%	41,639,618	17.70%
\$1,000,001-\$10,000,000	185,023,140	191,705,268	3.61%	215,641,627	12.49%	257,387,712	19.36%
\$10,000,001+	401,098,604	437,518,061	9.08%	401,674,284	-8.19%	519,188,521	29.26%
Total	696,222,641	736,810,205	5.83%	726,941,265	-1.34%	899,663,264	23.76%

* 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.

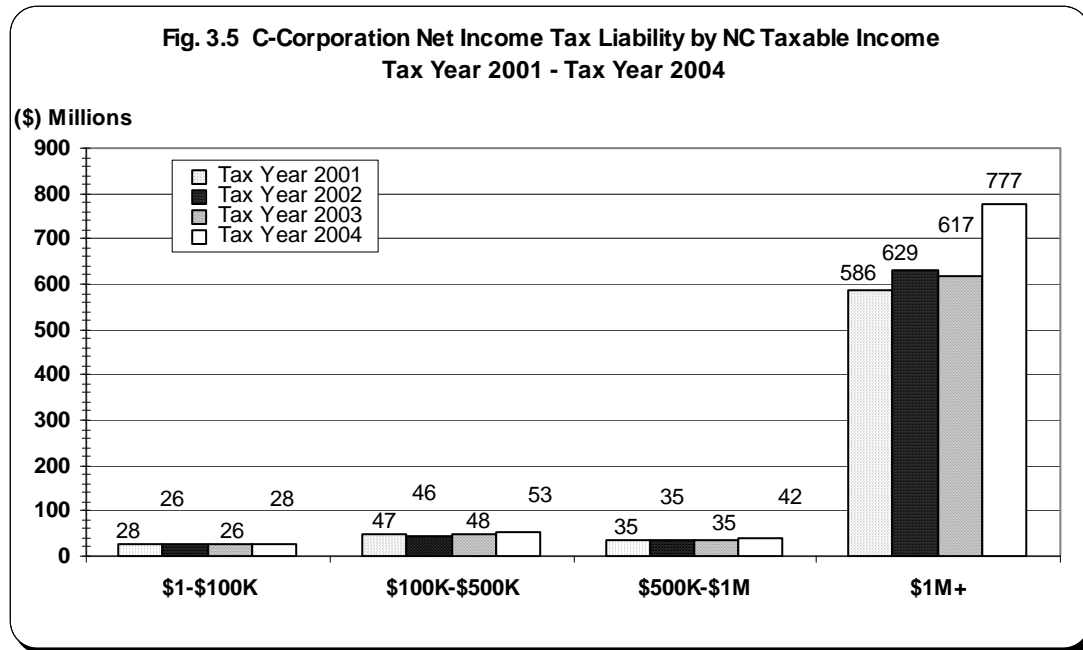


Table 3.6 shows the tax credits by credit type. In 2002 and 2004, credits increased by \$6 million and \$20 million due largely to increased use of the Lee Act credits by a small number of taxpayers.

**Table 3.6
C-Corporation Income Tax Credits by Credit Type
Tax Year 2001 – Tax Year 2004**

Income Tax Credits	Tax Year 2001		Tax Year 2002		Tax Year 2003		Tax Year 2004	
	Number of Credits	Amount Claimed (\$)	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	36	8,711,674
Savings and Loan Supervisory Fees	13	277,090	20	218,440	14	157,804	12	157,899
Carryover from Previous Years Credits	15	490,205	18	1,418,388	8	1,757,168	19	222,043,398
Lee Act and Other Limited Credits	4,967	45,065,260	4,270	60,893,338	3,565	48,882,783	3,179	74,829,154
Others *	33	4,047,421	54	4,978,747	37	8,370,470	43	8,612,420
Credits Claimed **	5,041	52,914,488	4,383	72,132,668	3,640	62,317,165	3,289	314,354,545
Credits Not Taken ***	--	3,955,026	--	16,306,663	--	6,136,426	--	238,004,959
Credits Taken *	--	48,959,462	--	55,826,005	--	56,180,748	--	76,349,586

* 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 2004**

% of Tax Relieved by Credits	Number of Taxpayers TY 2001	Number of Taxpayers TY 2002	Number of Taxpayers TY 2003	Number of Taxpayers TY 2004
0%	76,503	75,760	76,275	77,400
0 - 4.9 %	905	755	710	757
5 - 9.9 %	566	502	405	390
10 - 19.9 %	721	585	475	365
20 - 39.9 %	776	652	484	385
40 % +	2,047	1,819	1,547	1,332
Total	81,518	80,073	79,896	80,629

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 2004**

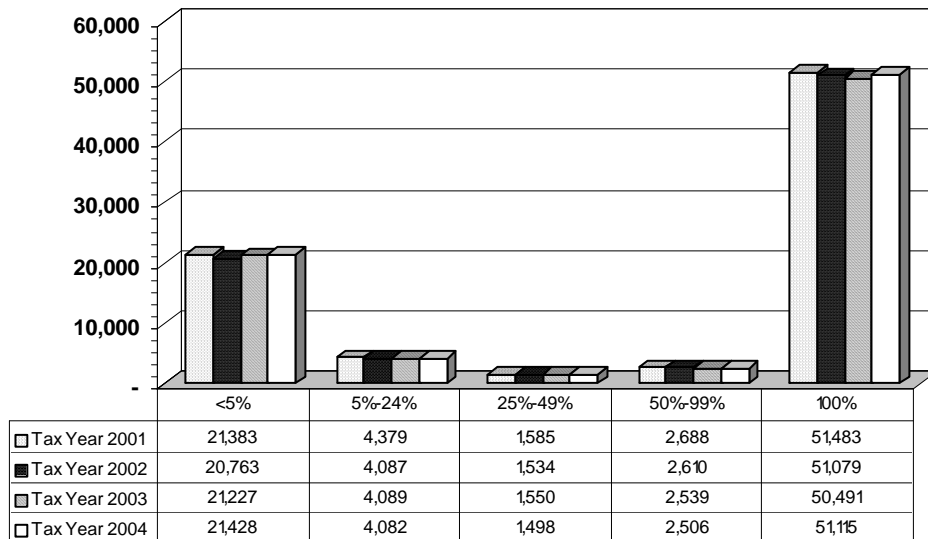
% of Tax Relieved by Credits	Amount of Tax Relieved TY 2001	Amount of Tax Relieved TY 2002	Amount of Tax Relieved TY 2003	Amount of Tax Relieved TY 2004
0%	-	-	-	-
0 - 4.9 %	2,349,558	2,374,899	1,163,095	4,244,647
5 - 9.9 %	3,398,659	3,443,826	3,934,006	3,767,128
10 - 19.9 %	16,929,489	6,330,879	10,444,312	11,265,124
20 - 39.9 %	6,138,221	24,870,686	19,368,503	25,011,445
40 % +	20,143,535	18,805,715	21,270,832	32,061,242
Total	48,959,462	55,826,005	56,180,748	76,349,586

* 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.

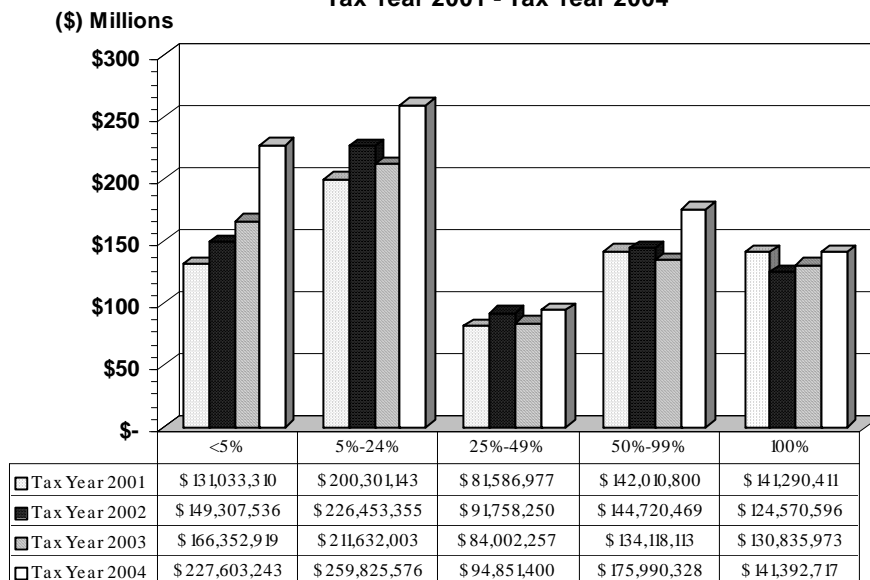
Note: Figures are based on both audited and unaudited returns. Detail may not add to totals due to rounding or taxpayer error.

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 in 2003 and 2004.

**Fig. 3.9 C-Corporation Returns by Apportionment Percentage
Tax Year 2001 - Tax Year 2004**



**Fig. 3.10 C-Corporation Net Income Tax Liability
by Apportionment Percentage
Tax Year 2001 - Tax Year 2004**



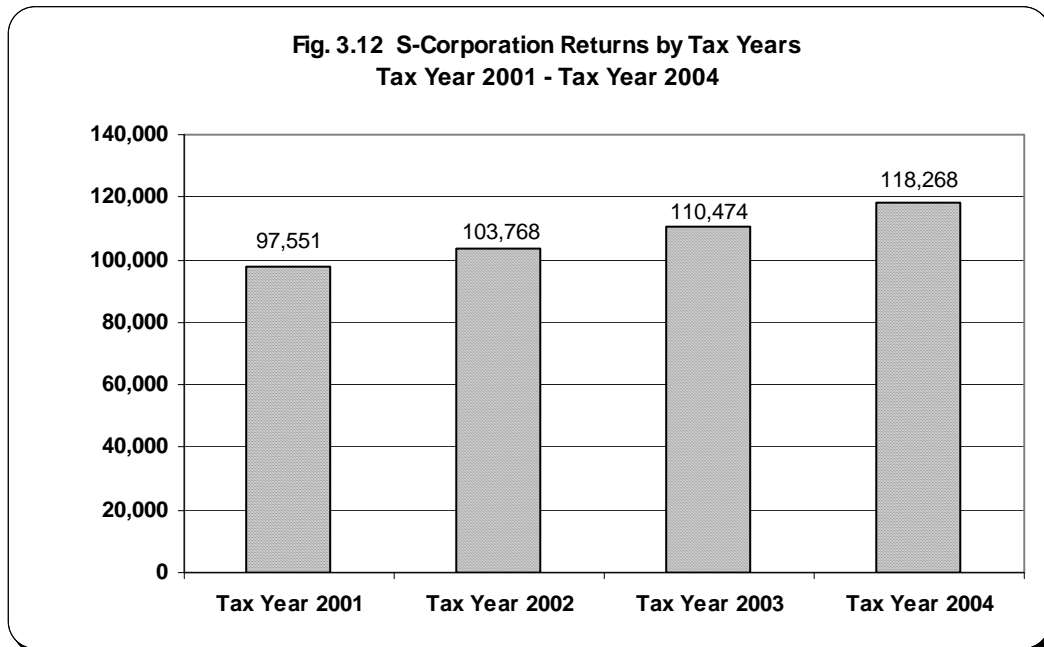
S-CORPORATIONS

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, in 2003, it increased by 6,706, and in 2004, by 7,794 returns. In 2002, 1,990 C-corporations converted to S-corporations, in 2003, 1,932 C-corporations converted, and in 2004, 1922 C-corporations.

**Table 3.11
S-Corporation Returns by NC Taxable Income
Tax Year 2001 – Tax Year 2004**

NC Taxable Income	Number of Returns TY 2001	Number of Returns TY 2002	% Change	Number of Returns TY 2003	% Change	Number of Returns TY 2004	% Change
\$0 or less	41,432	43,360	4.65%	45,450	4.82%	46,507	2.33%
\$1-\$15,000	19,983	21,689	8.54%	23,300	7.43%	24,593	5.55%
\$15,001-\$30,000	9,749	10,401	6.69%	11,113	6.85%	11,911	7.18%
\$30,001-\$50,000	7,564	8,210	8.54%	8,591	4.64%	9,568	11.37%
\$50,001-\$100,000	8,454	9,019	6.68%	9,857	9.29%	11,000	11.60%
\$100,001-\$500,000	8,509	9,066	6.55%	9,956	9.82%	11,839	18.91%
\$500,001-\$1,000,000	1,072	1,169	9.05%	1,217	4.11%	1,593	30.90%
\$1,000,001+	788	854	8.38%	990	15.93%	1,257	26.97%
Total	97,551	103,768	6.37%	110,474	6.46%	118,268	7.06%

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



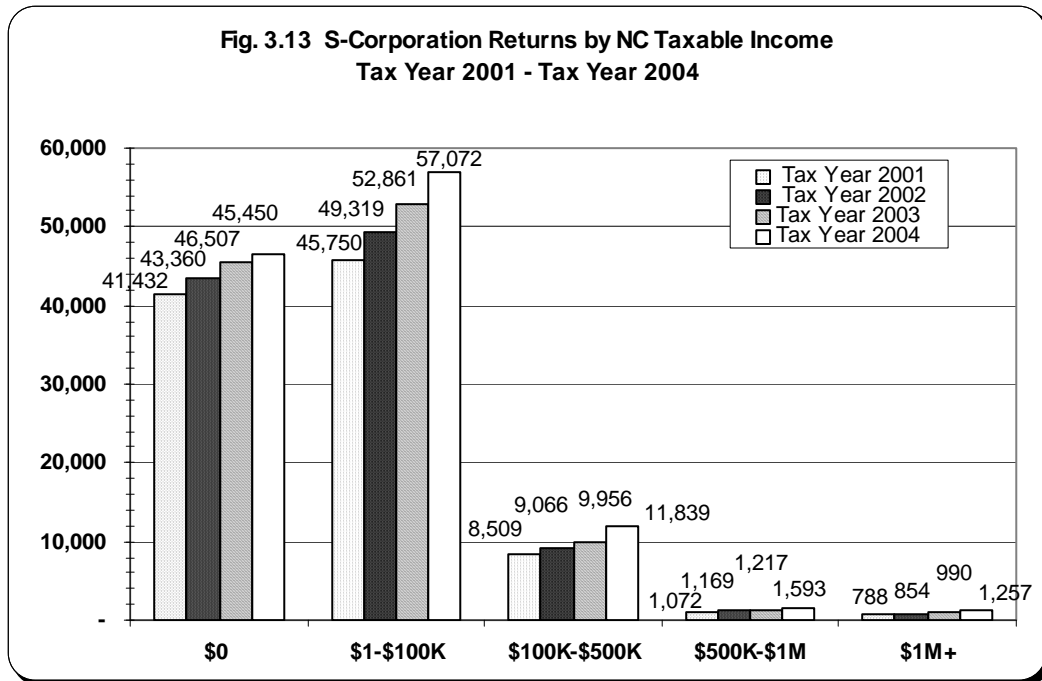


Table 3.14 and Figure 3.15 show the net income tax liability by taxable income. In 2002, the liability increased by \$5 million, and in 2003, it increased by \$8 million. The increase was due almost entirely to higher taxes paid for nonresident shareholders of corporations with taxable income over \$1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

**Table 3.14
S-Corporation Net Income Tax Liability by NC Taxable Income
Tax Year 2001 – Tax Year 2004**

NC Taxable Income	Net Income Tax Liability TY 2001	Net Income Tax Liability TY 2002	% Change	Net Income Tax Liability TY 2003	% Change	Net Income Tax Liability TY 2004	% Change
\$0 or less	3,787	7,240	91.18%	11,531	59.27%	11,476	-0.48%
\$1-\$15,000	380,158	390,908	2.83%	411,971	5.39%	518,508	25.86%
\$15,001-\$30,000	415,316	459,594	10.66%	508,839	10.71%	569,783	11.98%
\$30,001-\$50,000	548,170	640,279	16.80%	607,737	-5.08%	793,292	30.53%
\$50,001-\$100,000	1,220,923	1,427,036	16.88%	1,486,371	4.16%	1,574,001	5.90%
\$100,001-\$500,000	6,526,510	6,725,469	3.05%	6,805,245	1.19%	8,626,365	26.76%
\$500,001-\$1,000,000	4,038,374	4,883,568	20.93%	4,623,761	-5.32%	5,660,866	22.43%
\$1,000,001+	10,087,916	14,167,431	40.44%	22,900,120	61.64%	23,125,904	0.99%
Total	23,221,154	28,701,525	23.60%	37,355,575	30.15%	40,880,195	9.44%

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

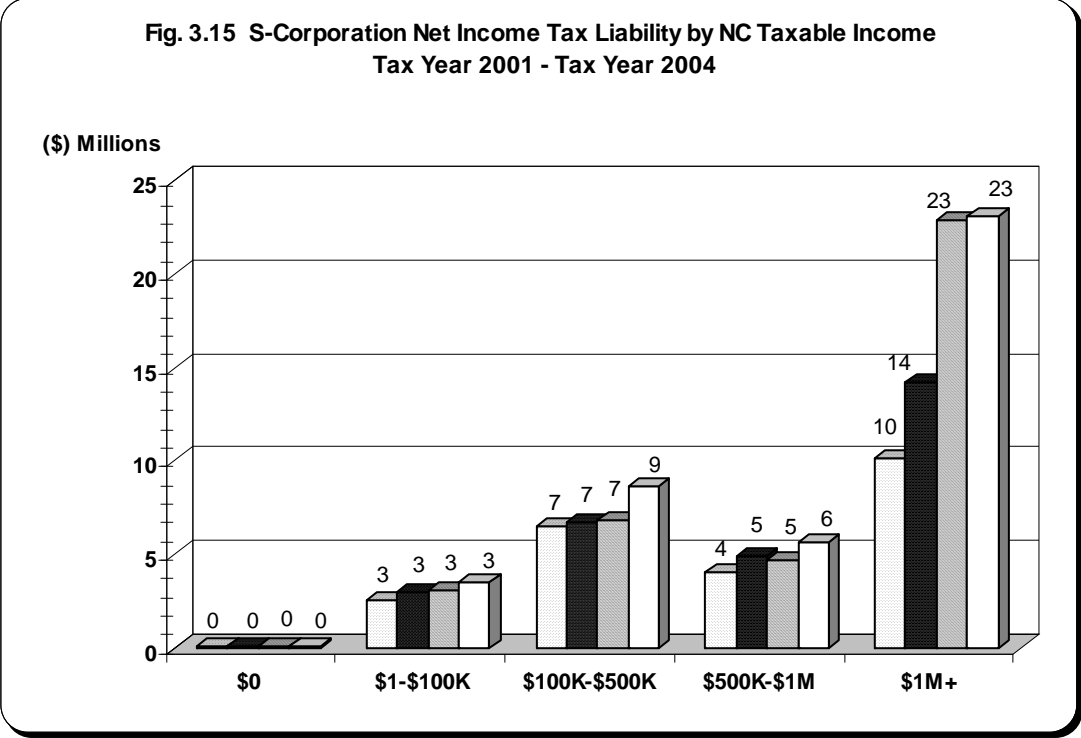
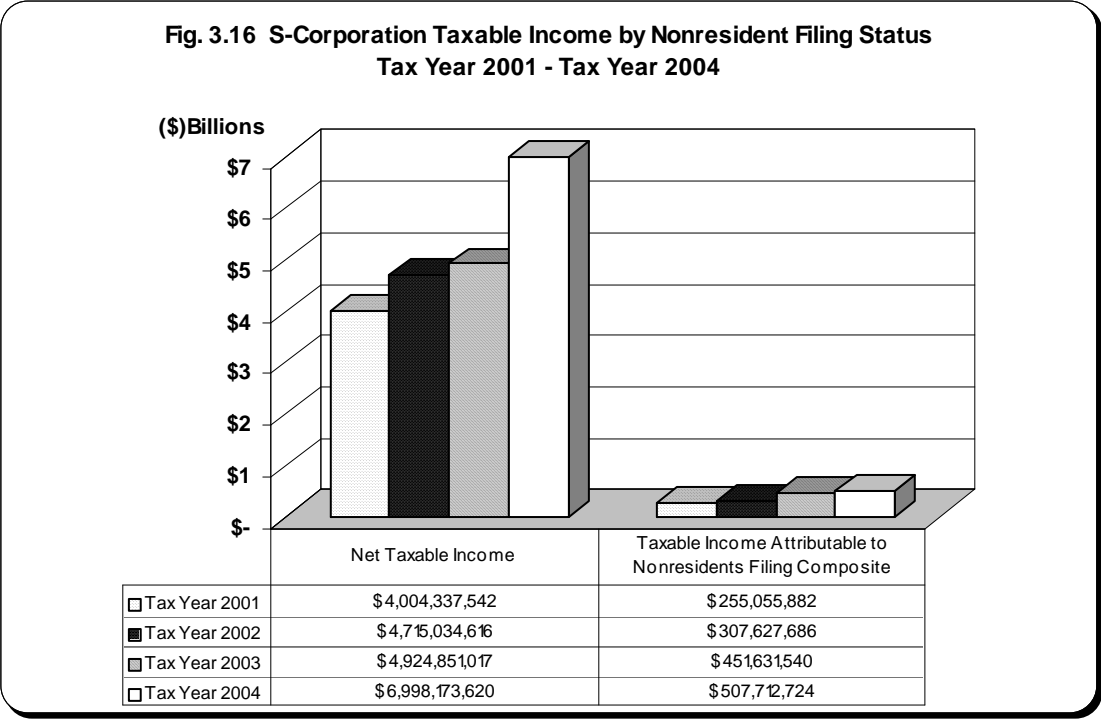


Figure 3.16 shows the net taxable income and taxable income attributable to nonresidents filing composite. There was an increase in the net taxable income and in the nonresident taxable income for all four tax years.



**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, in 2003, it increased by \$60,000, and in 2004, it increased by \$177,724. 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 2004**

Income Tax Credits	Tax Year 2001		Tax Year 2002		Tax Year 2003		Tax Year 2004	
	Number of Credits	Amount Claimed (\$)	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	6	91,124
Lee Act and Other Limited Credits	144	289,410	330	574,716	245	539,054	123	416,669
Others *	4	26,923	27	101,241	34	37,989	21	258,400
Credits Claimed	148	316,333	369	681,075	291	588,469	150	766,193
Credits Not Taken **	--	23,735	--	280,928	--	127,631	--	311,803
Credits Taken	--	292,598	--	400,147	--	460,838	--	454,390

* 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.