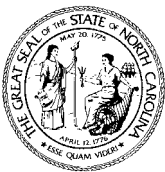


North Carolina

**Corporation Income and Business
Franchise Taxes**

Tax Year 2005

Statistics and Trends



**Policy Analysis and
Statistics Division**

North Carolina

**Corporation Income and Business
Franchise Taxes**

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**Policy Analysis and Statistics Division
September 2008**

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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 2005. 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 2005 were processed until October 2007.

In October 2007, 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 five 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. The Statistical Abstract and this report are also available on the Department's website at: <http://www.dornc.com/publications/>.

Questions regarding this report may be directed to William L. Spencer, Director, Policy Analysis and Statistics Division, at (919) 733-4548.

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 2005. 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. The Secretary of Revenue has the authority to approve an alternative method of apportionment if the taxpayer can establish evidence that the statutory formula operates to subject a greater portion of the corporation's income to tax than is attributable to its business in the State. 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 2005 tax year returns, followed by investment in tangible property base (17%), and appraised values in property base (8%). Thirty-one percent of the returns listed no assets because: 1) the taxpayer was exempt from franchise tax; 2) the 2005 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 2005**

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	24,727	8,687	2,698	2,079	38,191
\$23,668-\$100,000	-	7,023	3,303	1,946	12,272
\$100,001-\$1,000,000	-	12,501	4,740	2,193	19,434
\$1,000,001-\$5,000,000	-	4,051	1,512	435	5,998
\$5,000,001-\$20,000,000	-	1,765	689	111	2,565
\$20,000,001-\$40,000,000	-	532	185	29	746
\$40,000,001+	-	699	243	19	961
Total	24,727	35,258	13,370	6,812	80,167

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 (77%) 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 2005**

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	593,167	301,657	90,972	68,343	1,054,139
\$23,668-\$100,000	-	564,917	253,172	133,157	951,246
\$100,001-\$1,000,000	-	6,453,619	2,218,496	930,872	9,602,987
\$1,000,001-\$5,000,000	-	13,032,431	4,792,455	1,243,024	19,067,910
\$5,000,001-\$20,000,000	-	25,415,004	9,421,244	1,455,687	36,291,935
\$20,000,001-\$40,000,000	-	21,240,450	6,949,022	1,222,307	29,411,779
\$40,000,001+	-	148,809,476	33,852,748	2,681,427	185,343,651
Total	593,167	215,817,554	57,578,109	7,734,817	281,723,647

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

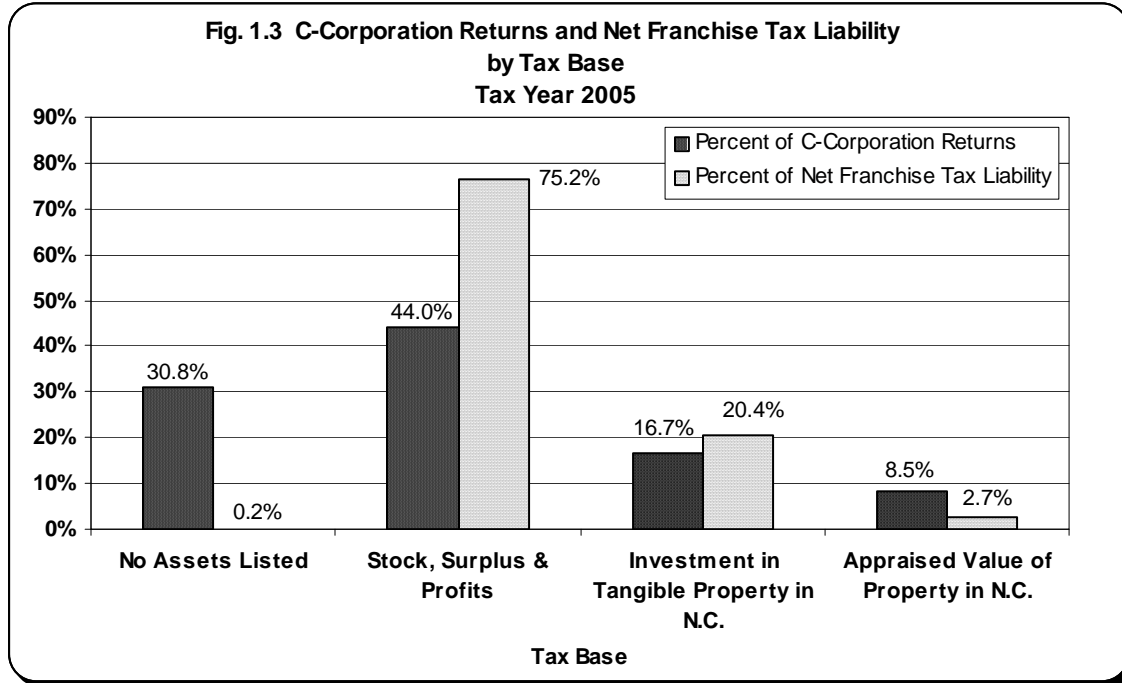


Table 1.4 and Figure 1.5 provide the distribution of C-corporation returns and net franchise tax liability. The top 5% of the returns, by taxable amount, paid 89% of the tax. Taxpayers with franchise taxable amount over \$40 million made up 1% of the returns, but paid 66% of net franchise tax.

**Table 1.4
C-Corporation Returns and Net Franchise Tax Liability by Franchise Taxable Amount
Tax Year 2005**

Franchise Taxable Amount	Number of Returns		Net Franchise Tax Liability (\$)	
	Number of Returns	Percent	Liability (\$)	Percent
\$0-\$23,667	38,191	47.6%	1,054,139	0.4%
\$23,668-\$100,000	12,272	15.3%	951,246	0.3%
\$100,001-\$1,000,000	19,434	24.2%	9,602,987	3.4%
\$1,000,001-\$5,000,000	5,998	7.5%	19,067,910	6.8%
\$5,000,001-\$20,000,000	2,565	3.2%	36,291,935	12.9%
\$20,000,001-\$40,000,000	746	0.9%	29,411,779	10.4%
\$40,000,001+	961	1.2%	185,343,651	65.8%
Total	80,167	100.0%	281,723,647	100.0%

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

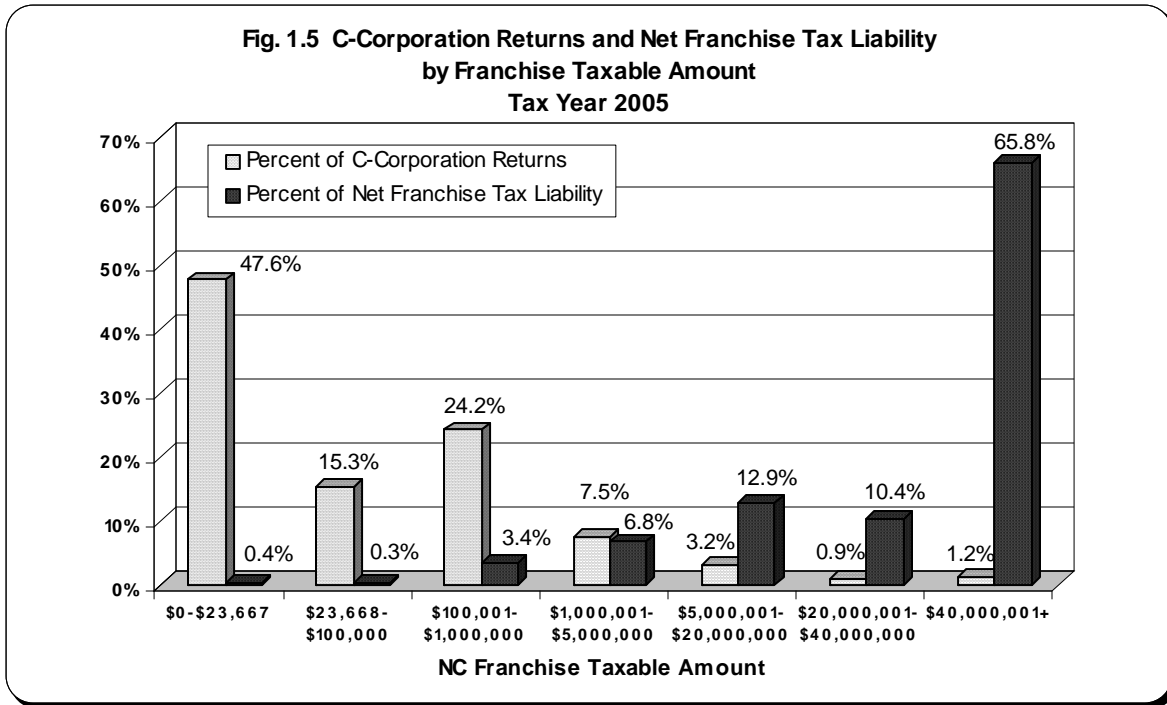


Table 1.6 and Figure 1.7 show the number of returns taking franchise tax credits and amount of credits taken. Returns with franchise taxable amount greater than \$40 million comprised only 5% of the returns taking credits, but 88% of the credits taken.

**Table 1.6
C-Corporation Returns Taking Franchise Tax Credits and Amount of Credits Taken
Tax Year 2005**

Franchise Taxable Amount	Number of Returns		Amount of Credits	
	Taking Credits	Percent	Taken (\$)	Percent
\$0-\$23,667	793	10.3%	13,011	0.0%
\$23,668-\$100,000	1,461	19.0%	57,054	0.1%
\$100,001-\$1,000,000	3,131	40.6%	642,720	1.4%
\$1,000,001-\$5,000,000	1,147	14.9%	968,250	2.1%
\$5,000,001-\$20,000,000	592	7.7%	1,962,160	4.2%
\$20,000,001-\$40,000,000	206	2.7%	1,905,664	4.1%
\$40,000,001+	379	4.9%	40,658,325	88.0%
Total	7,709	100.0%	46,207,184	100.0%

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

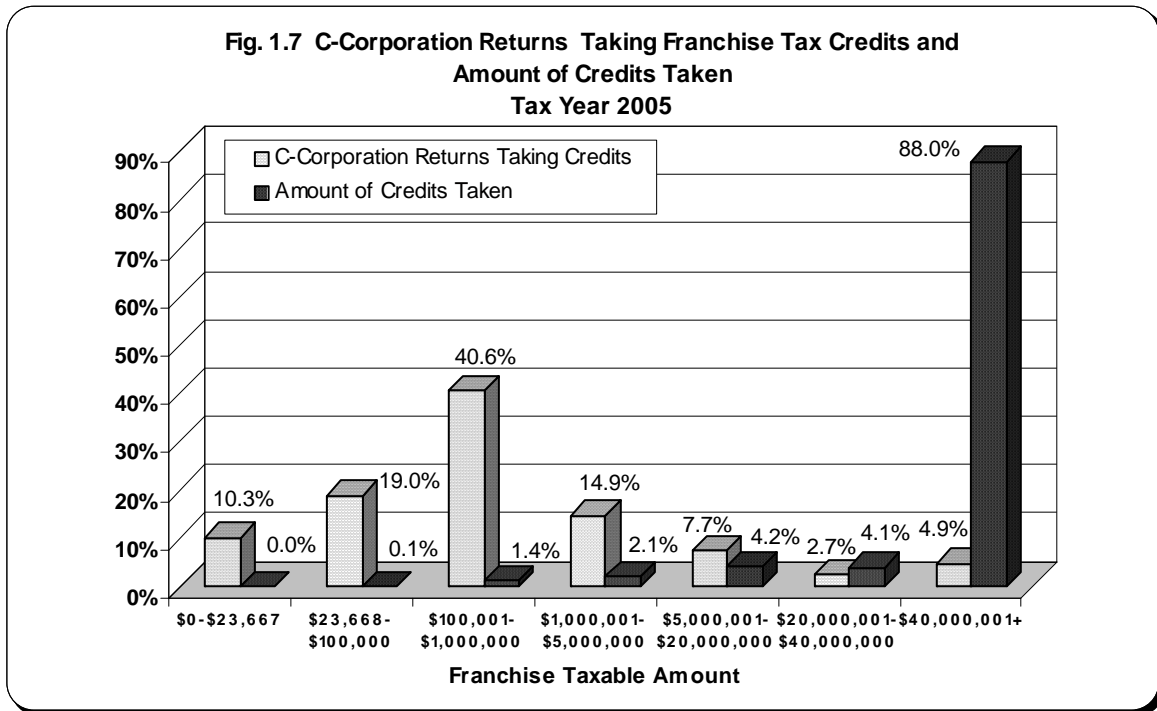


Table 1.8 shows the amount of franchise tax credits by credit type and franchise taxable amount.

**Table 1.8
C-Corporation Franchise Tax Credits Taken by Credit Type and Franchise Taxable Amount
Tax Year 2005**

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	350	4,128,191	236	207,766	114	3,920,425
Piped Natural Gas	5	18,257,708	w	w	w	w
Lee Act and Other Limited Credits	7,449	40,477,531	6,344	1,535,552	1,105	38,941,979
Others**	19	765,976	12	3,484	7	762,492
Credits Claimed	7,823	63,629,406	6,592	1,746,802	1,226	43,624,896
Credits Not Taken ***	--	17,422,222	--	65,767	--	(901,253)
Credits Taken	--	46,207,184	--	1,681,035	--	44,526,149

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.

** This category includes Major Computer Manufacturing Facility, Expenses Related to Dividends, Investing in Recycling Facility, and Other Non-Limited Franchise Credits (Credit type not stated).

*** 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 40% of 2005 tax year returns, followed by investment in tangible property base (24%), and appraised values in property (14%). Twenty-two percent of the returns listed no assets because: 1) the taxpayer was exempt from franchise tax; 2) the 2005 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 2005**

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	27,644	22,063	9,403	7,103	66,213
\$23,668-\$100,000	-	13,098	10,156	4,987	28,241
\$100,001-\$1,000,000	-	12,177	9,017	4,850	26,044
\$1,000,001-\$5,000,000	-	2,234	1,436	952	4,622
\$5,000,001-\$20,000,000	-	384	395	117	896
\$20,000,001-\$40,000,000	-	51	36	4	91
\$40,000,001+	-	22	16	6	44
Total	27,644	50,029	30,459	18,019	126,151

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 (48%) 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 2005**

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	754,330	763,262	323,295	243,579	2,084,466
\$23,668-\$100,000	-	1,015,027	792,113	373,019	2,180,159
\$100,001-\$1,000,000	-	5,557,205	3,857,861	2,247,747	11,662,813
\$1,000,001-\$5,000,000	-	6,681,546	4,396,116	2,712,635	13,790,297
\$5,000,001-\$20,000,000	-	4,890,887	4,992,556	1,509,331	11,392,774
\$20,000,001-\$40,000,000	-	2,096,573	1,311,132	150,325	3,558,030
\$40,000,001+	-	2,755,165	1,497,849	610,074	4,863,088
Total	754,330	23,759,665	17,170,922	7,846,710	49,531,627

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

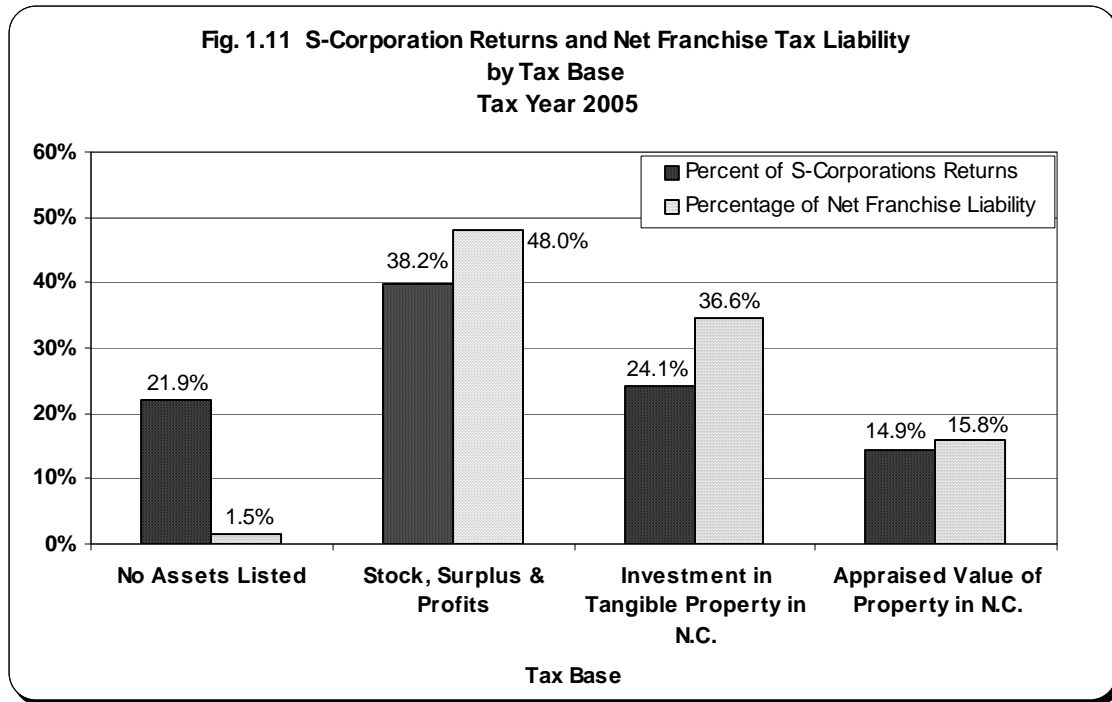


Table 1.12 and Figure 1.13 provide the distribution of S-corporation returns and net franchise tax liability. The top 5% of returns, by taxable amount, paid 68% of the tax. Taxpayers with franchise taxable amount between \$1 million and \$5 million, paid the largest amount of net franchise tax.

**Table 1.12
S-Corporation Returns and Net Franchise Tax Liability by Franchise Taxable Amount
Tax Year 2005**

Franchise Taxable Amount	Number of Returns		Net Franchise Tax Liability (\$)	
	Number	Percent	Liability	Percent
\$0-\$23,667	66,213	52.5%	2,084,466	4.2%
\$23,668-\$100,000	28,241	22.4%	2,180,159	4.4%
\$100,001-\$1,000,000	26,044	20.6%	11,662,813	23.5%
\$1,000,001-\$5,000,000	4,622	3.7%	13,790,297	27.8%
\$5,000,001-\$20,000,000	896	0.7%	11,392,774	23.0%
\$20,000,001-\$40,000,000	91	0.1%	3,558,030	7.2%
\$40,000,001+	44	0.0%	4,863,088	9.8%
Total	126,151	100.0%	49,531,627	100.0%

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

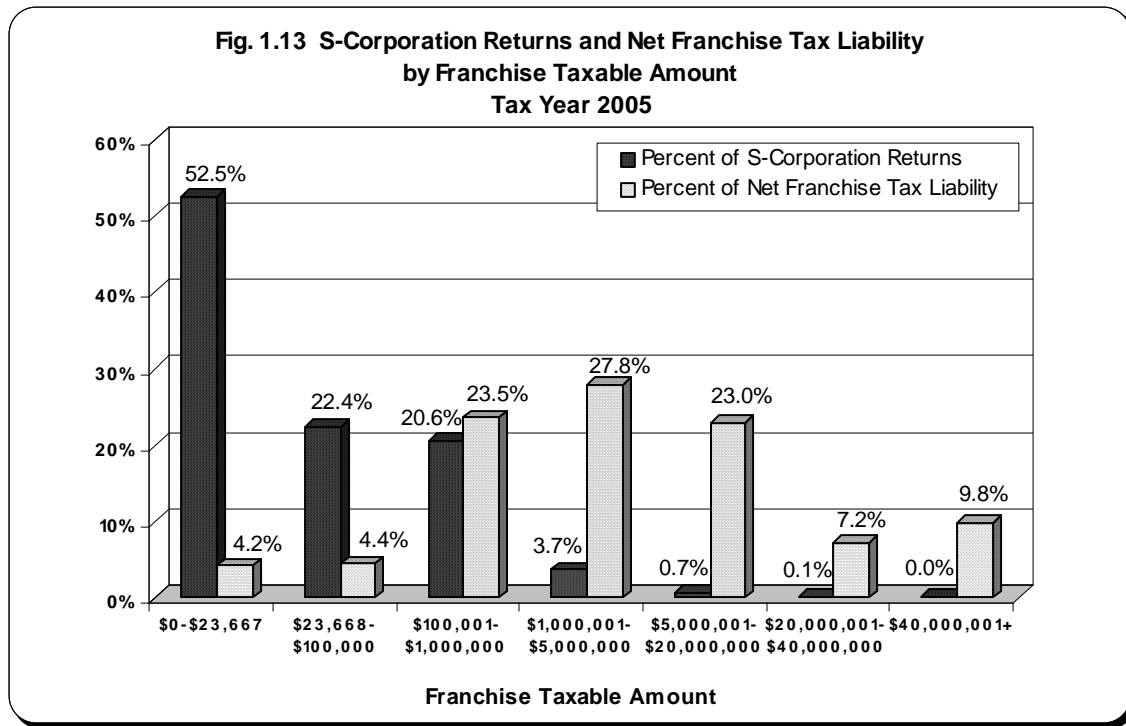


Table 1.14 and Figure 1.15 show the number of returns taking franchise tax credits and amount of credits taken. Returns with a franchise taxable amount between \$1 million and \$5 million comprised 17% of the returns taking credits and 29% of the credits taken.

**Table 1.14
S-Corporation Returns Taking Franchise Tax Credits and Amount of Credits Taken
Tax Year 2005**

Franchise Taxable Amount	Number of Returns		Amount of Credits	
	Taking Credits	Percent	Taken (\$)	Percent
\$0-\$23,667	889	14.6%	14,348	0.6%
\$23,668-\$100,000	1,247	20.4%	44,429	1.7%
\$100,001-\$1,000,000	2,471	40.5%	480,786	18.9%
\$1,000,001-\$5,000,000	1,025	16.8%	742,321	29.2%
\$5,000,001-\$20,000,000	397	6.5%	525,984	20.7%
\$20,000,001-\$40,000,000	50	0.8%	220,171	8.7%
\$40,000,001+	27	0.4%	512,103	20.2%
Total	6,106	100.0%	2,540,142	100.0%

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

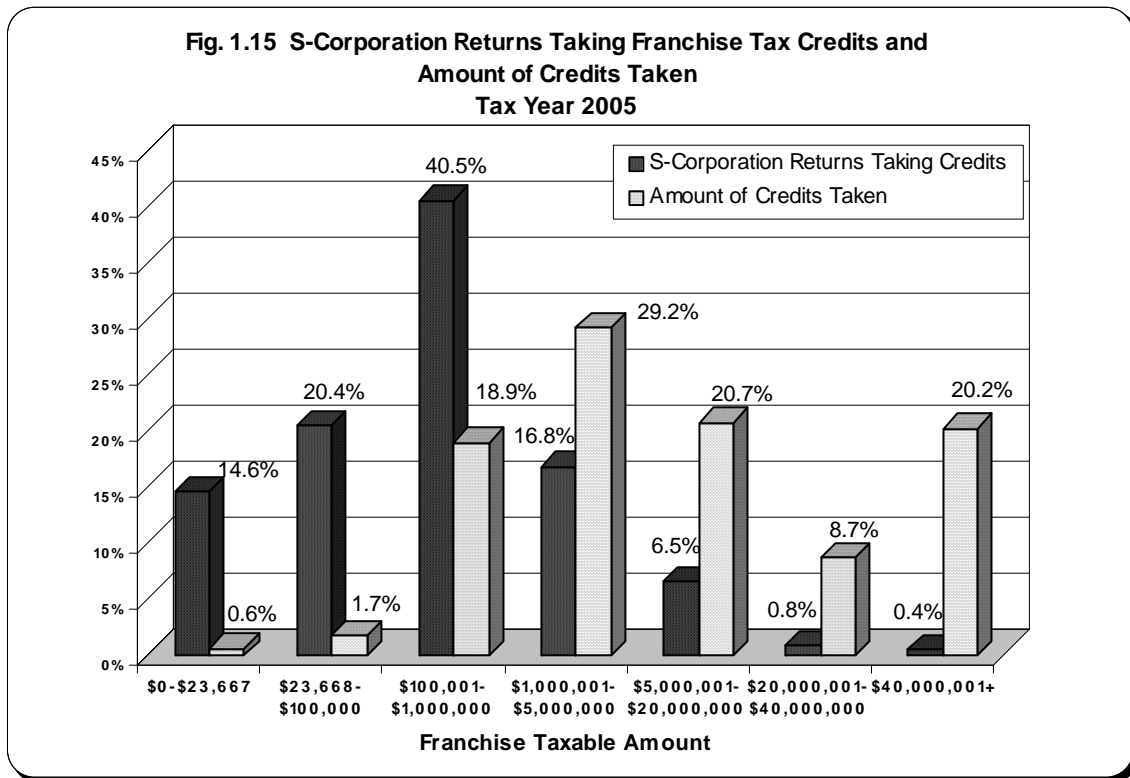


Table 1.16 shows the amount of franchise tax credits by credit type and franchise taxable amount.

**Table 1.16
S-Corporation Franchise Tax Credits Taken by Credit Type and Franchise Taxable Amount
Tax Year 2005**

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	192	102,857	185	73,356	7	29,501
Lee Act and Other Limited Credits	5,942	2,452,646	5,474	1,228,159	468	1,224,487
Others**	6	13,151	w	w	w	w
Credits Claimed	6,140	2,568,654	5,659	1,301,515	475	1,253,988
Credits Not Taken ***	--	28,512	--	19,631	--	(4,270)
Credits Taken	--	2,540,142	--	1,281,884	--	1,258,258

w Withheld to protect confidentiality.

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

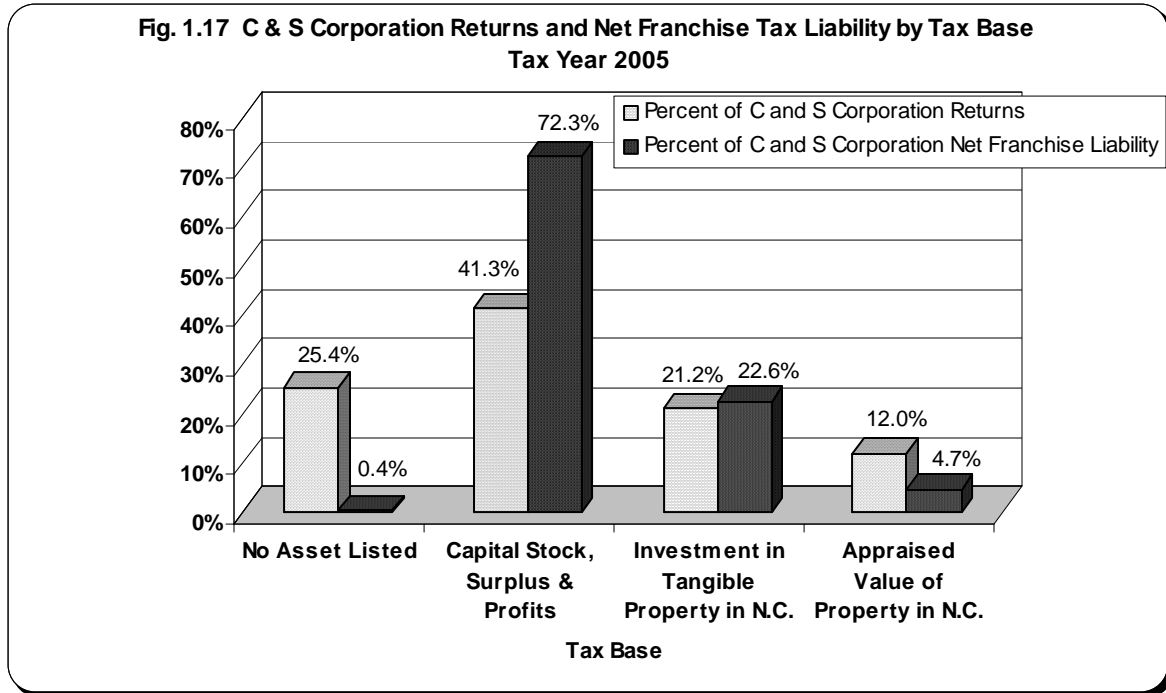
** This category include Piped Natural Gas, and Other Non-Limited Franchise Credits (Credit type not stated).

*** 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.

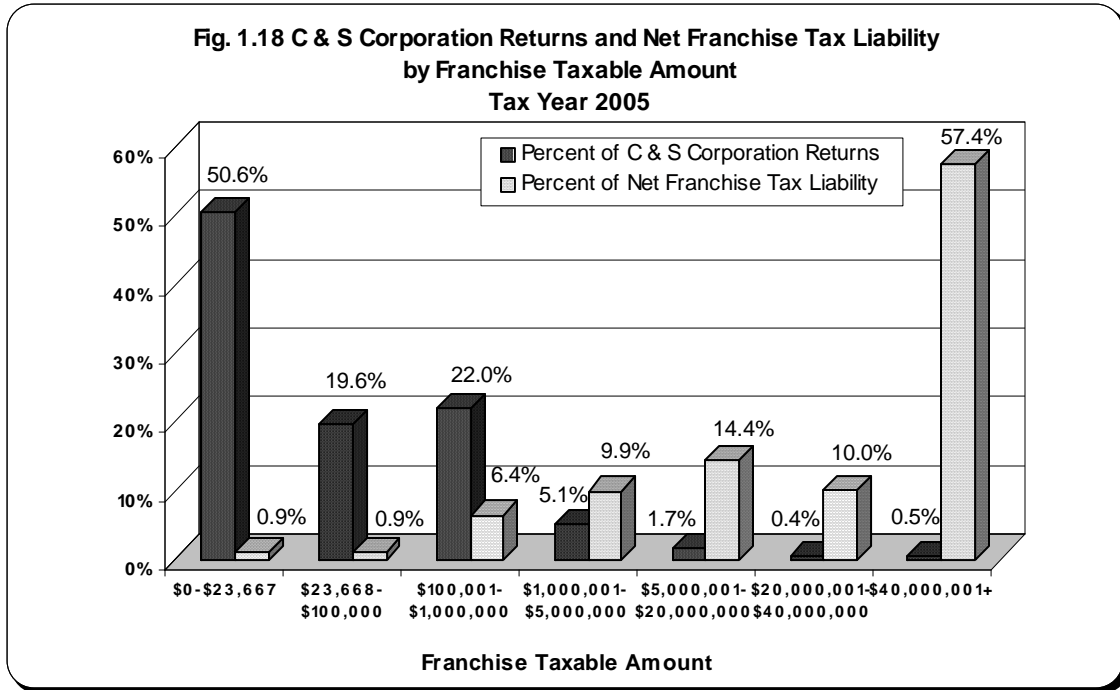
C & S CORPORATIONS COMBINED

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-five percent of the returns listed no assets because: 1) the taxpayer was exempt from franchise tax; 2) the 2005 tax year return was a final return; 3) or the taxpayer incorrectly completed the form.



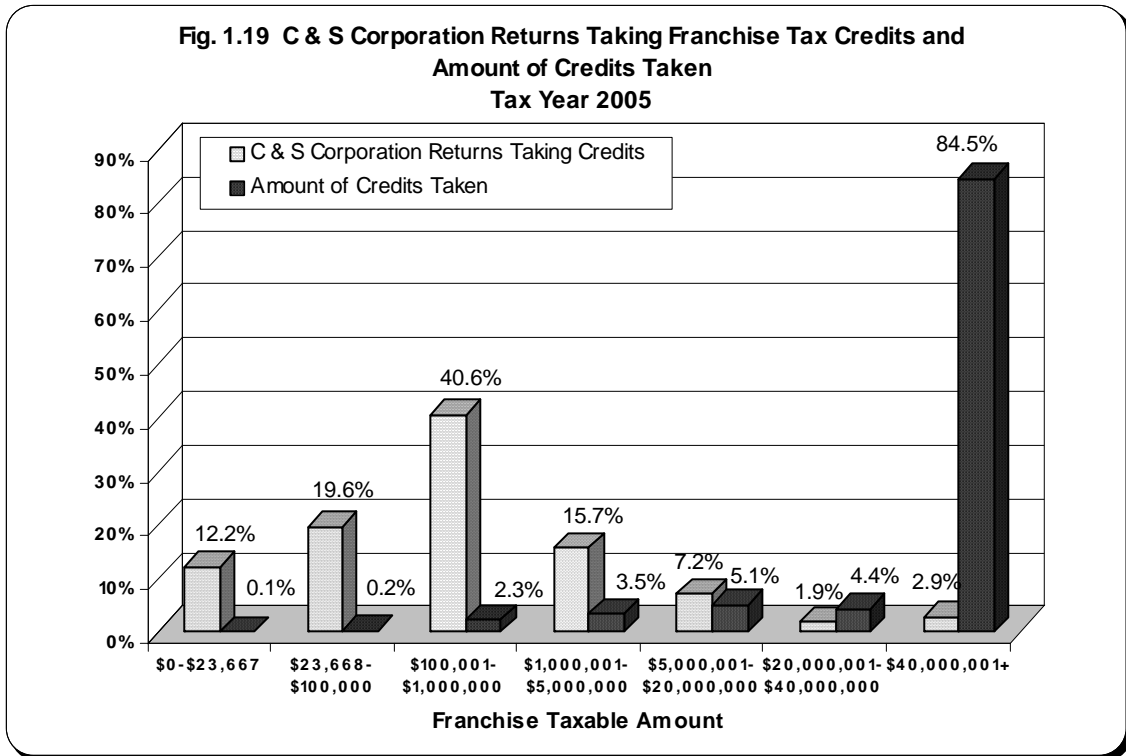
**SECTION I
FRANCHISE TAX**

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.



**SECTION I
FRANCHISE TAX**

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



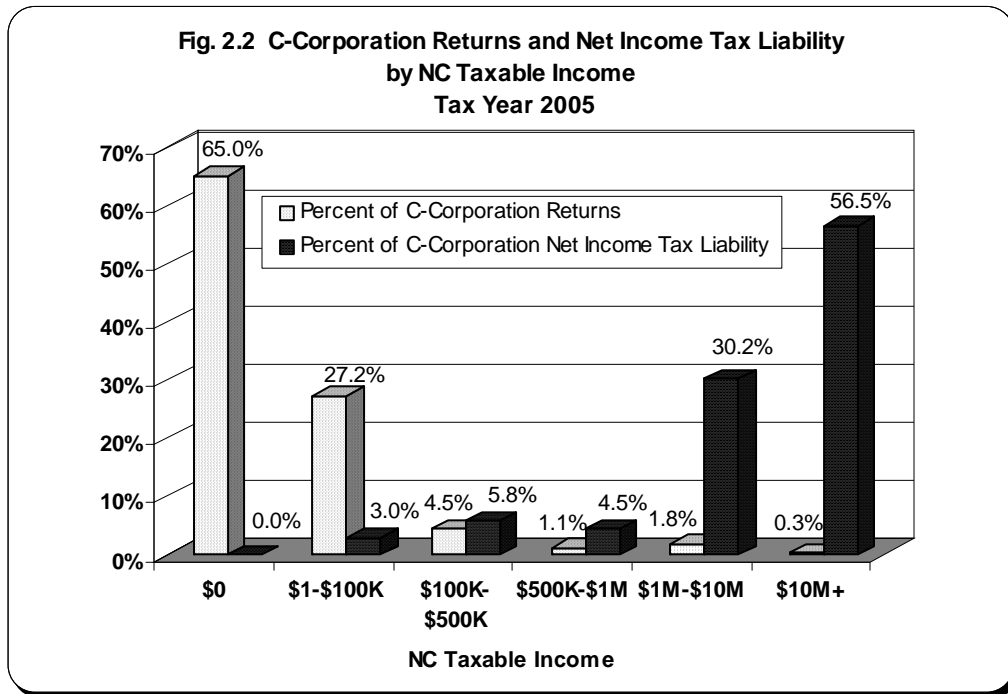
C-CORPORATIONS

**Table 2.1
C-Corporation Returns and Net Income Tax Liability by NC Taxable Income
Tax Year 2005**

NC Taxable Income	Number of Returns	Percent	Net Income Tax Liability [\$]	Percent
\$0 *	52,140	65.04%	--	--
\$1-\$15,000	13,347	16.65%	3,821,962	0.40%
\$15,001-30,000	3,188	3.98%	4,635,939	0.48%
\$30,001-\$50,000	2,471	3.08%	6,466,202	0.67%
\$50,001-\$100,000	2,831	3.53%	13,493,716	1.41%
\$100,001-\$500,000	3,608	4.50%	55,861,177	5.83%
\$500,001-\$1,000,000	908	1.13%	43,581,032	4.55%
\$1,000,001-\$10,000,000	1,457	1.82%	289,061,484	30.16%
\$10,000,001+	217	0.27%	541,560,825	56.50%
Total	80,167	100.00%	958,482,337	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.



SECTION II INCOME TAX

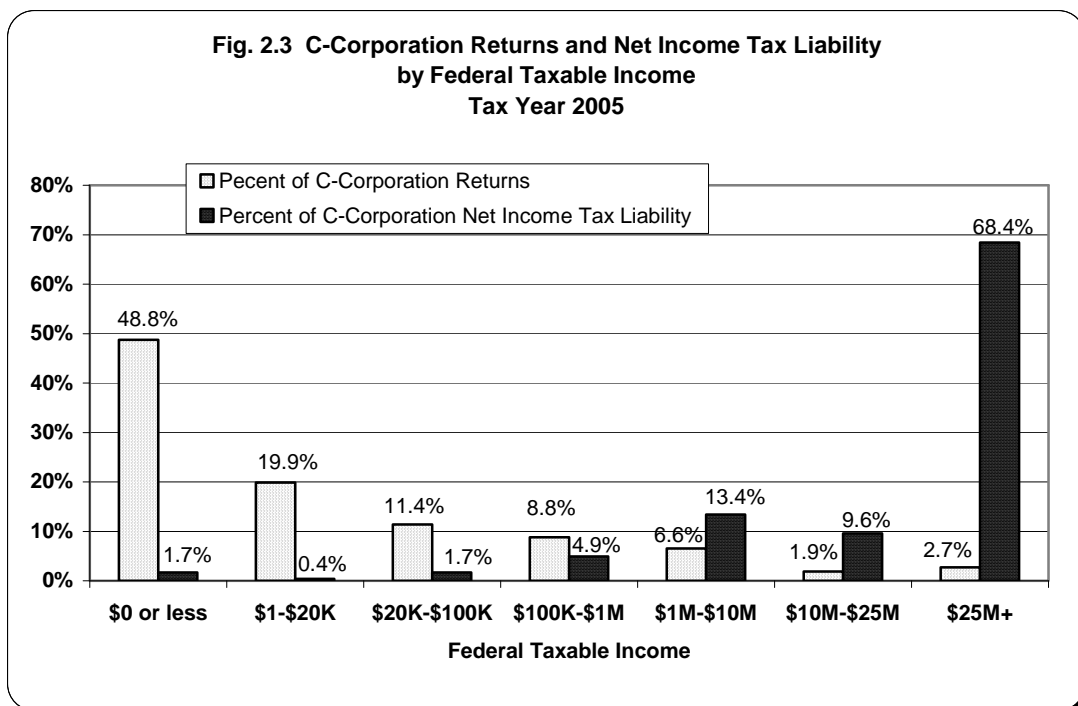
Table 2.1 and Figure 2.2 show the distribution of returns and net income tax liability by taxable income. Some corporations have no federal taxable income but pay North Carolina taxes because provisions of the State tax code require that they add back certain amounts, such as income taxes paid, to their 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 more than 80,000 C-corporations were subject to the corporation income tax in tax year 2005, 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 2005 had no North Carolina Taxable Income. Within this group of 52,140 corporations, 29,305 (56%) 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, 48% 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 87% of the C-corporation income tax liability, but made up only 2% of the corporations filing returns. Over half of the total corporation income tax liability was attributable to the 217 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 \$25 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 2005**

Federal Taxable Income	NC Apportionment Percentage					Total
	<5%	5% - 24%	25% - 49%	50% - 99%	100%	
\$0 or less	10,509	1,479	506	868	25,725	39,087
\$1 - \$20,000	762	244	125	239	14,565	15,935
\$20,001- \$100,000	1,165	397	171	454	6,959	9,146
\$100,001 - \$ 1,000,000	2,795	779	290	559	2,646	7,069
\$1,000,001 - \$10,000,000	3,669	733	237	261	366	5,266
\$10,000,001-\$25,000,000	1,176	205	49	39	32	1,501
\$25,000,001+	1,836	257	48	15	7	2,163
Total	21,912	4,094	1,426	2,435	50,300	80,167

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 2005**

Federal Taxable Income	NC Apportionment Percentage					Total
	<5% [\$]	5% - 24% [\$]	25% - 49% [\$]	50% - 99% [\$]	100% [\$]	
\$0 or less	2,399,652	1,180,115	104,650	12,159,243	362,249	16,205,909
\$1 - \$20,000	8,915	16,003	20,998	58,017	3,559,172	3,663,105
\$20,001- \$100,000	99,694	158,153	149,318	855,603	14,770,246	16,033,014
\$100,001 - \$ 1,000,000	987,736	1,946,631	1,878,185	7,445,606	34,667,747	46,925,905
\$1,000,001 - \$10,000,000	10,461,213	15,568,489	15,655,264	30,904,625	55,650,773	128,240,364
\$10,000,001-\$25,000,000	12,963,407	19,653,146	13,517,125	20,870,600	24,955,601	91,959,879
\$25,000,001+	262,901,051	212,195,484	86,259,204	78,457,629	15,640,793	655,454,161
Total	289,821,668	250,718,021	117,584,744	150,751,323	149,606,581	958,482,337

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. Fifty percent of corporation income tax was attributable to 2,093 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.

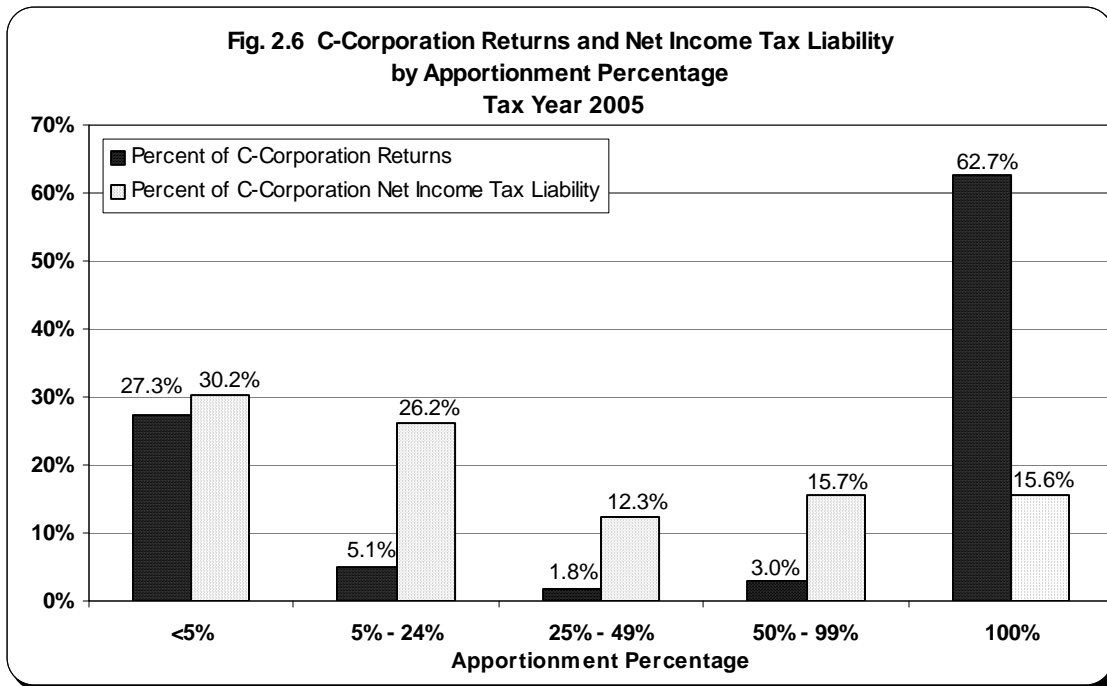


Table 2.7 shows the income tax calculation detail by federal taxable income. Out of almost 80,000 returns, 35% were taxable returns and 65% were nontaxable returns. Taxable returns with a federal taxable income over \$50 million, made up only 1.2% of the returns but accounted for 87% of the federal taxable income before NOL and 61% of the tax liability.

Of the 39,087 returns with federal taxable income of zero or less, 607 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 41,080 returns that did show a federal taxable income, 13,875 did not have a net North Carolina liability. Within this group, 3,040 did not apportion any income to North Carolina. Of those apportioning income to North Carolina, 9,414 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 2005**

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	607	(2,698,470,750)	5,556,846,672	39,630,813	177,004,887	2,363,844,925	277,895,305
\$1-\$20,000	9,827	59,705,942	4,854,822	198,389	207,506	4,692,695	59,461,992
\$20,001-\$100,000	6,341	306,079,208	19,332,999	1,252,526	3,160,255	57,968,613	263,029,713
\$100,001-\$1,000,000	4,736	1,707,412,833	139,835,533	9,926,822	19,335,212	1,064,103,333	756,500,595
\$1,000,001-\$10,000,000	3,647	13,526,692,981	1,308,255,527	63,239,996	108,756,032	12,630,364,652	2,032,583,749
\$10,000,001-\$50,000,000	1,674	38,172,202,934	2,898,126,631	206,457,978	278,211,814	37,931,865,170	2,653,794,608
\$50,000,001+	980	336,863,389,122	(6,590,870,460)	2,355,357,373	4,933,001,110	313,064,669,004	9,919,489,921
Total, Taxable	27,812	387,937,012,270	3,336,381,724	2,676,063,897	5,519,676,816	367,117,508,392	15,962,755,883
Nontaxable Returns							
\$0 or less	38,480	(209,443,454,291)	(8,022,578,283)	116,395,178	2,814,664,060	(211,877,079,396)	(8,508,387,435)
More than \$0	13,875	114,003,765,755	(39,796,688,753)	424,603,829	3,082,866,477	68,904,265,975	1,786,351,534
Total, Nontaxable	52,355	(95,439,688,536)	(47,819,267,036)	540,999,007	5,897,530,537	(142,972,813,421)	(6,722,035,901)

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	277,895,305	2,225,363	-	4,942,269	15,378,631	259,879,496	17,911,085	1,705,176	16,205,909
\$1-\$20,000	59,461,992	312,140	9,280	4,961,102	456,959	54,347,545	3,750,068	86,963	3,663,105
\$20,001-\$100,000	263,029,713	1,837,450	60,746	22,686,041	2,350,066	239,770,310	16,544,177	511,127	16,033,014
\$100,001-\$1,000,000	756,500,595	8,709,060	73,964	63,082,327	5,411,643	696,641,721	48,068,338	1,142,432	46,925,905
\$1,000,001-\$10,000,000	2,032,583,749	24,619,539	1,096,900	107,776,428	10,417,809	1,937,912,631	133,715,983	5,475,619	128,240,364
\$10,000,001-\$50,000,000	2,653,794,608	1,535,860	3,072,428	155,860,876	9,107,163	2,487,290,001	171,623,007	12,523,014	159,099,993
\$50,000,001+	9,919,489,921	(5,713,869)	26,701,780	223,771,668	119,163,239	9,544,207,874	658,550,338	70,236,291	588,314,047
Total, Taxable	15,962,755,883	33,525,543	31,015,098	583,080,711	162,285,510	15,220,049,578	1,050,162,996	91,680,622	958,482,337
Nontaxable Returns									
\$0 or less	(8,508,387,435)	(3,481,398)	8,676,345	8,534,817,508	2,234,523	(17,083,454,608)	w	w	-
More than \$0	1,786,351,534	12,834,615	33,158,252	8,989,899,950	28,891,355	(7,252,556,495)	w	w	-
Total, Nontaxable	(6,722,035,901)	9,353,217	41,834,597	17,524,717,458	31,125,878	(24,336,011,103)	6,131,062	6,131,062	-

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-seven 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 41% of the total credits taken.

**Table 2.8
C-Corporation Returns by Income Tax Credits as a Percentage of Tax
Tax Year 2005**

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	39,065	w	0	w	w	16	39,087
\$1 - \$20,000	15,407	44	22	37	42	383	15,935
\$20,001- \$100,000	8,308	170	98	108	116	346	9,146
\$100,001 - \$ 1,000,000	6,439	266	81	82	64	137	7,069
\$1,000,001 - \$10,000,000	5,033	111	12	22	25	63	5,266
\$10,000,001-\$50,000,000	2,194	36	12	20	19	41	2,322
\$50,000,001+	1,242	23	13	15	22	27	1,342
Total	77,688	w	238	w	w	1,013	80,167

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

**Table 2.9
C-Corporation Tax Credits for Taxable Returns by Income Tax Credits as a Percentage of Tax
Tax Year 2005**

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	-	550	0	849	1,335,916	367,862	1,705,177
\$1 - \$20,000	-	777	999	3,911	7,545	73,736	86,968
\$20,001- \$100,000	-	15,060	25,379	54,650	103,200	318,215	516,504
\$100,001 - \$ 1,000,000	-	106,588	78,483	150,479	209,909	596,973	1,142,432
\$1,000,001 - \$10,000,000	-	153,568	175,057	486,538	1,200,474	3,474,322	5,489,959
\$10,000,001-\$50,000,000	-	195,445	656,176	1,619,435	2,207,690	7,844,268	12,523,014
\$50,000,001+	-	2,656,910	2,126,075	15,125,564	29,057,999	27,381,082	76,347,630
Total		3,128,898	3,062,169	17,441,426	34,122,733	40,056,458	97,811,684

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 75% of the tax credits.

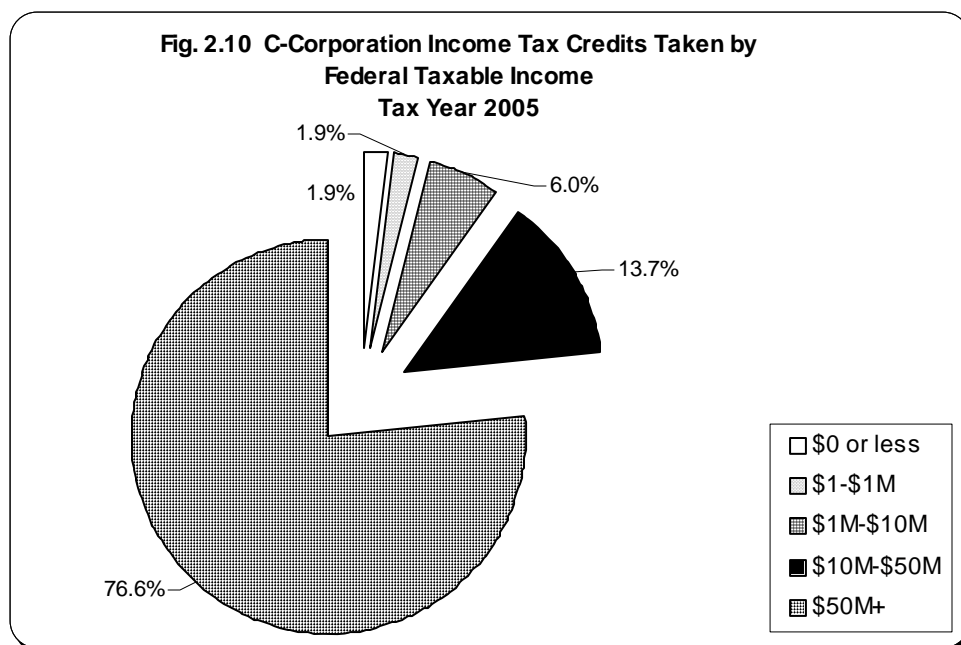


Table 2.11 provides the distribution of income tax credits by credit type and federal taxable income. Corporations with federal taxable income over \$1 million took 98% of the credits. The most claimed credits were in the category, Lee Act and Other Limited Credits.

**Table 2.11
C-Corporation Income Tax Credits by Credit Type and Federal Taxable Income (Before NOL)
Tax Year 2005**

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 an Income-Producing Historic Structure	27	4,061,959	11	109,673	16	3,952,286
Certain Real Property Donation	4	418,109	-	-	4	418,109
Savings and Loan Supervisory Fees	9	154,887	3	14,400	6	140,487
Other Non-Limited Credits	32	8,124,582	14	35,185	18	8,089,397
Carryover from Previous Years Credits	19	226,661,386	11	231,634	8	226,429,752
Lee Act and Other Limited Credits	2,440	88,162,807	2,007	3,622,009	433	84,540,798
Others **	15	8,200,492	12	5,151,985	3	3,048,507
Credits Claimed	2,546	335,784,222	2,058	9,164,886	488	326,619,336
Credits Not Taken ***	--	237,972,538	--	6,856,237	--	231,116,301
Credits Taken	--	97,811,684	--	2,308,649	--	95,503,035

* 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 include Rehabilitating a Non-Income Producing Historic Structure, Major Computer Manufacturing Facilities, and Reinvestment by Major Recycling Facilities.

*** 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 2005**

NC Taxable Income	Number of Returns	Percent	Number With Tax Due for Nonresidents	Net Tax Liability [\$]	Percent
\$0 or less*	48,038	38.08%	22	13,821	0.03%
\$1-\$15,000	25,540	20.25%	1,779	484,787	1.03%
\$15,001-30,000	12,698	10.07%	471	558,426	1.19%
\$30,001-\$50,000	10,279	8.15%	354	870,317	1.85%
\$50,001-\$100,000	12,335	9.78%	473	1,949,481	4.14%
\$100,001-\$500,000	13,799	10.94%	697	9,218,322	19.59%
\$500,001-\$1,000,000	1,919	1.52%	189	8,125,708	17.26%
\$1,000,001+	1,543	1.22%	153	25,845,751	54.91%
Total	126,151	100.00%	4,138	47,066,613	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.

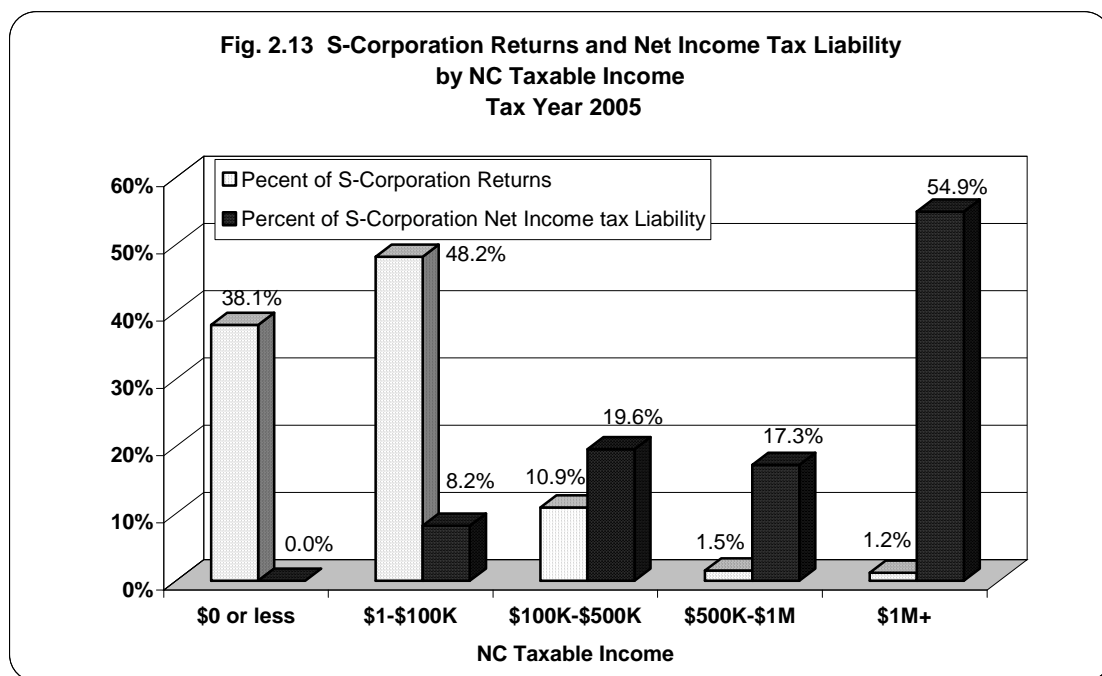
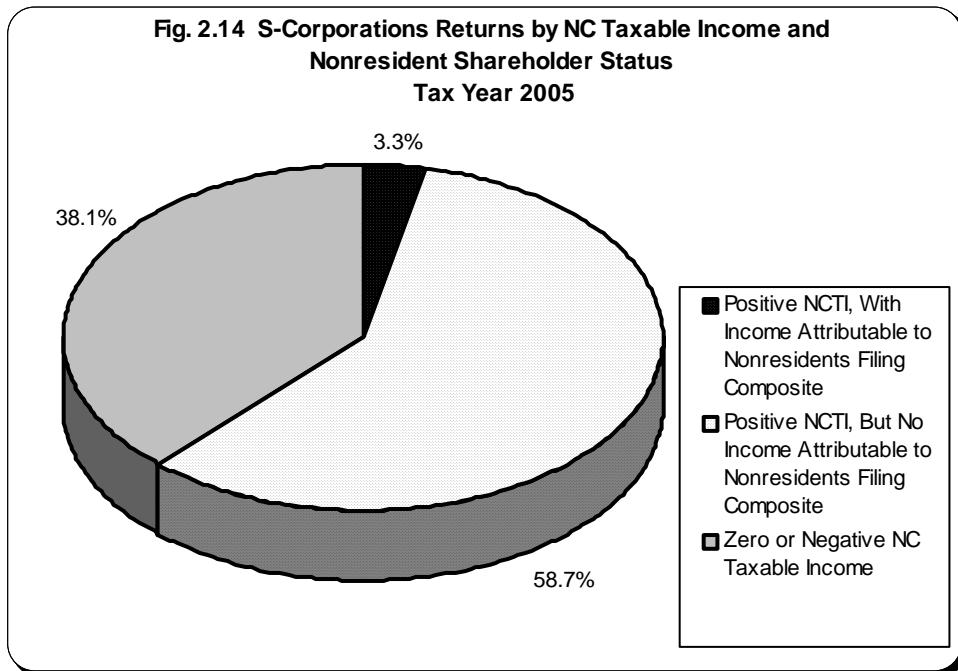


Table 2.12 and Figure 2.13 show the number of returns and net income tax liability by North Carolina taxable income. Corporations with taxable income of \$1 million or more accounted for 55% of the tax liability.

Figure 2.14 shows the distribution of returns by North Carolina taxable income and nonresident shareholder filing status. Only 3.3% 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 2005**

		(+)	(+)	(-)	(-)	(=)	(+)
	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							
<u>Taxable Returns</u>							
Zero or Negative	48,016	611,894,957	(365,134,182)	616,380,276	(2,315,974,472)	(1,502,928,782)	(12,495,132)
Positive, But No Income Attributable to Nonresidents Filing Composite	73,997	23,198,235,896	(559,425,281)	1,112,389,724	11,867,212,471	9,539,410,815	92,617,389
Positive, With Income Attributable to Nonresidents Filing Composite	4,138	20,292,423,865	(291,714,057)	968,859,134	17,815,994,656	840,446,090	33,621,835
Total	126,151	44,102,554,718	(1,216,273,520)	2,697,629,134	27,367,232,655	8,876,928,123	113,744,092

	(-)	(=)	(+)	(=)	Separately Stated Income Attributable to Nonresidents	(Tax Rates%) Computed Net Income Tax [\$]	(-) Tax Credits [\$]	(=) Net Tax Liability [\$]
NC Taxable Income								
<u>Taxable Returns</u>								
Zero or Negative*	408,226	(1,515,844,613)	1,450,841,236	(65,003,377)	324,252	12,127	-	12,136
Positive, But No Income Attributable to Nonresidents Filing Composite*	77,489	9,632,391,122	(9,632,393,513)	(2,391)	88,372	605,826	-	605,826
Positive, With Income Attributable to Nonresidents Filing Composite	637,210	873,596,959	(234,609,875)	638,987,084	4,601,272	47,079,252	630,601	46,448,651
Total	1,122,925	8,990,143,468	(8,416,162,152)	573,981,316	5,013,896	47,697,205	630,601	47,066,613

* 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 89% of the credits.

**Table 2.16
S-Corporation Income Tax Credits by Credit Type and Taxable Income
Tax Year 2005**

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 (\$)
Carryover from Previous Years Credits	6	63,382	3	53,181	3	10,201
Lee Act and Other Limited Credits	146	804,229	60	123,069	86	681,160
Other **	10	534,497	7	26,632	3	507,865
Credits Claimed	162	1,402,108	70	202,882	92	1,199,226
Credits Not Taken ***	--	771,507	--	135,986	--	635,521
Credits Taken	--	630,601	--	66,896	--	563,705

* 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 an Income-Producing Historic Structure, Certain Real Property Donation, Other Non-Limited Credits, and Reinvestment in Recycling Facilities.

*** 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.

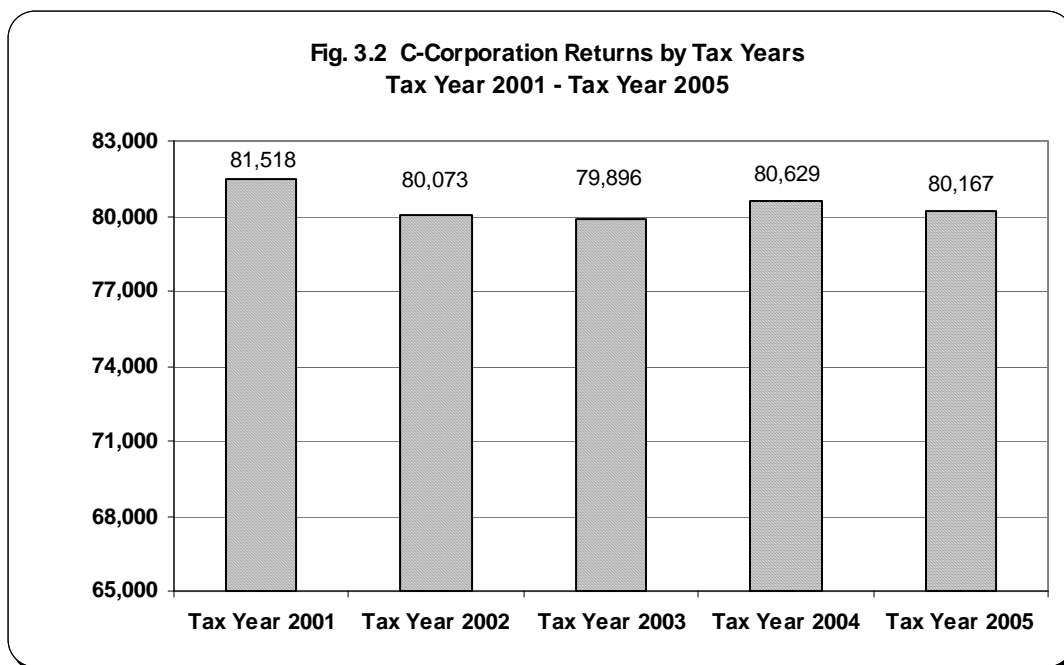
C-CORPORATIONS

Table 3.1, Figure 3.2 and Figure 3.3 compare the number of returns by tax years. In 2002, 2003, and 2005, the number of returns decreased by 1,445, 177, and 462 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, in 2004 it was 1,922 C-corporations, and in 2005 it was 1,711 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 2005**

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	Number of Returns TY 2005	% Change
\$0 or less	53,559	53,515	-0.08%	53,308	-0.39%	52,788	-0.98%	52,140	-1.23%
\$1-\$15,000	14,059	13,193	-6.16%	13,397	1.55%	13,533	1.02%	13,347	-1.37%
\$15,001-\$30,000	3,392	3,275	-3.45%	3,156	-3.63%	3,230	2.34%	3,188	-1.30%
\$30,001-\$50,000	2,540	2,369	-6.73%	2,256	-4.77%	2,380	5.50%	2,471	3.82%
\$50,001-\$100,000	2,829	2,608	-7.81%	2,517	-3.49%	2,810	11.64%	2,831	0.75%
\$100,001-\$500,000	3,257	3,158	-3.04%	3,218	1.90%	3,488	8.39%	3,608	3.44%
\$500,001-\$1,000,000	733	744	1.50%	739	-0.67%	868	17.46%	908	4.61%
\$1,000,001-\$10,000,000	997	1,053	5.62%	1,151	9.31%	1,333	15.81%	1,457	9.30%
\$10,000,001+	152	158	3.95%	154	-2.53%	199	29.22%	217	9.05%
Total	81,518	80,073	-1.77%	79,896	-0.22%	80,629	0.92%	80,167	-0.57%

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



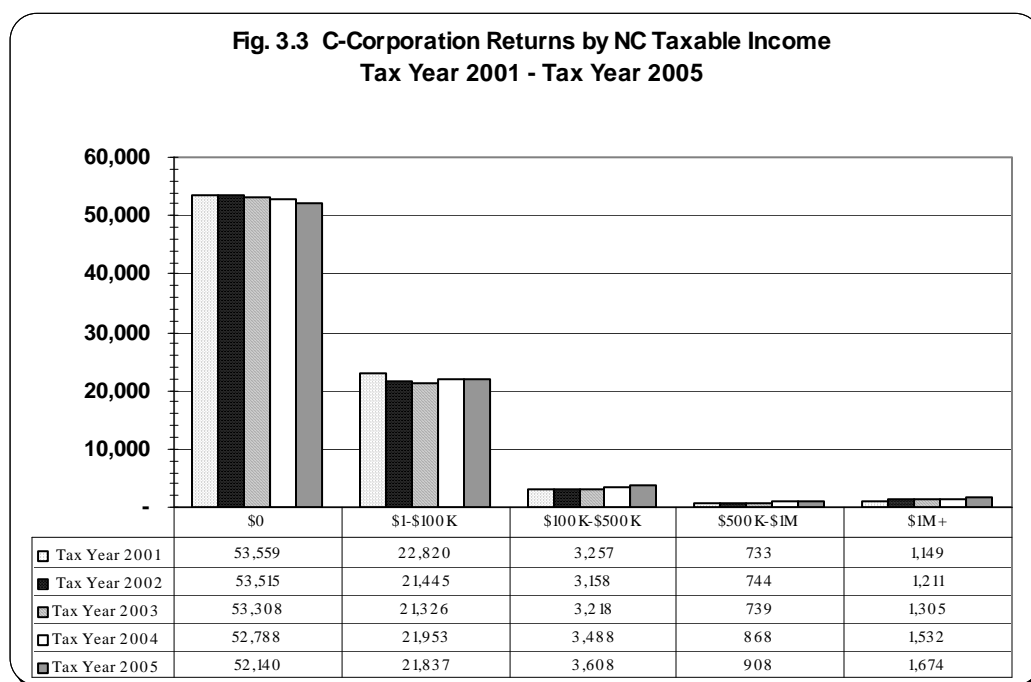


Table 3.4 and Figure 3.5 show the net income tax liability by North Carolina taxable income. Tax liability grew by 7% in 2005, as compared to the previous year. The most increase in the tax liability in 2005 is in the group with taxable income between \$1 million - \$10 million. Tax liability increased by 24% in 2004, a significant increase in the five-year period. Most of this growth was due to an increase in the number of companies with taxable income of over \$10 million. Within the group of taxpayers with taxable income less than \$30 thousand, the tax liability and the number of taxpayers decreased in 2005.

**Table 3.4
C-Corporation Net Income Tax Liability by NC Taxable Income
Tax Year 2001 – Tax Year 2005**

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	Net Income Tax Liability TY 2005 *	% 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%	3,821,962	-1.45%
\$15,001-\$30,000	4,784,904	4,611,579	-3.62%	4,519,503	-2.00%	4,641,577	2.70%	4,635,939	-0.12%
\$30,001-\$50,000	6,430,697	6,032,744	-6.19%	5,788,197	-4.05%	6,231,735	7.66%	6,466,202	3.76%
\$50,001-\$100,000	12,813,774	11,894,096	-7.18%	11,676,194	-1.83%	13,201,031	13.06%	13,493,716	2.22%
\$100,001-\$500,000	47,407,894	46,160,786	-2.63%	48,488,171	5.04%	53,494,741	10.33%	55,861,177	4.42%
\$500,001-\$1,000,000	34,698,782	35,054,191	1.02%	35,376,798	0.92%	41,639,618	17.70%	43,581,032	4.66%
\$1,000,001-\$10,000,000	185,023,140	191,705,268	3.61%	215,641,627	12.49%	257,387,712	19.36%	289,061,484	12.31%
\$10,000,001+	401,098,604	437,518,061	9.08%	401,674,284	-8.19%	519,188,521	29.26%	541,560,825	4.31%
Total	696,222,641	736,810,205	5.83%	726,941,265	-1.34%	899,663,264	23.76%	958,482,337	6.54%

* 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.

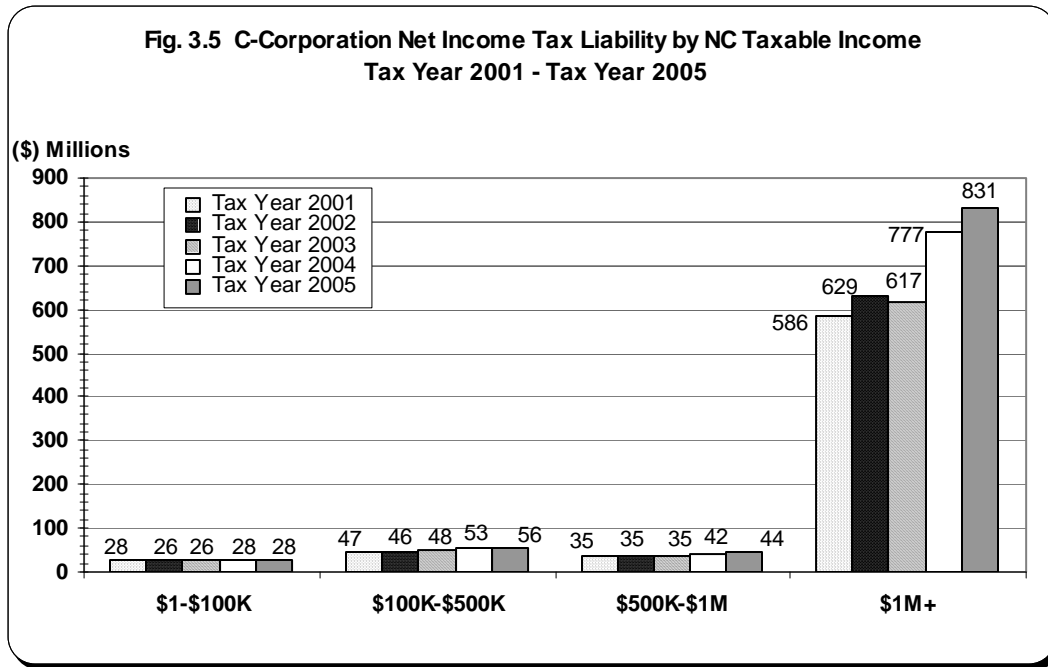


Table 3.6 shows the tax credits by credit type. In both 2004 and 2005, credits increased significantly due largely to increased use of the Lee Act credits by a small number of the taxpayers taking these credits. Use of carryover credits also increased as firms returned to profitability following the economic downturn of 2001-2002.

**Table 3.6
C-Corporation Income Tax Credits by Credit Type
Tax Year 2001 – Tax Year 2005**

Income Tax Credits	Tax Year 2001		Tax Year 2002		Tax Year 2003		Tax Year 2004		Tax Year 2005	
	Number of Credits	Amount Claimed (\$)	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	31	10,428,387
Major Computer Manufacturing Facilities	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	10	1,834,055
Savings and Loan Supervisory Fees	13	277,090	20	218,440	14	157,804	12	157,899	9	154,887
Carryover from Previous Years Credits	15	490,205	18	1,418,388	8	1,757,168	19	222,043,398	19	226,661,386
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	2,440	88,162,807
Others **	33	4,047,421	54	4,978,747	37	8,370,470	43	8,612,420	37	8,542,700
Credits Claimed ***	5,041	52,914,488	4,383	72,132,668	3,640	62,317,165	3,289	314,354,545	2,546	335,784,222
Credits Not Taken ****	--	3,955,026	--	16,306,663	--	6,136,426	--	238,004,959	--	237,972,538
Credits Taken	--	48,959,462	--	55,826,005	--	56,180,748	--	76,349,586	--	97,811,684

* In 2005, Rehabilitating a Historic Structure consist of two groups (Rehabilitating an Income-Producing Historic Structure and Rehabilitating a Non-Income Producing Historic Structure).

** 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 2005**

% 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	Number of Taxpayers TY 2005
0%	76,503	75,760	76,275	77,400	77,688
0 - 4.9 %	905	755	710	757	651
5 - 9.9 %	566	502	405	390	238
10 - 19.9 %	721	585	475	365	286
20 - 39.9 %	776	652	484	385	291
40 % +	2,047	1,819	1,547	1,332	1,013
Total	81,518	80,073	79,896	80,629	80,167

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 2005**

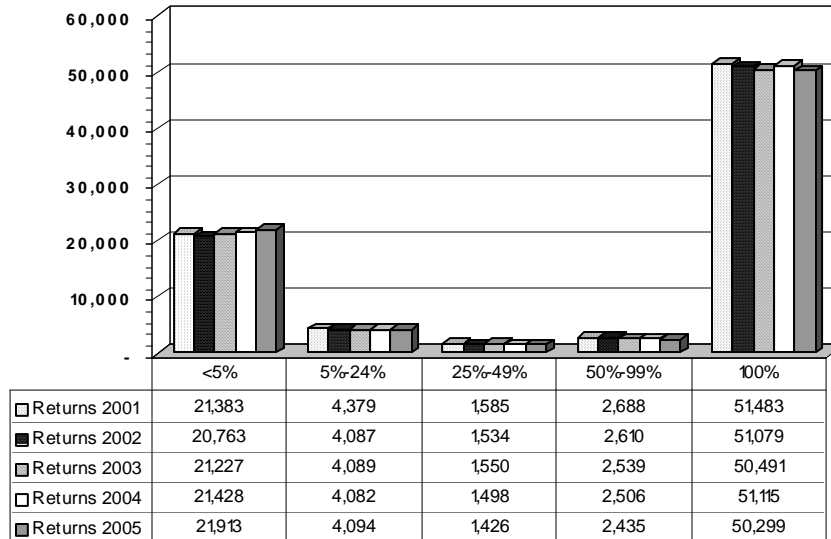
% of Tax Relieved by Credits	Amount of Tax Relieved TY 2001	Amount of Tax Relieved TY 2002	Amount of Tax Relieved TY 2003	Amount of Tax Relieved TY 2004	Amount of Tax Relieved TY 2005
0%	-	-	-	-	-
0 - 4.9 %	2,349,558	2,374,899	1,163,095	4,244,647	3,128,898
5 - 9.9 %	3,398,659	3,443,826	3,934,006	3,767,128	3,062,169
10 - 19.9 %	16,929,489	6,330,879	10,444,312	11,265,124	17,441,426
20 - 39.9 %	6,138,221	24,870,686	19,368,503	25,011,445	34,122,733
40 % +	20,143,535	18,805,715	21,270,832	32,061,242	40,056,458
Total	48,959,462	55,826,005	56,180,748	76,349,586	97,811,684

* 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.

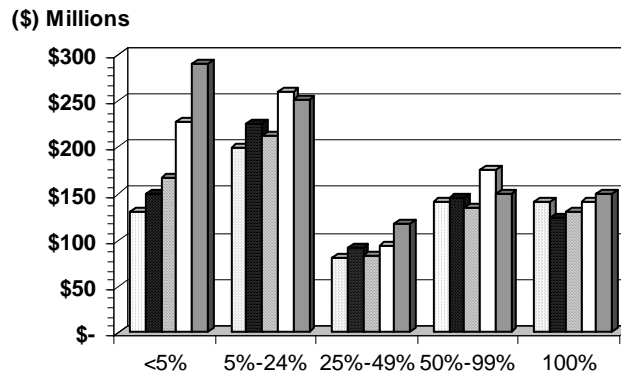
Note: Figures are based on both audited and unaudited returns. Detail may not add to totals due to rounding or taxpayer error.

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%, 25%-49%, and 100% of their income to North Carolina has increased in the last three years.

**Fig. 3.9 C-Corporation Returns by Apportionment Percentage
Tax Year 2001 - Tax Year 2005**



**Fig. 3.10 C-Corporation Net Income Tax Liability Apportionment Percentage
Tax Year 2001 - Tax Year 2005**



	<5%	5%-24%	25%-49%	50%-99%	100%
Liability 2001	\$13,103,310	\$200,301,143	\$8,158,977	\$142,010,800	\$14,129,411
Liability 2002	\$149,307,536	\$226,453,355	\$9,175,250	\$144,720,469	\$124,570,596
Liability 2003	\$166,352,919	\$211,632,003	\$84,002,257	\$134,118,113	\$130,835,973
Liability 2004	\$227,603,243	\$259,825,576	\$94,851,400	\$175,990,328	\$141,392,717
Liability 2005	\$289,821,668	\$250,718,021	\$117,584,744	\$150,751,323	\$149,606,581

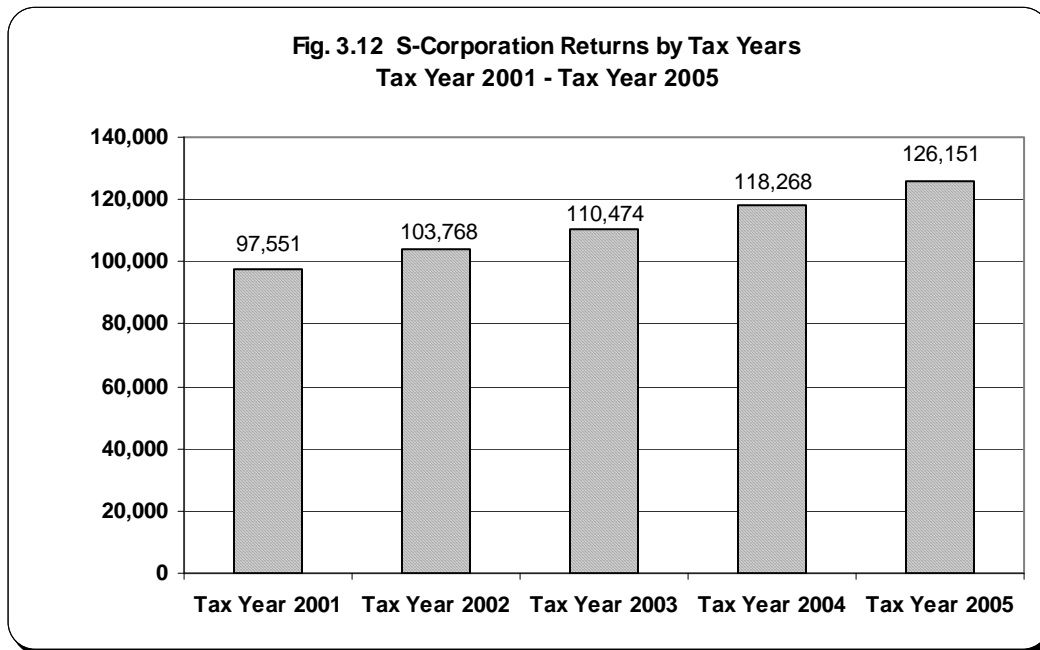
S-CORPORATIONS

Table 3.11, Figure 3.12, and Figure 3.13 compare the number of returns by tax years. The number of S-corporations continued to grow at a similar rate as in recent years.

Table 3.11
S-Corporation Returns by NC Taxable Income
Tax Year 2001 – Tax Year 2005

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	Number of Returns TY 2005	% Change
\$0 or less	41,432	43,360	4.65%	45,450	4.82%	46,507	2.33%	48,038	3.29%
\$1-\$15,000	19,983	21,689	8.54%	23,300	7.43%	24,593	5.55%	25,540	3.85%
\$15,001-\$30,000	9,749	10,401	6.69%	11,113	6.85%	11,911	7.18%	12,698	6.61%
\$30,001-\$50,000	7,564	8,210	8.54%	8,591	4.64%	9,568	11.37%	10,279	7.43%
\$50,001-\$100,000	8,454	9,019	6.68%	9,857	9.29%	11,000	11.60%	12,335	12.14%
\$100,001-\$500,000	8,509	9,066	6.55%	9,956	9.82%	11,839	18.91%	13,799	16.56%
\$500,001-\$1,000,000	1,072	1,169	9.05%	1,217	4.11%	1,593	30.90%	1,919	20.46%
\$1,000,001+	788	854	8.38%	990	15.93%	1,257	26.97%	1,543	22.75%
Total	97,551	103,768	6.37%	110,474	6.46%	118,268	7.06%	126,151	6.67%

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



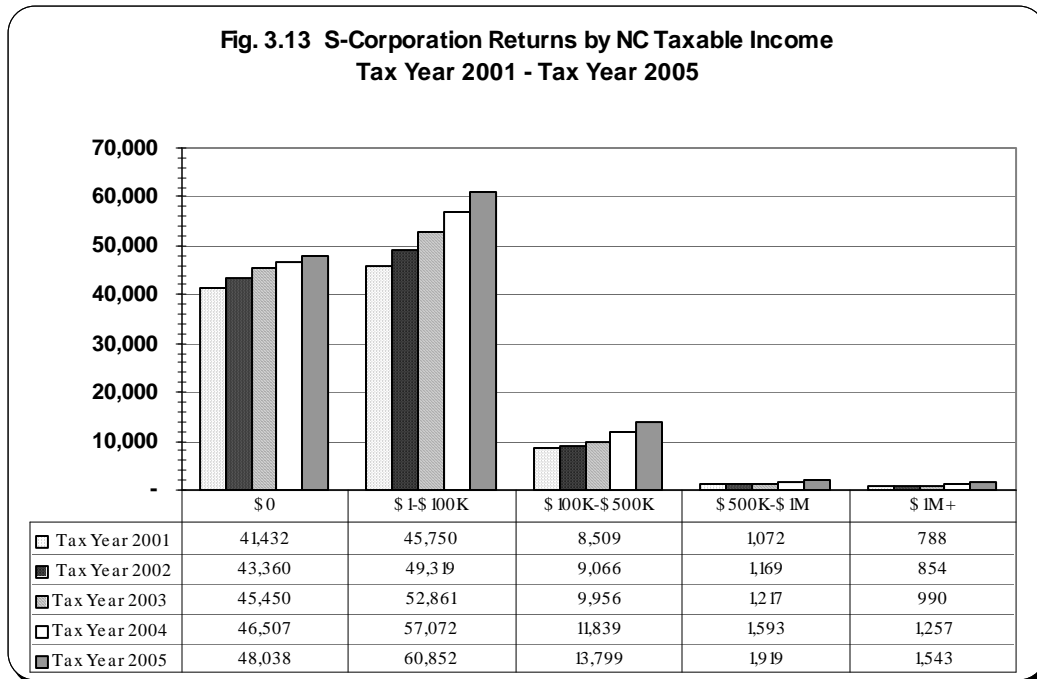


Table 3.14 and Figure 3.15 show the net income tax liability by taxable income. In 2003, the liability increased by \$8 million, and in 2005, it increased by \$7 million. The increase was due almost entirely to higher taxes paid for nonresident shareholders of corporations with taxable income over \$1 million. In 2005, the net tax liability decreased in the group with taxable income between \$1 - \$30,000. The greatest increase is in the group with taxable income of \$500 thousand and \$1 million.

**Table 3.14
S-Corporation Net Income Tax Liability by NC Taxable Income
Tax Year 2001 – Tax Year 2005**

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	Net Income Tax Liability TY 2005	% Change
\$0 or less	3,787	7,240	91.18%	11,531	59.27%	11,476	-0.48%	13,821	20.43%
\$1-\$15,000	380,158	390,908	2.83%	411,971	5.39%	518,508	25.86%	484,787	-6.50%
\$15,001-\$30,000	415,316	459,594	10.66%	508,839	10.71%	569,783	11.98%	558,426	-1.99%
\$30,001-\$50,000	548,170	640,279	16.80%	607,737	-5.08%	793,292	30.53%	870,317	9.71%
\$50,001-\$100,000	1,220,923	1,427,036	16.88%	1,486,371	4.16%	1,574,001	5.90%	1,949,481	23.86%
\$100,001-\$500,000	6,526,510	6,725,469	3.05%	6,805,245	1.19%	8,626,365	26.76%	9,218,322	6.86%
\$500,001-\$1,000,000	4,038,374	4,883,568	20.93%	4,623,761	-5.32%	5,660,866	22.43%	8,125,708	43.54%
\$1,000,001+	10,087,916	14,167,431	40.44%	22,900,120	61.64%	23,125,904	0.99%	25,845,751	11.76%
Total	23,221,154	28,701,525	23.60%	37,355,575	30.15%	40,880,195	9.44%	47,066,613	15.13%

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

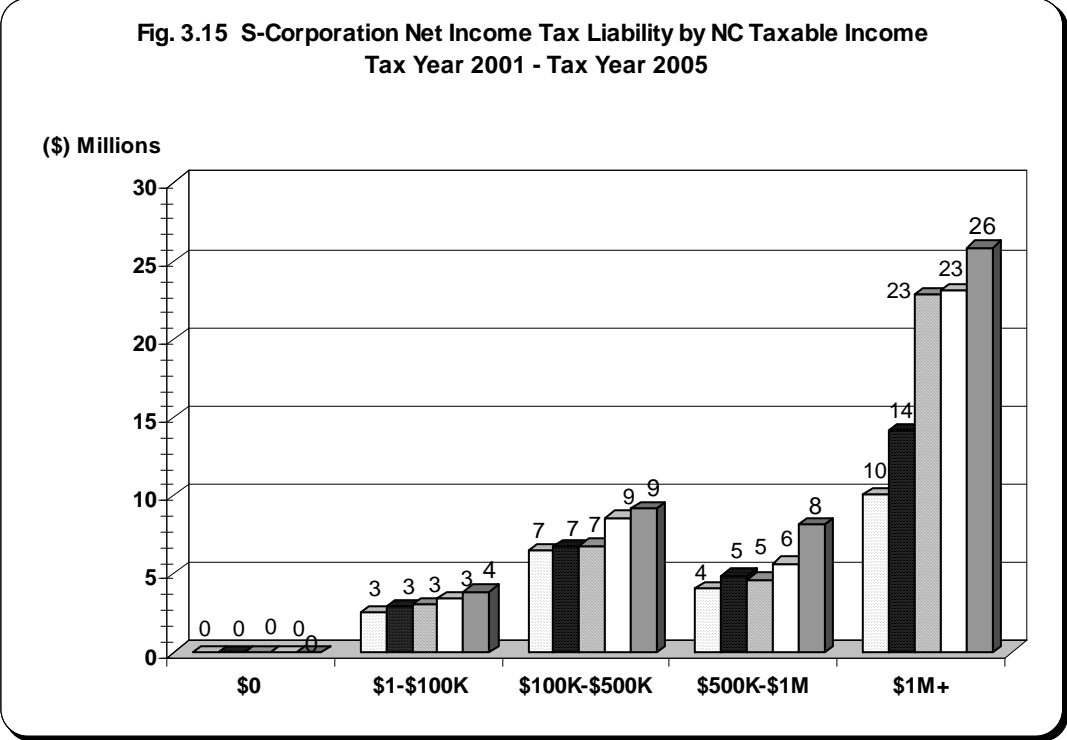
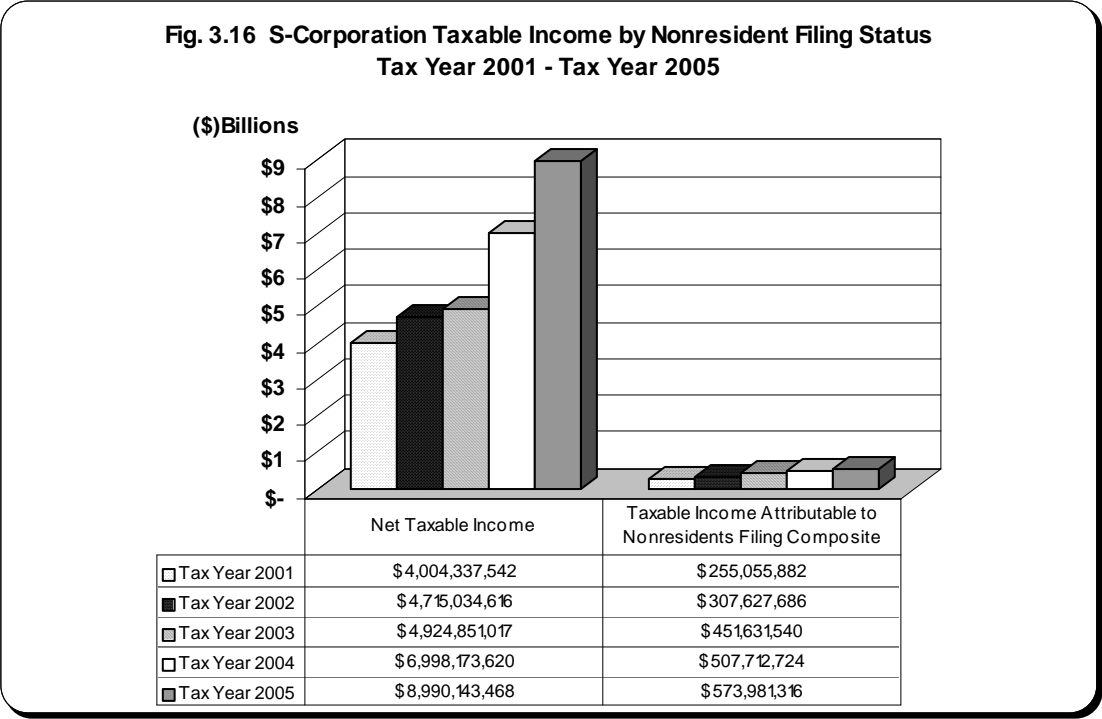


Figure 3.16 shows the net taxable income and taxable income attributable to nonresidents filing composite. There was an increase in the net taxable income and in the nonresident taxable income for all four tax years.



**SECTION III
TRENDS**

Table 3.17 shows the income tax credits by credit type for three tax years. The credits taken increased by \$107,000 in 2002 and by \$60,000 in 2003. In 2004, credits decreased by \$6,448. 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 2005**

Income Tax Credits	Tax Year 2001		Tax Year 2002		Tax Year 2003		Tax Year 2004		Tax Year 2005	
	Number of Credits	Amount Claimed (\$)	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	6	63,382
Lee Act and Other Limited Credits	144	289,410	330	574,716	245	539,054	123	416,669	146	804,229
Others *	4	26,923	27	101,241	34	37,989	21	258,400	10	534,497
Credits Claimed	148	316,333	369	681,075	291	588,469	150	766,193	162	1,402,108
Credits Not Taken **	--	23,735	--	280,928	--	127,631	--	311,803	--	771,507
Credits Taken	--	292,598	--	400,147	--	460,838	--	454,390	--	630,601

* 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. In 2005, Rehabilitating a Historic Structure consisted of two groups (Rehabilitating an Income-Producing Historic Structure and Rehabilitating a Non-Income Producing Historic Structure).

** 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.