

North Carolina

**Corporation Income and Business
Franchise Taxes**

Tax Year 2008

Statistics and Trends



**Policy Analysis and
Statistics Division**

North Carolina

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Franchise Taxes**

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**Policy Analysis and Statistics Division
North Carolina Department of Revenue**

December 2010

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CONTENTS

| | |
|---|-----------|
| INTRODUCTION..... | 1 |
| TAXES COVERED BY THIS REPORT..... | 2 |
| <u>SECTION I - FRANCHISE TAX</u> | |
| C-Corporation..... | 4 |
| Table 1.1: C-Corporation Returns by Tax Base Utilized | |
| Table 1.2: C-Corporation Net Franchise Tax Liability by Tax Base Utilized | |
| Figure 1.3: C-Corporation Returns and Net Franchise Tax Liability by Tax Base | |
| Table 1.4: C-Corporation Returns and Net Franchise Tax Liability by Franchise Taxable Amount | |
| Figure 1.5: C-Corporation Returns and Net Franchise Tax Liability by Franchise Taxable Amount | |
| Table 1.6: C-Corporation Returns Claiming Franchise Tax Credits and Amount of Credits Taken | |
| Figure 1.7: C-Corporation Returns Claiming Franchise Tax Credits and Amount of Credits Taken | |
| Table 1.8: C-Corporation Franchise Tax Credits Taken by Credit Type and Franchise Taxable Amount | |
| S-Corporation | 9 |
| Table 1.9: S-Corporation Returns by Tax Base Utilized | |
| Table 1.10: S-Corporation Net Franchise Tax Liability by Tax Base Utilized | |
| Figure 1.11: S-Corporation Returns and Net Franchise Tax Liability by Tax Base | |
| Table 1.12: S-Corporation Returns and Net Franchise Tax Liability by Franchise Taxable Amount | |
| Figure 1.13: S-Corporation Returns and Net Franchise Tax Liability by Franchise Taxable Amount | |
| Table 1.14: S-Corporation Returns Claiming Franchise Tax Credits and Amount of Credits Taken | |
| Figure 1.15: S-Corporation Returns Claiming Franchise Tax Credits and Amount of Credit Taken | |
| Table 1.16: S-Corporation Franchise Tax Credits Taken by Credit Type and Franchise Taxable Amount | |
| C and S Corporations Combined | 13 |
| Figure 1.17: C & S Corporation Returns and Net Franchise Tax Liability by Tax Base | |
| Figure 1.18: C & S Corporation Returns and Net Franchise Tax Liability by Franchise Taxable Amount | |
| Figure 1.19: C & S Corporations Returns Claiming Franchise Tax Credits and Amount of Credits Taken | |
| <u>SECTION II - INCOME TAX</u> | |
| C-Corporation..... | 16 |
| Table 2.1: C-Corporation Returns and Net Income Tax Liability by NC Taxable Income | |
| Figure 2.2: C-Corporation Returns and Net Income Tax Liability by NC Taxable Income | |
| Figure 2.3: C-Corporation Returns and Net Income Tax Liability by Federal Taxable Income (Before NOL) | |
| Table 2.4: C-Corporation Returns by Federal Taxable Income (Before NOL) and Apportionment Percentage | |
| Table 2.5: C-Corporation Net Income Tax Liability by Federal Taxable Income (Before NOL) and Apportionment Percentage | |
| Figure 2.6: C-Corporation Returns and Net Income Tax Liability by Apportionment Percentage | |
| Table 2.7: C-Corporation Income Tax Calculation Detail by Federal Taxable Income (Before NOL) | |
| Table 2.8: C-Corporation Returns by Income Tax Credits as a Percentage of Tax | |
| Table 2.9: C-Corporation Tax Credits for Taxable Returns Income Tax Credits as a Percentage of Tax | |
| Figure 2.10: C-Corporation Income Tax Credits Taken by Federal Taxable Income (Before NOL) | |
| Table 2.11: C-Corporation Income Tax Credits by Credit Type and Federal Taxable Income (Before NOL) | |
| S-Corporation | 24 |
| Table 2.12: S-Corporation Returns and Net Income Tax Liability by NC Taxable Income | |
| Figure 2.13: S-Corporation Returns and Net Income Tax Liability by NC Taxable Income | |
| Figure 2.14: S-Corporation Returns by NC Taxable Income and Nonresident Shareholder Status | |
| Table 2.15: S-Corporation Income Tax Calculation Detail | |
| Table 2.16: S-Corporation Income Tax Credits by Credit Type and Taxable Income | |

SECTION III – TRENDS

C-Corporation.....28
Figure 3.1: C-Corporation Returns by Tax Year
Figure 3.2: C-Corporation Net Franchise and Income Tax Liabilities by Tax Year
Table 3.3: C-Corporation Net Income Tax Liability by NC Taxable Income
Figure 3.4: C-Corporation Net Income Tax Liability by NC Taxable Income

S-Corporation.....31
Figure 3.5: S-Corporation Returns by Tax Years
Figure 3.6: S-Corporation Net Franchise and Income Tax Liabilities by Tax Year
Figure 3.7: S-Corporation Returns by NC Taxable Income – Tax Years 2005 & 2008

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 2008. 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 2008 were processed until October 2010.

The data for this report were retrieved from ITAS on October 15, 2010. Some of the forms upon which the report data were 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.

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 2008. 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 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) that elect to be taxed as corporations for federal income tax purposes became liable for franchise tax beginning in 2007 (as reported on TY2006 returns). Those LLC's that chose to file as S-corporations in North Carolina became liable for tax beginning in 2009 (due on TY2008 returns). Electric power, water, and sewer utility companies pay a franchise tax based on their gross receipts and are exempt from the business franchise tax to the extent that their utilities franchise tax payments exceed their business franchise tax liability. 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.

SECTION I FRANCHISE TAX

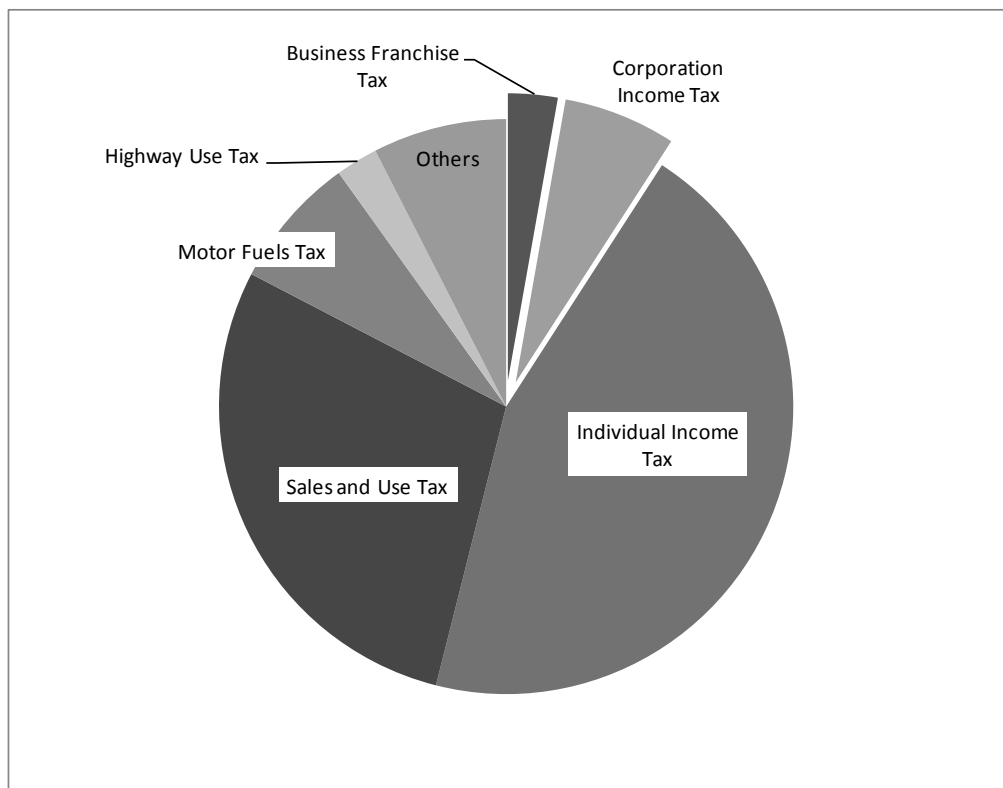
Total income allocated to North Carolina may be reduced by the value of net economic loss, percentage depletion over cost depletion, and contributions to North Carolina donees. The net taxable income is taxed at a rate of 6.9%.

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.

The following chart gives an idea of the relative importance of corporation tax revenues to overall State revenues. Net revenues from each tax type for Fiscal Year 2009-2010 were compiled from the Department of Revenue's financial statistics (Highway Use Tax revenues were obtained from the Division of Motor Vehicles). Gross collections were decreased by refunds and distributions to local governments.

As the chart indicates, 9.1% of State tax revenues were attributable to the Business Franchise Tax and the Corporation Income Tax. This share would have been smaller if not for the addition of \$424 million from the Department's Resolution Initiative program, which focused on collecting corporation revenues from prior years. Corporation taxes are the third largest category of revenues for the State government, surpassing motor fuels taxes, highway use taxes, alcoholic beverage taxes and tobacco products taxes. Only the individual income tax and the sales & use tax generated more revenue.

Composition of Net State Revenues by Tax Category, FY09-10



C-CORPORATIONS

For a distributional analysis in this report, we have broken out the franchise tax statistics into 7 groups based on the franchise taxable amount. The first category (\$0 to \$23,667) represents those taxpayers that had the minimum \$35 amount of tax due.

Because of the low franchise tax rate, the amounts due by companies were generally modest. After we excluded filers with zero due (9,858 returns), the average amount due before credits from the remaining 68,844 returns was \$6,527. Half of these taxpayers owed less than \$80; and 99% of taxpayers owed less than \$110,000 each.

Table 1.1 shows the distribution of returns based on which franchise tax base was used to calculate the taxable amount. The capital stock, surplus and undivided profits base was used on 44% of the 2008 tax year returns, followed by investment in tangible property base (15%), and appraised values in property base (8%). Thirty-four percent of the returns listed no assets because: 1) the taxpayer was exempt from franchise tax; 2) the 2008 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 2008**

| 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 | 26,402 | 8,089 | 2,477 | 1,879 | 38,847 |
| \$23,668-\$100,000 | - | 6,665 | 2,677 | 1,696 | 11,038 |
| \$100,001-\$1,000,000 | - | 11,985 | 3,911 | 2,197 | 18,093 |
| \$1,000,001-\$5,000,000 | - | 4,289 | 1,259 | 512 | 6,060 |
| \$5,000,001-\$20,000,000 | - | 1,931 | 620 | 112 | 2,663 |
| \$20,000,001-\$40,000,000 | - | 612 | 198 | 30 | 840 |
| \$40,000,001+ | - | 897 | 240 | 24 | 1,161 |
| Total | 26,402 | 34,468 | 11,382 | 6,450 | 78,702 |

Note: Figures are based on both audited and unaudited returns.
In cases where the bases were equal, the base listed earlier in the table (and on the return) was assigned

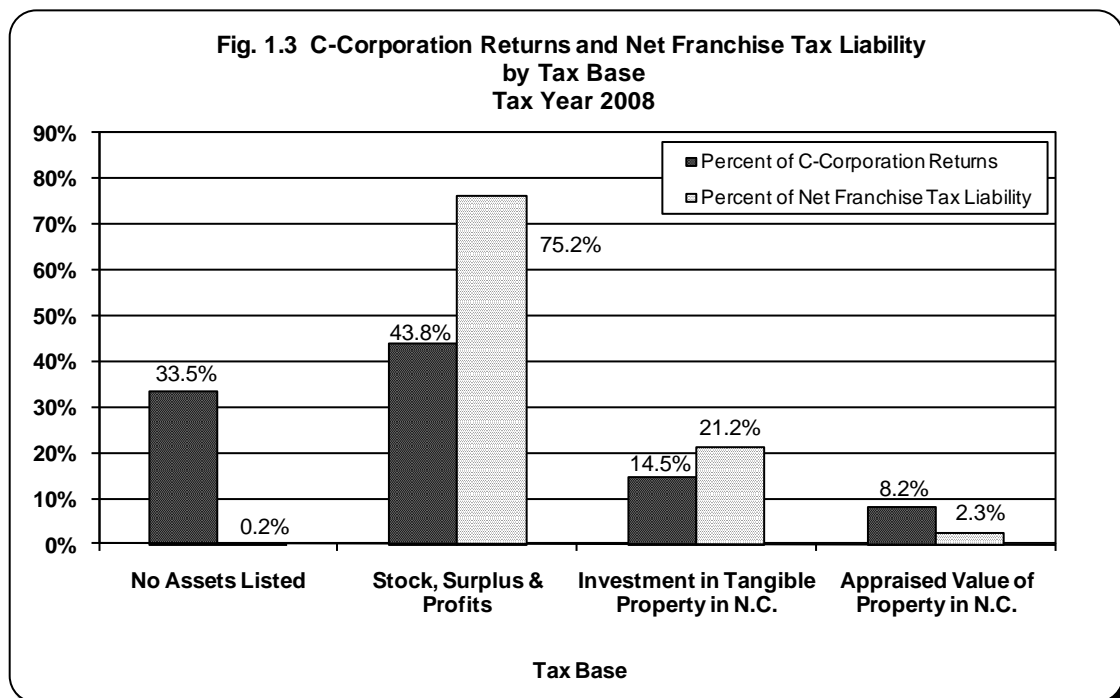
**SECTION I
FRANCHISE TAX**

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 2008**

| 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 | 608,912 | 277,864 | 84,754 | 63,044 | 1,034,574 |
| \$23,668-\$100,000 | - | 544,935 | 212,430 | 126,427 | 883,792 |
| \$100,001-\$1,000,000 | - | 6,367,902 | 1,976,596 | 1,042,955 | 9,387,453 |
| \$1,000,001-\$5,000,000 | - | 14,289,750 | 4,093,859 | 1,520,158 | 19,903,767 |
| \$5,000,001-\$20,000,000 | - | 28,202,552 | 8,796,475 | 1,654,628 | 38,653,655 |
| \$20,000,001-\$40,000,000 | - | 24,046,250 | 7,256,735 | 1,314,179 | 32,617,164 |
| \$40,000,001+ | - | 229,680,075 | 62,093,503 | 3,615,750 | 295,389,328 |
| Total | 608,912 | 303,409,328 | 84,514,352 | 9,337,141 | 397,869,733 |

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



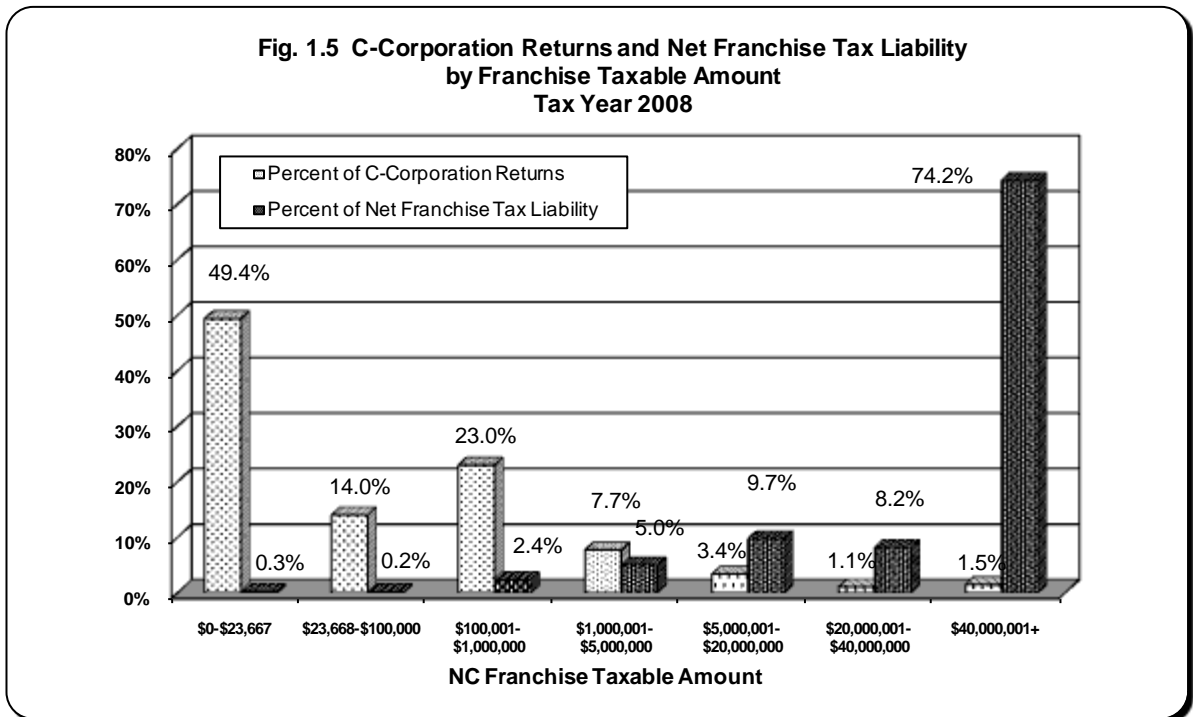
**SECTION I
FRANCHISE TAX**

Table 1.4 and Figure 1.5 provide the distribution of C-corporation returns and net franchise tax liability by taxable amount. Taxpayers with franchise taxable amount over \$40 million made up only 1.5% of the returns, but paid 74.2% of net franchise tax.

**Table 1.4
C-Corporation Returns and Net Franchise Tax Liability by Franchise Taxable Amount
Tax Year 2008**

| Franchise Taxable Amount | Number of Returns | | Net Franchise Tax Liability (\$) | |
|---------------------------|-------------------|---------------|----------------------------------|---------------|
| | Number of Returns | Percent | Liability (\$) | Percent |
| \$0-\$23,667 | 38,847 | 49.4% | 1,034,574 | 0.3% |
| \$23,668-\$100,000 | 11,038 | 14.0% | 883,792 | 0.2% |
| \$100,001-\$1,000,000 | 18,093 | 23.0% | 9,387,453 | 2.4% |
| \$1,000,001-\$5,000,000 | 6,060 | 7.7% | 19,903,767 | 5.0% |
| \$5,000,001-\$20,000,000 | 2,663 | 3.4% | 38,653,655 | 9.7% |
| \$20,000,001-\$40,000,000 | 840 | 1.1% | 32,617,164 | 8.2% |
| \$40,000,001+ | 1,161 | 1.5% | 295,389,328 | 74.2% |
| Total | 78,702 | 100.0% | 397,869,733 | 100.0% |

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



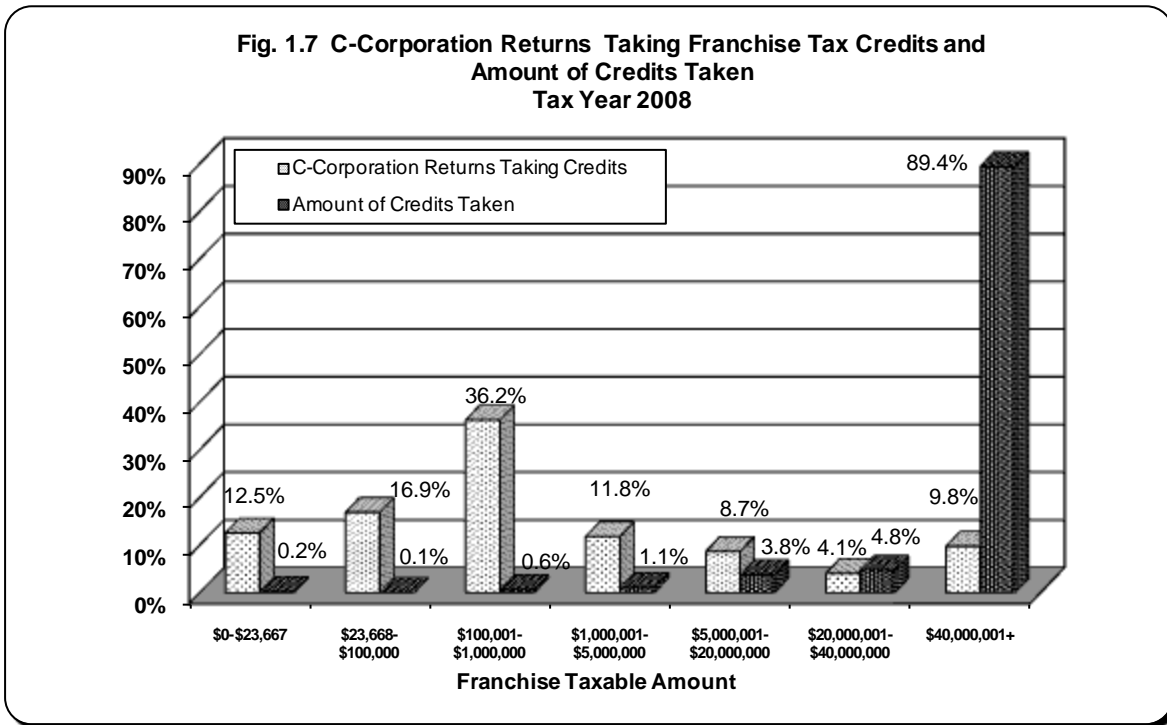
**SECTION I
FRANCHISE TAX**

Table 1.6 and Figure 1.7 show the number of returns taking franchise tax credits and amount of credits taken. Of the 68,844 returns with positive tax liability before credits, only 3,392 (4.9%) took credits. Returns with franchise taxable amount greater than \$40 million comprised only 9.8% of the returns taking credits, but 89.4% of the credits taken.

**Table 1.6
C-Corporation Returns Taking Franchise Tax Credits and Amount of Credits Taken
Tax Year 2008**

| Franchise Taxable Amount | Number of Returns Taking Credits | | Amount of Credits Taken (\$) | |
|---------------------------|----------------------------------|---------------|------------------------------|---------------|
| | Taking Credits | Percent | Taken (\$) | Percent |
| \$0-\$23,667 | 425 | 12.5% | 127,498 | 0.2% |
| \$23,668-\$100,000 | 573 | 16.9% | 26,186 | 0.1% |
| \$100,001-\$1,000,000 | 1,229 | 36.2% | 330,473 | 0.6% |
| \$1,000,001-\$5,000,000 | 401 | 11.8% | 583,700 | 1.1% |
| \$5,000,001-\$20,000,000 | 294 | 8.7% | 1,948,746 | 3.8% |
| \$20,000,001-\$40,000,000 | 138 | 4.1% | 2,453,007 | 4.8% |
| \$40,000,001+ | 332 | 9.8% | 46,002,363 | 89.4% |
| Total | 3,392 | 100.0% | 51,471,973 | 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 1.8 shows the amount of franchise tax credits by credit type and franchise taxable amount. On average, credits offset 12.1% of tax liability for taxpayers whose taxable amount was above \$5 million and 3.3% for those with less taxable amounts.

**Table 1.8
C-Corporation Franchise Tax Credits Taken by Credit Type and Franchise Taxable Amount
Tax Year 2008**

| 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 | 389 | 6,318,602 | 255 | 318,465 | 134 | 6,000,137 |
| + Other Credits Claimed* | 155 | 27,765,514 | 129 | 22,430 | 26 | 27,743,084 |
| - Other Credits Not Taken ** | -- | (22,519,521) | -- | (8,307) | -- | (22,511,214) |
| + Credits Subject to 50% Limit Taken | 2,892 | 39,907,378 | 2,264 | 735,269 | 628 | 39,172,109 |
| = Credits Taken | 3,392 | 51,471,973 | 2,628 | 1,067,857 | 764 | 50,404,116 |

* 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 S-corporation returns by franchise tax base. The capital stock, surplus and undivided profits base was used on 40% of 2008 tax year returns, followed by investment in tangible property base (23%), 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 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 2008**

| 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 | 33,134 | 25,774 | 10,639 | 8,199 | 77,746 |
| \$23,668-\$100,000 | - | 15,174 | 10,545 | 5,574 | 31,293 |
| \$100,001-\$1,000,000 | - | 14,084 | 9,886 | 5,983 | 29,953 |
| \$1,000,001-\$5,000,000 | - | 2,612 | 1,603 | 1,273 | 5,488 |
| \$5,000,001-\$20,000,000 | - | 501 | 373 | 197 | 1,071 |
| \$20,000,001-\$40,000,000 | - | 69 | 33 | 18 | 120 |
| \$40,000,001+ | - | 32 | 22 | 10 | 64 |
| Total | 33,134 | 58,246 | 33,101 | 21,254 | 145,735 |

Note: Figures are based on both audited and unaudited returns.
In cases where the bases were equal, the base listed earlier in the table (and on the return) was assigned

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 (49%) 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 2008**

| 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 | 942,852 | 889,306 | 366,159 | 282,985 | 2,481,302 |
| \$23,668-\$100,000 | - | 1,179,010 | 821,838 | 428,804 | 2,429,652 |
| \$100,001-\$1,000,000 | - | 6,489,979 | 4,318,659 | 2,932,808 | 13,741,446 |
| \$1,000,001-\$5,000,000 | - | 7,966,232 | 5,046,063 | 3,794,103 | 16,806,398 |
| \$5,000,001-\$20,000,000 | - | 6,669,486 | 4,762,098 | 2,542,397 | 13,973,981 |
| \$20,000,001-\$40,000,000 | - | 2,747,462 | 1,244,692 | 741,744 | 4,733,898 |
| \$40,000,001+ | - | 4,258,767 | 2,509,032 | 1,069,848 | 7,837,647 |
| Total | 942,852 | 30,200,242 | 19,068,541 | 11,792,689 | 62,004,324 |

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

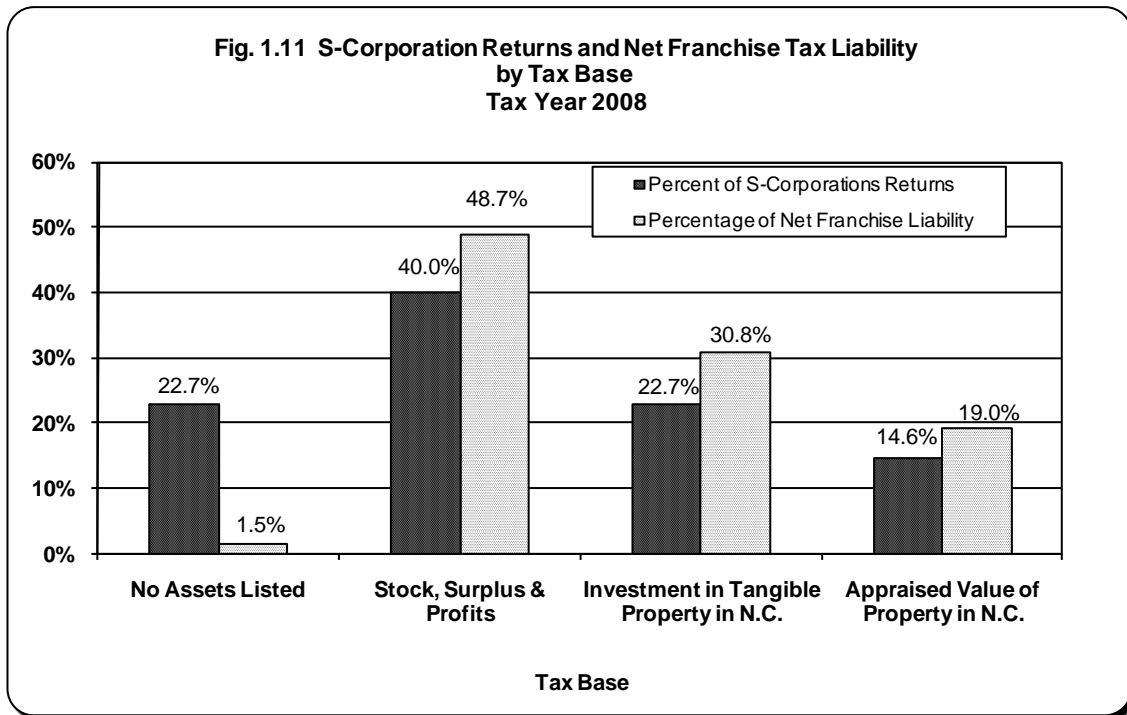


Table 1.12 and Figure 1.13 provide the distribution of S-corporation returns and net franchise tax liability. The top 5% of returns, by taxable amount, paid 70% of the tax. Taxpayers with franchise taxable amount between \$1 million and \$5 million, paid the largest amount of net franchise tax.

**Table 1.12
S-Corporation Returns and Net Franchise Tax Liability by Franchise Taxable Amount
Tax Year 2008**

| Franchise Taxable Amount | Number of Returns | | Net Franchise Tax Liability (\$) | |
|---------------------------|-------------------|---------------|----------------------------------|---------------|
| | Number of Returns | Percent | Liability (\$) | Percent |
| \$0-\$23,667 | 77,746 | 53.3% | 2,481,302 | 4.0% |
| \$23,668-\$100,000 | 31,293 | 21.5% | 2,429,652 | 3.9% |
| \$100,001-\$1,000,000 | 29,953 | 20.6% | 13,741,446 | 22.2% |
| \$1,000,001-\$5,000,000 | 5,488 | 3.8% | 16,806,398 | 27.1% |
| \$5,000,001-\$20,000,000 | 1,071 | 0.7% | 13,973,981 | 22.5% |
| \$20,000,001-\$40,000,000 | 120 | 0.1% | 4,733,898 | 7.6% |
| \$40,000,001+ | 64 | 0.0% | 7,837,647 | 12.6% |
| Total | 145,735 | 100.0% | 62,004,324 | 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**

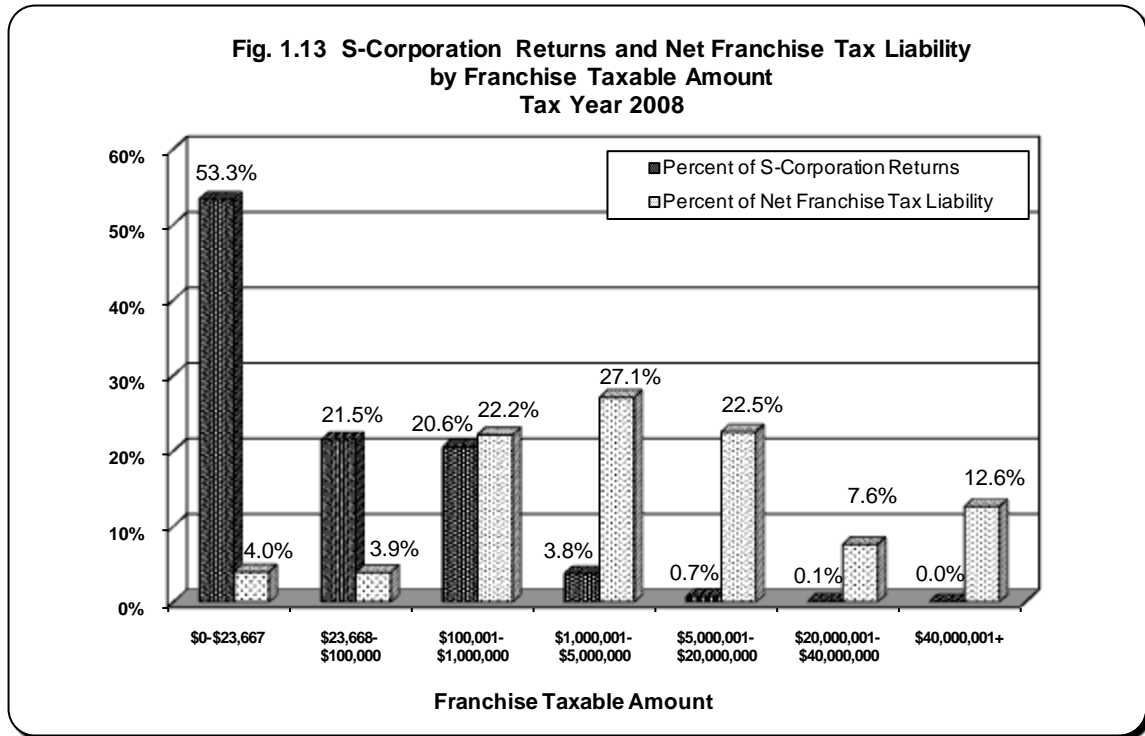


Table 1.14 and Figure 1.15 show the number of returns taking franchise tax credits and amount of credits taken. Returns with a franchise taxable amount greater than \$40 million comprised 0.3% of the returns taking credits and 25.9% of the credits taken.

**Table 1.14
S-Corporation Returns Taking Franchise Tax Credits and Amount of Credits Taken
Tax Year 2008**

| Franchise Taxable Amount | Number of Returns Taking Credits | | Amount of Credits Taken (\$) | |
|---------------------------|----------------------------------|---------------|------------------------------|---------------|
| | Number | Percent | Amount | Percent |
| \$0-\$23,667 | 775 | 23.6% | 32,059 | 1.7% |
| \$23,668-\$100,000 | 796 | 24.3% | 48,107 | 2.6% |
| \$100,001-\$1,000,000 | 1,227 | 37.4% | 293,340 | 15.6% |
| \$1,000,001-\$5,000,000 | 358 | 10.9% | 359,861 | 19.2% |
| \$5,000,001-\$20,000,000 | 96 | 2.9% | 409,728 | 21.8% |
| \$20,000,001-\$40,000,000 | 18 | 0.5% | 247,013 | 13.2% |
| \$40,000,001+ | 11 | 0.3% | 485,237 | 25.9% |
| Total | 3,281 | 100.0% | 1,875,345 | 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**

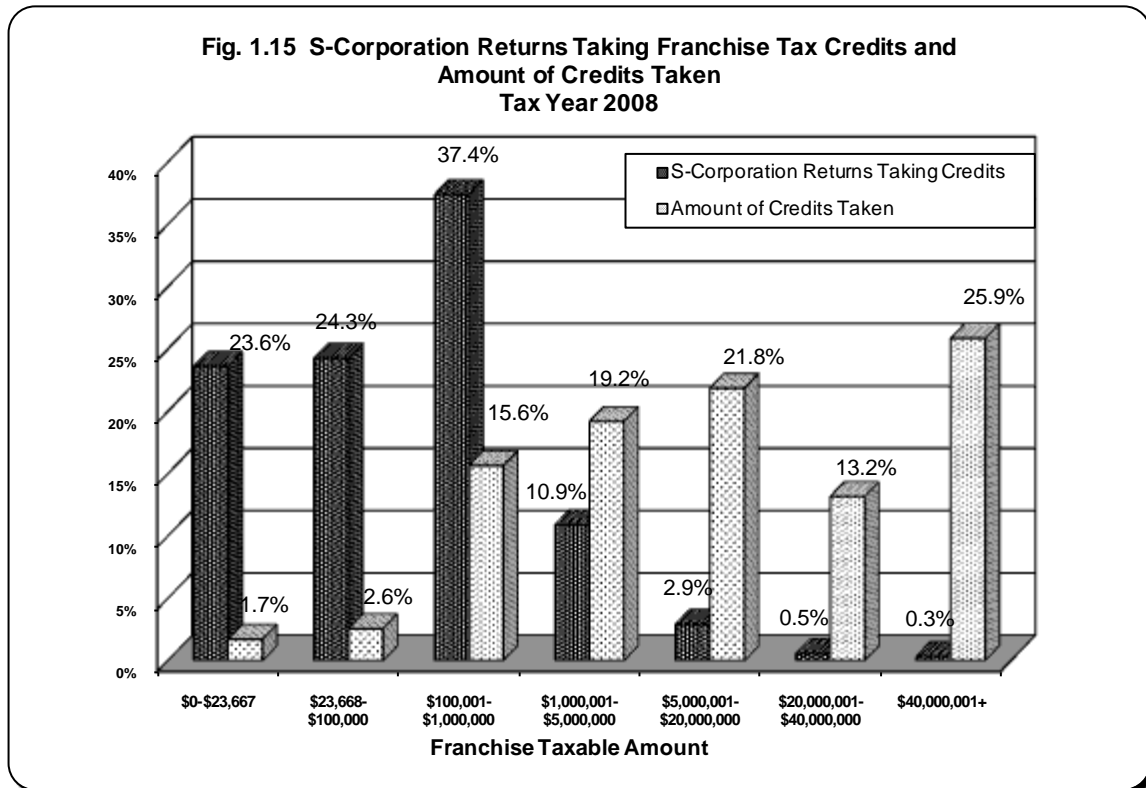


Table 1.16 shows the amount of franchise tax credits by credit type and franchise taxable amount.

**Table 1.16
S-Corporation Franchise Tax Credits Taken by Credit Type and Franchise Taxable Amount
Tax Year 2008**

| 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 | 229 | 213,382 | 217 | 71,199 | 12 | 142,183 |
| Credits Subject to 50% Limit | 1,871 | 1,537,575 | 1,780 | 543,980 | 91 | 993,595 |
| Others** | 1,199 | 204,424 | 1,177 | 198,224 | 22 | 6,200 |
| Credits Claimed | 3,299 | 1,955,381 | 3,174 | 813,403 | 125 | 1,141,978 |
| Credits Not Taken *** | -- | 80,036 | -- | 80,036 | -- | - |
| Credits Taken | -- | 1,875,345 | -- | 733,367 | -- | 1,141,978 |

* The total number of credits does not equal to the total number of returns claiming credits stated in Table 1.14 because several taxpayers took credits from multiple categories in this table.

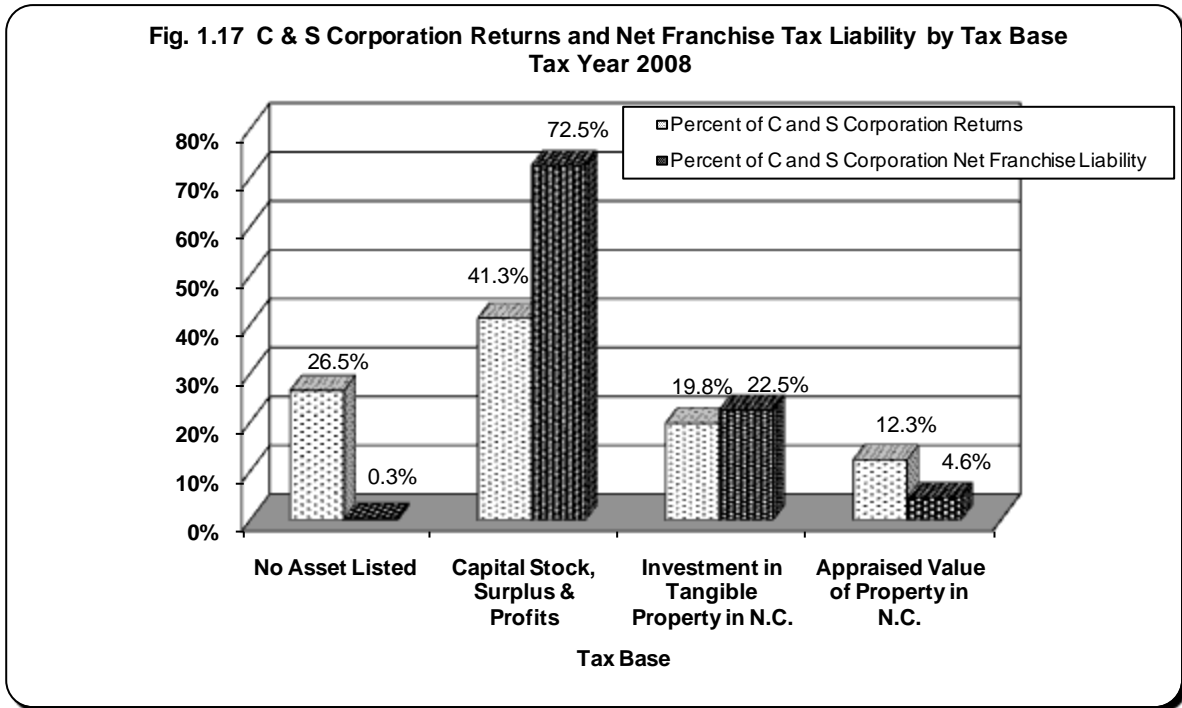
** This category include Piped Natural Gas, and Other Non-Limited Franchise Credits (Credit type not stated).

*** 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.

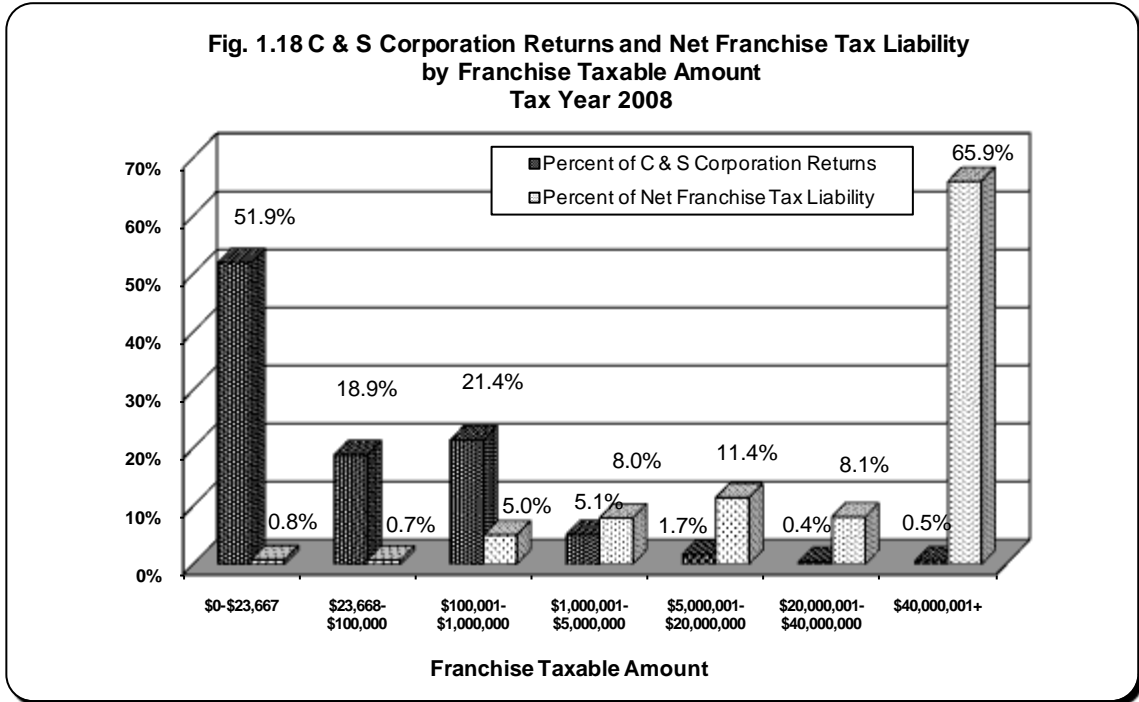
C & S CORPORATIONS COMBINED

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.



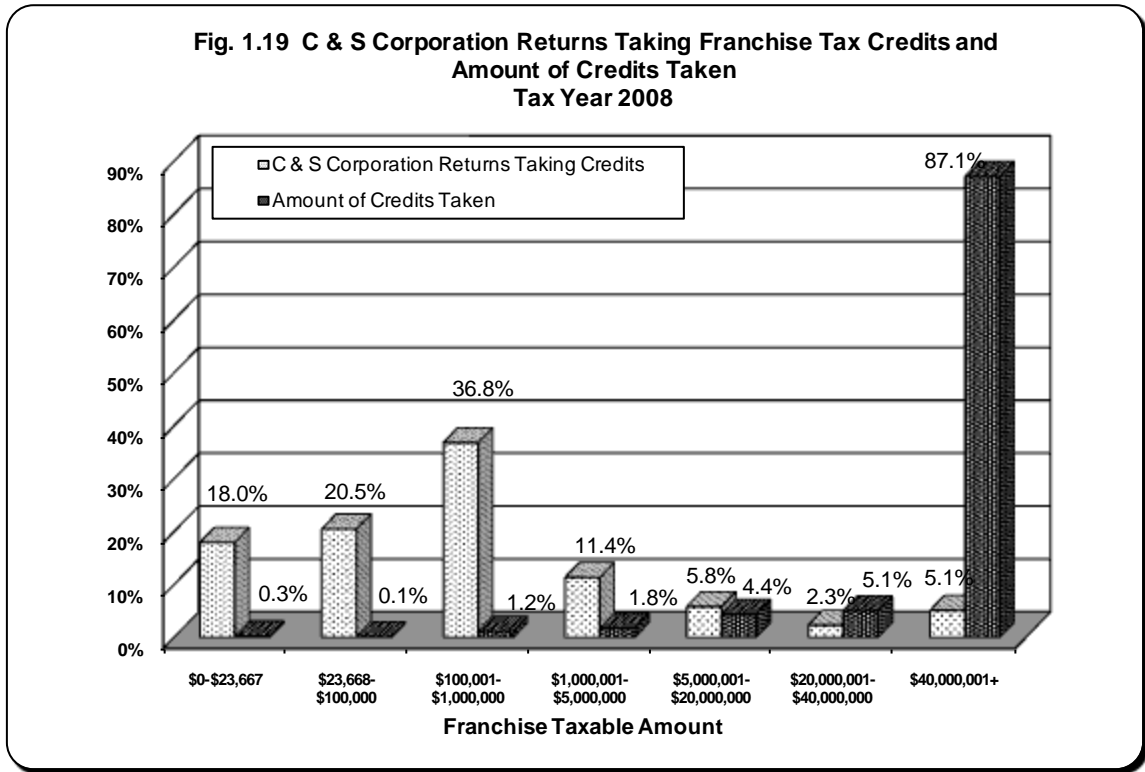
**SECTION I
FRANCHISE TAX**

Figure 1.18 shows the number of C and S corporation returns and net franchise tax liability. The top 2.6% of returns, by taxable amount, paid 85.4% of the tax. Taxpayers with franchise taxable amount over \$40 million made up less than 1% of the returns, but paid 66% 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.



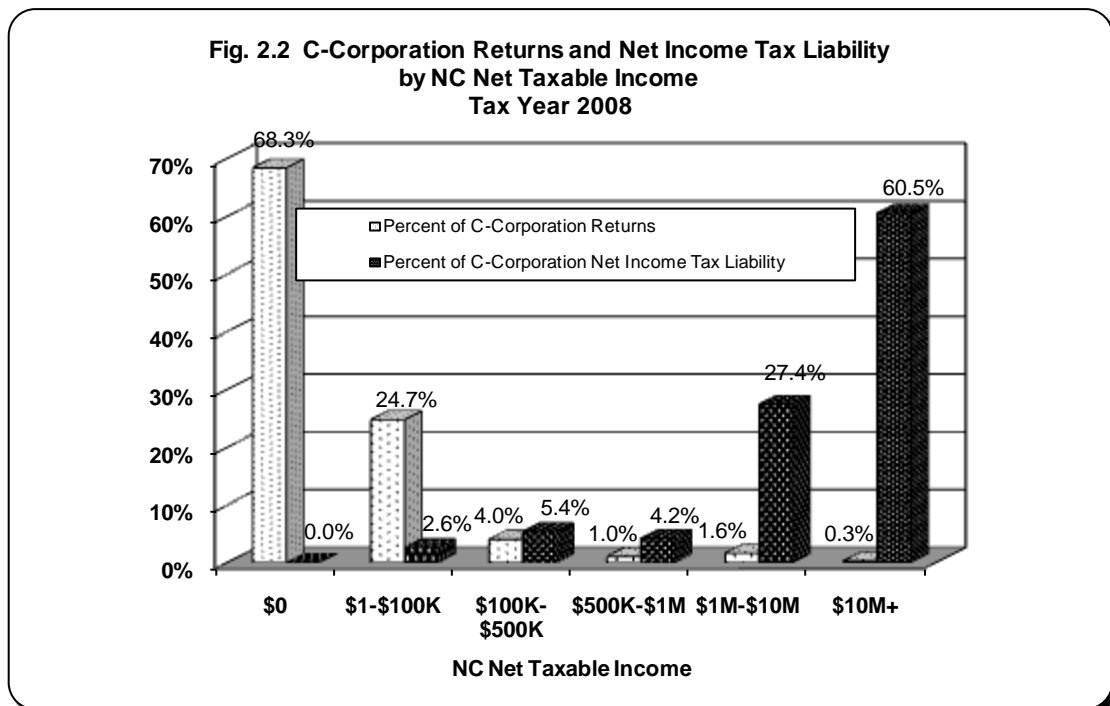
C-CORPORATIONS

Table 2.1 and Figure 2.2 show the distribution of returns and net income tax liability by NC net taxable income (Line 25 of Form CD-405). Although more than 78,000 C-corporations filed a tax return for tax year 2008, less than one-third of these companies actually had a net tax liability (i.e., a tax liability after credits were applied).

**Table 2.1
C-Corporation Returns and Net Income Tax Liability by NC Net Taxable Income
Tax Year 2008**

| NC Net Taxable Income | Number of Returns | Percent | Cumulative Percent | Net Income Tax Liability [\$] | Percent | Cumulative Percent |
|--------------------------|-------------------|----------------|--------------------|-------------------------------|----------------|--------------------|
| \$0 or less | 53,781 | 68.33% | 68.33% | -- | -- | -- |
| \$1-\$15,000 | 12,456 | 15.83% | 84.16% | 3,442,853 | 0.37% | 0.37% |
| \$15,001-\$30,000 | 2,725 | 3.46% | 87.62% | 3,992,158 | 0.43% | 0.80% |
| \$30,001-\$50,000 | 1,956 | 2.49% | 90.11% | 5,200,957 | 0.56% | 1.36% |
| \$50,001-\$100,000 | 2,333 | 2.96% | 93.07% | 11,171,608 | 1.20% | 2.57% |
| \$100,001-\$500,000 | 3,166 | 4.02% | 97.10% | 49,686,690 | 5.36% | 7.92% |
| \$500,001-\$1,000,000 | 808 | 1.03% | 98.12% | 38,719,372 | 4.17% | 12.10% |
| \$1,000,001-\$10,000,000 | 1,277 | 1.62% | 99.75% | 254,056,202 | 27.39% | 39.49% |
| \$10,000,001+ | 200 | 0.25% | 100.00% | 561,232,154 | 60.51% | 100.00% |
| Total | 78,702 | 100.00% | -- | 927,501,994 | 100.00% | -- |

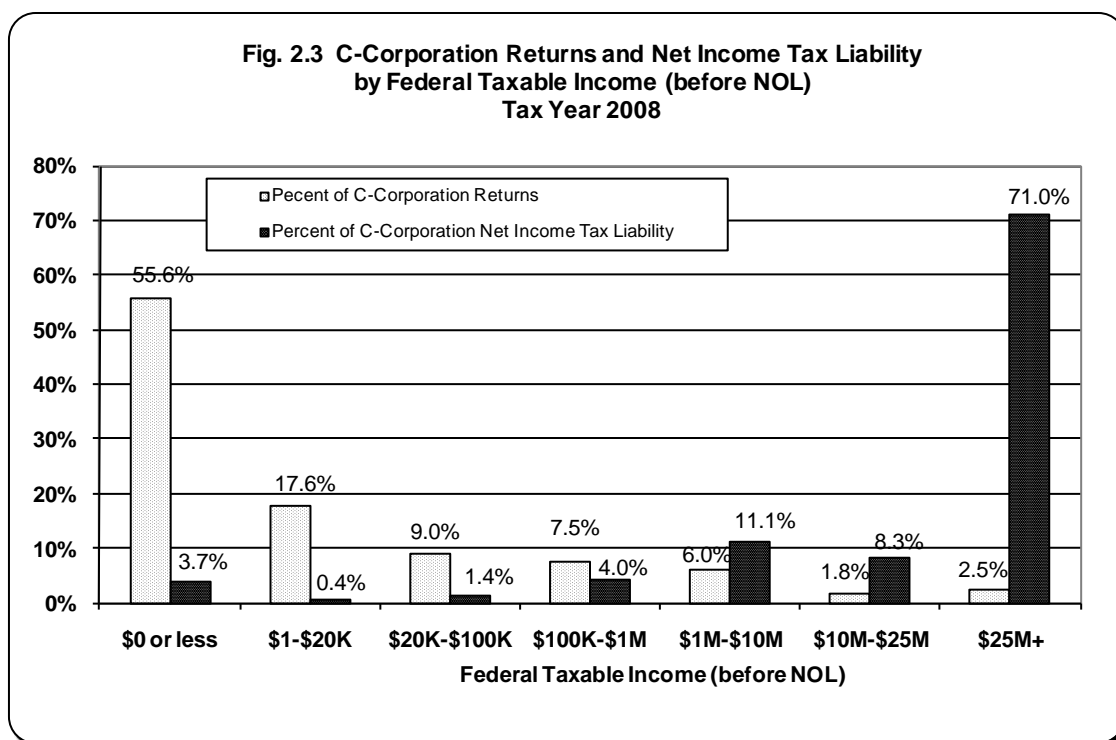
Note: Figures are based on both audited and unaudited returns. Detail may not add to totals due to rounding.



Among those C-corporations that did have a tax liability, 78% had NC Taxable Income of \$100,000 or less. This group of corporations paid only 2.6% of total net income tax. At the other end of the spectrum, C-corporations with a North Carolina Taxable Income of over \$1 million represented 88% of the C-corporation income tax liability, but made up only 2% of the corporations filing returns. Sixty percent of the total corporation income tax liability was attributable to the 200 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 *before Net Operating Loss*. Therefore, this distribution gives a break-down of income based on a company's national income.

As shown in Figure 2.3, corporations with federal taxable income (before NOL) over \$25 million paid over 70% of NC net income tax.



**SECTION II
INCOME TAX**

Table 2.4 shows 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. For most types of companies, 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 2008**

| Federal Taxable Income (before NOL) | NC Apportionment Percentage | | | | | Total |
|--|-----------------------------|----------|-----------|-----------|--------|--------|
| | <5% | 5% - 24% | 25% - 49% | 50% - 99% | 100% | |
| \$0 or less | 12,142 | 1,969 | 704 | 1,093 | 27,875 | 43,783 |
| \$1 - \$20,000 | 896 | 198 | 107 | 219 | 12,413 | 13,833 |
| \$20,001- \$100,000 | 1,191 | 326 | 151 | 368 | 5,049 | 7,085 |
| \$100,001 - \$ 1,000,000 | 2,837 | 626 | 228 | 470 | 1,780 | 5,941 |
| \$1,000,001 - \$10,000,000 | 3,484 | 584 | 196 | 186 | 243 | 4,693 |
| \$10,000,001-\$25,000,000 | 1,158 | 132 | 47 | 26 | 21 | 1,384 |
| \$25,000,001+ | 1,739 | 194 | 36 | 9 | 5 | 1,983 |
| Total | 23,447 | 4,029 | 1,469 | 2,371 | 47,386 | 78,702 |

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

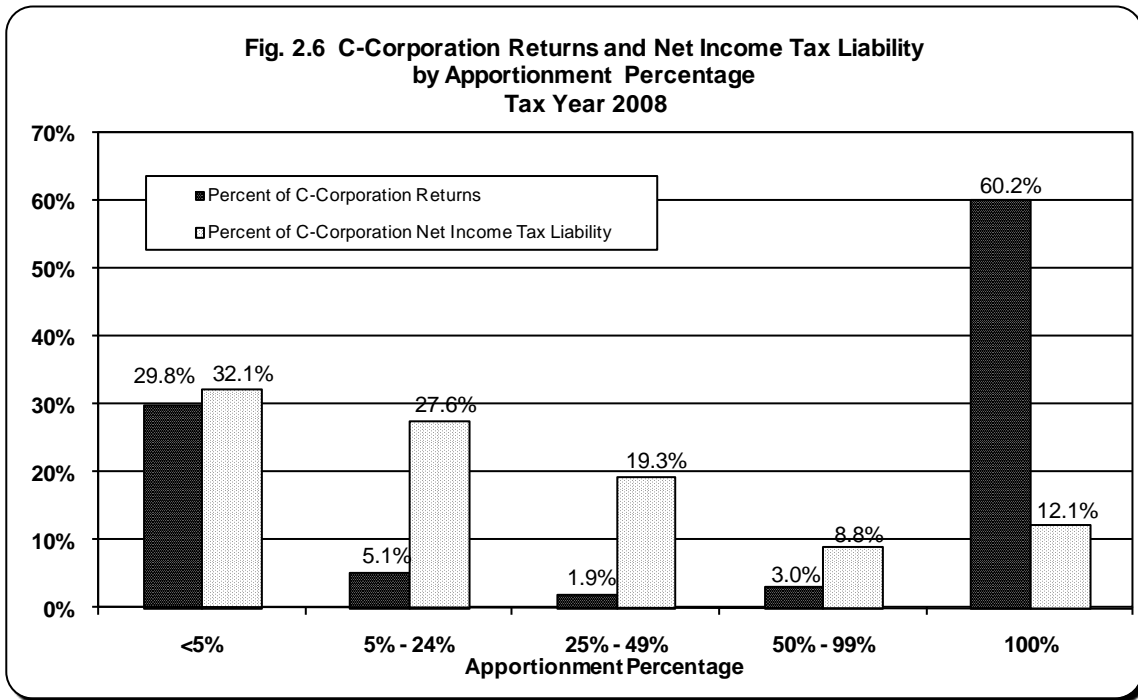
**Table 2.5
C-Corporation Net Income Tax Liability by Federal Taxable Income (Before NOL) and
Apportionment Percentage
Tax Year 2008**

| Federal Taxable Income (before NOL) | NC Apportionment Percentage | | | | | Total |
|--|-----------------------------|------------------|-------------------|-------------------|--------------|-------------|
| | <5% [\$] | 5% - 24% [\$] | 25% - 49% [\$] | 50% - 99% [\$] | 100% [\$] | |
| \$0 or less | 14,290,155 | 4,340,121 | 942,558 | 12,352,662 | 2,445,136 | 34,370,632 |
| \$1 - \$20,000 | 11,155 | 17,042 | 21,586 | 87,777 | 3,357,747 | 3,495,307 |
| \$20,001- \$100,000 | 94,892 | 149,480 | 294,453 | 876,591 | 11,567,040 | 12,982,456 |
| \$100,001 - \$ 1,000,000 | 1,119,756 | 1,759,812 | 2,021,253 | 8,211,439 | 24,320,392 | 37,432,652 |
| \$1,000,001 - \$10,000,000 | 11,185,461 | 15,351,495 | 13,019,684 | 25,841,824 | 37,976,818 | 103,375,282 |
| \$10,000,001-\$25,000,000 | 15,150,847 | 12,061,131 | 15,016,678 | 15,759,437 | 18,990,878 | 76,978,971 |
| \$25,000,001+ | 256,321,132 | 222,414,911 | 147,957,490 | 18,889,329 | 13,283,832 | 658,866,694 |
| Total | 298,173,398 | 256,093,992 | 179,273,702 | 82,019,059 | 111,941,843 | 927,501,994 |

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 60% of the returns filed for tax year 2008. These corporations accounted for only 12% 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-one percent of corporation income tax was attributable to 1,933 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.



SECTION II INCOME TAX

Table 2.7 on the next page shows the income tax calculation detail, based on groupings by federal taxable income. Out of 78,702 returns, 31% were taxable returns and 69% were nontaxable returns. Taxable returns with a federal taxable income over \$50 million made up only 1.2% of the returns but accounted for 90% of the federal taxable income before NOL and 65% of the tax liability.

Of the 43,783 returns with federal taxable income of zero or less, 1,271 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 34,919 returns that did show a federal taxable income, 11,466 did not have a net North Carolina liability. One can trace through the calculations in Table 2.7 to see how these companies reduced their tax liability. From federal taxable income of \$92.5 billion, there was a reduction of \$8.9 billion due to adjustments, a reduction of \$76.2 billion due to apportioning income to North Carolina, and a reduction of \$5.9 billion due to Net Economic Loss carryforwards.

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. One of those addbacks in 2008 was for the bonus depreciation allowance created by the Economic Stimulus Act of 2008 at the federal level. As such, these addbacks are only a temporary addition to tax, as they will be offset by future deductions.

Finally, North Carolina tax credits for businesses reduced overall C-Corporation tax liabilities by \$97,159,211.

**SECTION II
INCOME TAX**

**Table 2.7
C-Corporation Income Tax Calculation Detail by Federal Taxable Income (Before NOL)
Tax Year 2008**

| 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 | 1,271 | (8,566,583,211) | 13,491,332,975 | 83,233,531 | 39,981,041 | 4,421,122,660 | 380,412,528 |
| \$1-\$20,000 | 8,866 | 50,700,094 | 15,201,266 | 198,944 | 276,798 | 9,185,447 | 56,240,171 |
| \$20,001-\$100,000 | 4,954 | 242,365,645 | 62,122,668 | 1,551,152 | 4,468,756 | 87,593,174 | 210,875,231 |
| \$100,001-\$1,000,000 | 3,923 | 1,459,796,686 | 423,046,737 | 9,395,330 | 14,892,906 | 1,269,401,342 | 589,153,846 |
| \$1,000,001-\$10,000,000 | 3,231 | 12,274,274,679 | 3,179,751,089 | 87,268,280 | 102,378,093 | 13,650,165,586 | 1,614,213,789 |
| \$10,000,001-\$50,000,000 | 1,550 | 35,929,466,201 | 5,946,908,248 | 208,301,755 | 125,377,235 | 39,181,839,534 | 2,360,855,875 |
| \$50,000,001+ | 929 | 353,784,046,400 | 11,629,995,299 | 2,290,594,890 | 1,997,309,103 | 351,048,021,266 | 10,078,115,483 |
| Total, Taxable | 24,724 | 395,174,066,494 | 34,748,358,282 | 2,680,543,882 | 2,284,683,932 | 409,667,329,009 | 15,289,866,923 |
| Nontaxable Returns | | | | | | | |
| \$0 or less | 42,512 | (456,172,243,691) | 11,601,852,094 | 52,578,001 | 2,327,343,105 | (429,275,698,886) | (17,674,613,163) |
| More than \$0 | 11,466 | 92,453,531,833 | (8,881,859,824) | 247,909,291 | 5,566,863,165 | 76,181,332,143 | 1,575,559,716 |
| Total, Nontaxable | 53,978 | (363,718,711,858) | 2,719,992,270 | 300,487,292 | 7,894,206,270 | (353,094,366,743) | (16,099,053,447) |

| 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 [\$] | (x 6.9%) Computed Income Tax [\$] | (-) Tax Credits [\$] | (=) Net Tax Liability [\$] |
|---------------------------|----------------------------------|--|---|----------------------------------|---|-----------------------------------|---|----------------------------|----------------------------------|
| Taxable Returns | | | | | | | | | |
| \$0 or less | 380,412,528 | 4,916,050 | - | 26,490,488 | 507,594 | 358,330,496 | 24,724,804 | 1,602,930 | 23,121,874 |
| \$1-\$20,000 | 56,240,171 | 208,742 | 23,555 | 4,441,322 | 418,938 | 51,565,098 | 3,558,067 | 62,760 | 3,495,307 |
| \$20,001-\$100,000 | 210,875,231 | 2,267,545 | 22,506 | 18,342,164 | 1,904,175 | 192,873,931 | 13,308,321 | 325,865 | 12,982,456 |
| \$100,001-\$1,000,000 | 589,153,846 | 5,655,176 | 225,621 | 39,381,061 | 3,633,059 | 551,569,281 | 38,058,313 | 625,661 | 37,432,652 |
| \$1,000,001-\$10,000,000 | 1,614,213,789 | 33,809,152 | 9 | 82,368,305 | 7,940,305 | 1,557,714,322 | 107,482,343 | 4,107,061 | 103,375,282 |
| \$10,000,001-\$50,000,000 | 2,360,855,875 | 13,524,150 | 3,487,546 | 103,477,982 | 9,750,089 | 2,257,664,408 | 155,778,842 | 8,832,589 | 146,946,253 |
| \$50,000,001+ | 10,078,115,483 | 276,921,093 | 185,904,533 | 401,447,994 | 23,404,229 | 9,744,279,819 | 672,355,291 | 72,207,119 | 600,148,170 |
| Total, Taxable | 15,289,866,923 | 337,301,908 | 189,663,770 | 675,949,316 | 47,558,389 | 14,713,997,355 | 1,015,265,981 | 87,763,985 | 927,501,994 |
| Nontaxable Returns | | | | | | | | | |
| \$0 or less | (17,674,613,163) | 43,085,200 | 405,396 | 9,212,932,367 | 36,673,097 | (26,967,680,216) | 1,785 | 1,785 | - |
| More than \$0 | 1,575,559,716 | 515,989 | 26,156,617 | 5,937,867,063 | 15,191,030 | (4,403,138,935) | 9,393,441 | 9,393,441 | - |
| Total, Nontaxable | (16,099,053,447) | 43,601,189 | 26,562,013 | 15,150,799,430 | 51,864,127 | (31,370,819,151) | 9,395,226 | 9,395,226 | - |

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**

Tables 2.8 and 2.9 show the distribution of taxable returns and income tax credits taken by tax credit as a percentage of tax and federal taxable income. Nearly 96% of the 24,921 returns with positive tax liability before credits did not take any income tax credit. Fifty-three percent of the 1,070 returns taking credits had over 40% of their tax relieved by the income tax credits. As shown in Table 2.9, these returns accounted for 53% of the total credits taken.

**Table 2.8
C-Corporation Returns by Income Tax Credits as a Percentage of Tax
Tax Year 2008**

| NC 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% + | |
| \$1-\$15,000 | 12,209 | 2 | 4 | 3 | 19 | 219 | 12,456 |
| \$15,001-30,000 | 2,610 | 3 | 3 | 10 | 16 | 83 | 2,725 |
| \$30,001-\$50,000 | 1,852 | 3 | 6 | 12 | 34 | 49 | 1,956 |
| \$50,001-\$100,000 | 2,191 | 7 | 14 | 26 | 34 | 61 | 2,333 |
| \$100,001-\$500,000 | 2,997 | 31 | 24 | 31 | 23 | 60 | 3,166 |
| \$500,001-\$1,000,000 | 754 | 8 | 8 | 5 | 8 | 25 | 808 |
| \$1,000,001-\$10,000,000 | 1,118 | 41 | 20 | 17 | 23 | 58 | 1,277 |
| \$10,000,001+ | 120 | 18 | 17 | 16 | 13 | 16 | 200 |
| Total | 23,851 | 113 | 96 | 120 | 170 | 571 | 24,921 |

Note: Calculations are based on both audited and unaudited returns.
The table does not include the 53,781 returns that had zero taxable income.

**Table 2.9
C-Corporation Tax Credits for Taxable Returns by Income Tax Credits as a Percentage of Tax
Tax Year 2008**

| NC 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 | - | 0 | 0 | 0 | 0 | 0 | 0 |
| \$1-\$15,000 | - | 23 | 92 | 120 | 3,865 | 41,210 | 45,310 |
| \$15,001-30,000 | - | 86 | 427 | 2,330 | 6,686 | 58,695 | 68,224 |
| \$30,001-\$50,000 | - | 114 | 1,303 | 4,764 | 29,434 | 61,223 | 96,838 |
| \$50,001-\$100,000 | - | 1,224 | 4,702 | 17,833 | 47,674 | 146,623 | 218,056 |
| \$100,001-\$500,000 | - | 12,931 | 28,103 | 55,933 | 87,641 | 559,402 | 744,010 |
| \$500,001-\$1,000,000 | - | 7,904 | 30,032 | 46,192 | 111,550 | 607,590 | 803,268 |
| \$1,000,001-\$10,000,000 | - | 262,379 | 482,421 | 753,644 | 1,215,290 | 7,175,119 | 9,888,853 |
| \$10,000,001+ | - | 446,625 | 7,753,012 | 18,202,342 | 15,737,048 | 43,155,625 | 85,294,652 |
| Total | | 731,286 | 8,300,092 | 19,083,158 | 17,239,188 | 51,805,487 | 97,159,211 |

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

Figure 2.10 shows income tax credits by federal taxable income (before NOL) for North Carolina taxable returns. Corporations with federal taxable income over \$50 million took 82% of the tax credits.

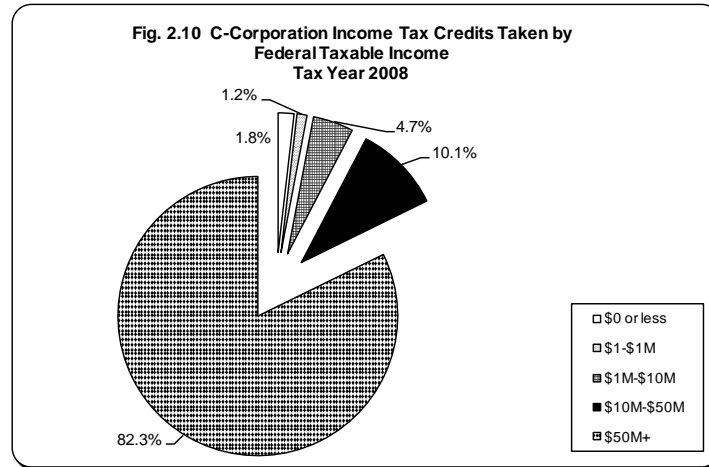


Table 2.11 provides the distribution of income tax credits by credit type and NC net taxable income. This breakdown shows that most of the credits taken were those limited to 50% of the company's tax liability. Most of these are the business incentive tax credits in Articles 3A through 3K of Chapter 105 of the General Statutes.

**Table 2.11
C-Corporation Income Tax Credits by Credit Type and NC Net Taxable Income
Tax Year 2008**

| Income Tax Credits | All Returns | | NCTI up to \$1,000,000 | | NCTI > \$1,000,000 | |
|--|--------------------|---------------------|------------------------|---------------------|--------------------|---------------------|
| | Number of Credits* | Amount Claimed (\$) | Number of Credits | Amount Claimed (\$) | Number of Credits | Amount Claimed (\$) |
| Rehabilitating an Income-Producing Historic Structure | 23 | 17,314,498 | 14 | 3,103,300 | 9 | 14,211,198 |
| Certain Real Property Donation | 3 | 214,155 | 3 | 214,155 | - | - |
| Savings and Loan Supervisory Fees | 9 | 262,991 | 5 | 67,269 | 4 | 195,722 |
| Other Non-Limited Credits | 40 | 10,120,061 | 30 | 605,139 | 10 | 9,514,922 |
| Credit Carryover from Previous Years | 15 | 32,087,068 | 12 | 1,504,075 | 3 | 30,582,993 |
| Tax Credit Subject to 50% of Tax Limit (Taken only) | 1,027 | 74,980,721 | 807 | 1,902,121 | 220 | 73,078,600 |
| Others ** | 14 | 3,211,354 | 12 | 1,324,996 | 2 | 1,886,358 |
| Credits Claimed | 1,131 | 138,190,848 | 883 | 8,721,055 | 248 | 129,469,793 |
| Credits Not Taken *** | -- | 41,031,637 | -- | 6,745,349 | -- | 34,286,288 |
| Credits Taken | 1,070 | 97,159,211 | 831 | 1,975,706 | 239 | 95,183,505 |

* The total number of credits claimed does not equal to the total number of returns claiming credits stated in Table 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: Calculations are based on both audited and unaudited returns. Detail may not add to totals due to rounding.

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 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 62% of the tax liability.

The total net tax liability of \$52.8 million shown in Table 2.12 belies the importance of the S-corporation tax since most taxable income is passed to shareholders.

**Table 2.12
S-Corporation Returns and Net Income Tax Liability by NC Taxable Income
Tax Year 2008**

| NC Taxable Income | Number of Returns | Percent | Number With Tax Due for Nonresidents | Net Tax Liability [\$] | Percent |
|---------------------------------|--------------------------|----------------|---|---------------------------------------|----------------|
| \$0 or less* | 61,892 | 42.47% | 75 | 44,654 | 0.08% |
| \$1-\$15,000 | 28,815 | 19.77% | 1,963 | 563,695 | 1.07% |
| \$15,001-30,000 | 13,830 | 9.49% | 535 | 667,662 | 1.26% |
| \$30,001-\$50,000 | 11,039 | 7.57% | 386 | 874,763 | 1.66% |
| \$50,001-\$100,000 | 12,751 | 8.75% | 499 | 2,116,109 | 4.01% |
| \$100,001-\$500,000 | 13,955 | 9.58% | 688 | 9,375,203 | 17.76% |
| \$500,001-\$1,000,000 | 1,921 | 1.32% | 157 | 6,195,187 | 11.73% |
| \$1,000,001-\$10,000,000 | 1,458 | 1.00% | 136 | 19,526,168 | 36.98% |
| \$10,000,001+ | 74 | 0.05% | 9 | 13,435,393 | 25.45% |
| Total | 145,735 | 100.00% | 4,448 | 52,798,834 | 100.00% |

*The Net Tax Liability in this bracket is positive due to taxpayer error.

Note: Calculations are based on both audited and unaudited returns. Detail may not add to totals due to rounding.

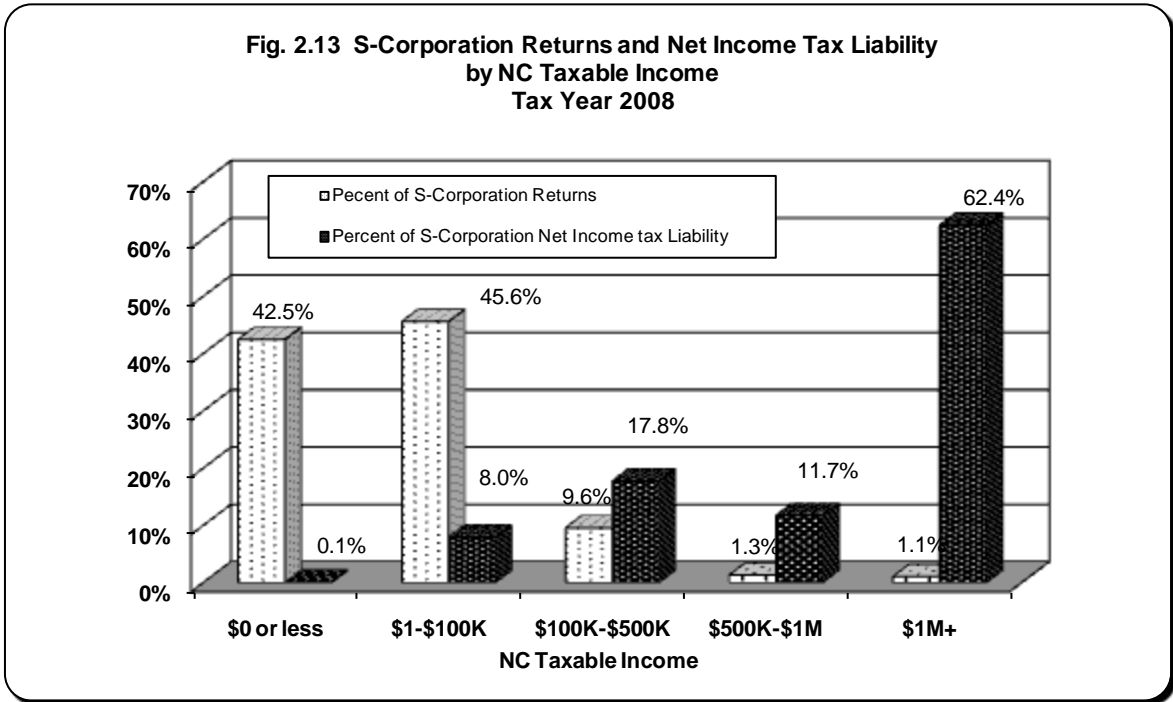
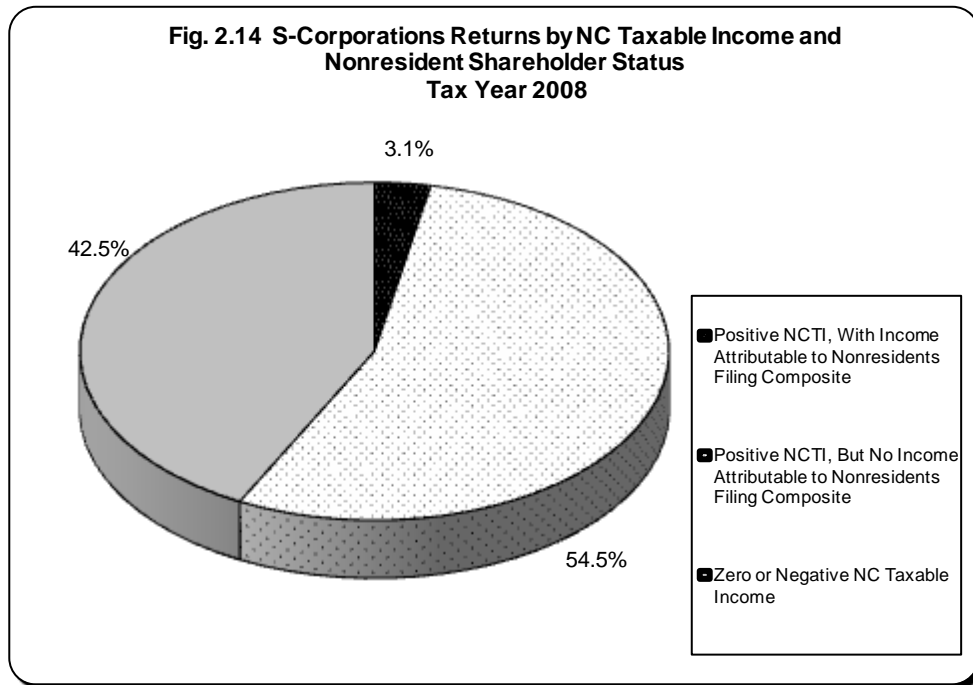


Figure 2.14 shows the distribution of returns by North Carolina taxable income and nonresident shareholder filing status. Only 3.1% of S-corporation returns had a tax liability attributable to nonresidents.



**SECTION II
INCOME TAX**

**Table 2.15
S-Corporation Income Tax Calculation Detail
Tax Year 2008**

| | | (+) | (+) | (-) | (-) | (=) | (+) |
|--|-------------------|----------------------------|---------------------------------------|---------------------------------|--|----------------------------------|---|
| | 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 | 61,867 | (3,570,319,441) | 190,381,096 | 866,724,816 | (1,245,871,370) | (3,000,791,813) | (27,494,733) |
| Positive, But No Income Attributable to Nonresidents Filing Composite | 79,410 | 26,919,786,467 | 1,511,628,195 | 964,444,816 | 17,355,066,538 | 10,111,903,328 | 197,232,339 |
| Positive, With Income Attributable to Nonresidents Filing Composite | 4,458 | 28,244,707,517 | 1,469,860,430 | 364,794,538 | 28,443,343,591 | 906,429,741 | 13,145,529 |
| Total | 145,735 | 51,594,174,543 | 3,171,869,721 | 2,195,964,170 | 44,552,538,759 | 8,017,541,256 | 182,883,135 |

| | (=) | (+) | (=) | Separately Stated Income Attributable to Nonresidents | (Tax Rates %) Computed Income Tax [\$] | (-) Tax Credits [\$] | (=) Net Tax Liability [\$] |
|---|-----------------|------------------|---------------|---|--|----------------------------|----------------------------------|
| NC Taxable Income | | | | | | | |
| <u>Taxable Returns</u> | | | | | | | |
| Zero or Negative* | (3,028,286,546) | 2,926,454,542 | (101,832,004) | 167,954 | 36,862 | - | 36,862 |
| Positive, But No Income Attributable to Nonresidents Filing Composite* | 10,309,135,667 | (10,309,135,667) | - | 154,097 | 9,246 | - | 9,246 |
| Positive, With Income Attributable to Nonresidents Filing Composite | 922,361,285 | (194,586,868) | 727,774,417 | 19,459,461 | 53,270,353 | 517,627 | 52,752,726 |
| Total | 8,203,210,406 | (7,577,267,993) | 625,942,413 | 19,781,512 | 53,316,461 | 517,627 | 52,798,834 |

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

Note: Calculations 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 99% of the credits. These reported credits are only those taken for shareholders filing a composite return. Other tax credits have been passed through to the shareholders who can use these credits on their individual income tax returns.

**Table 2.16
S-Corporation Income Tax Credits by Credit Type and Taxable Income
Tax Year 2008**

| 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 (\$) |
| Credits Claimed | 68 | 705,464 | 36 | 79,517 | 32 | 625,947 |
| Credits Not Taken * | -- | 187,837 | -- | 77,095 | -- | 110,742 |
| Credits Taken | 30 | 517,627 | 9 | 2,422 | 21 | 515,205 |

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

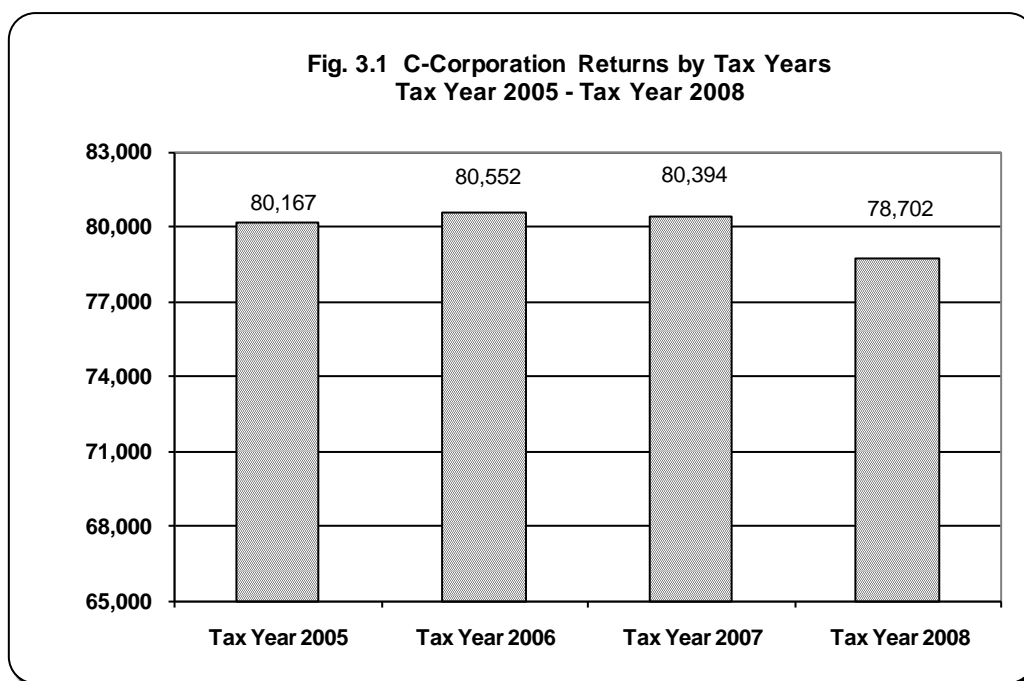
Note: Total numbers of credits are unavailable for Credits Not Taken. Detail may not add to totals due to rounding.

C-CORPORATIONS

In this section, we look at the trends in the number of tax returns and the amount of net tax liability for tax years 2005 through 2008. For years prior to these, see the “Tax Year 2005” edition of this publication. Due to staffing shortages, the 2006 and 2007 data were not analyzed in detail, but we have included those years for total returns and tax liabilities in this report.

Table 3.1 compares the number of C-corporation returns by tax year. In general, there has been a long term decrease in the number of returns. The decreases were due, in part, to conversions of C-corporations to S-corporations, which have averaged approximately 1,700 each year since 2002.

The drop-off in the number of filers for Tax Year 2008 may also have a business cycle component. The number of first-time filers, as reported on the tax form, was 4,095, which was approximately 1,000 fewer than the average for the prior 3 years. Meanwhile, the number of final returns increased slightly in 2008 from an average of 3,800 returns to just over 4,000.



Note: Calculations are based on both audited and unaudited returns. Detail may not add to totals due to rounding.

Figure 3.2 shows the net tax liability for both the franchise tax and the corporation income tax from 2005 through 2008. Although the income tax is of a greater magnitude than the franchise tax, the income tax exhibits more cyclical behavior. The income tax liability fell 18% from its peak in Tax Year 2006 to Tax Year 2008. However, the franchise tax continued to grow each year, although its rate of growth slowed in the last year from 14% to 8%.

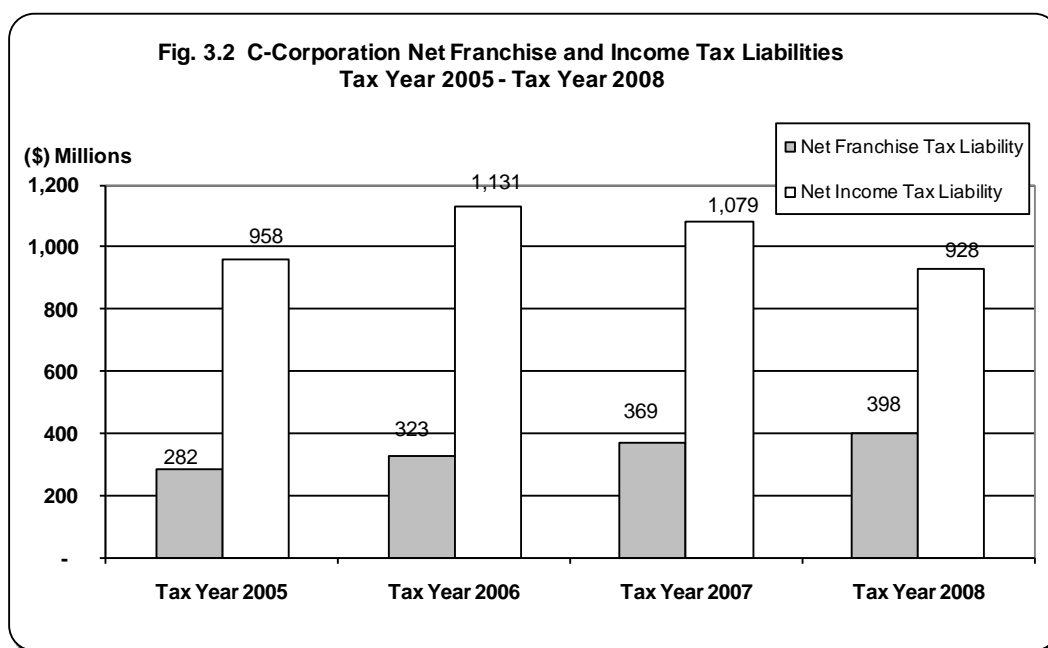


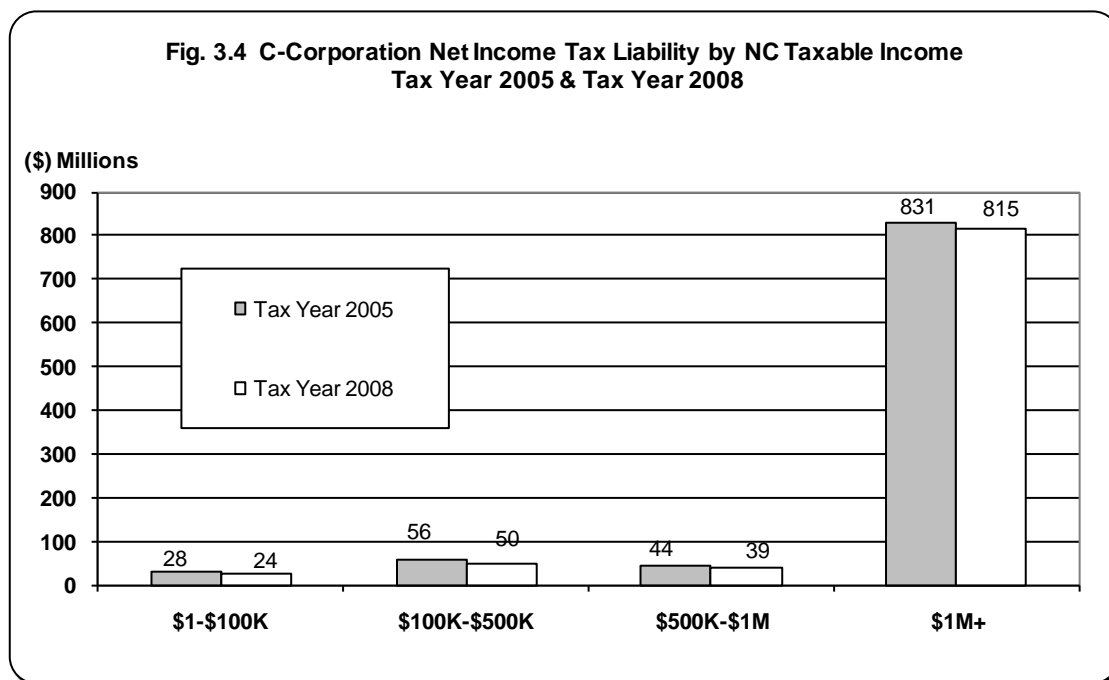
Table 3.3 and Figure 3.4 compare the net income tax liability of C-corporations in Tax Year 2005 and Tax Year 2008 by Taxable Income groupings.

Table 3.3
C-Corporation Net Income Tax Liability by NC Taxable Income
Tax Year 2005 & Tax Year 2008

| NC Taxable Income | Net Income Tax Liability TY 2005 | Net Income Tax Liability TY 2008 | % Difference |
|--------------------------|----------------------------------|----------------------------------|---------------|
| \$0 or less | -- | -- | -- |
| \$1-\$15,000 | 3,821,962 | 3,442,853 | -9.92% |
| \$15,001-\$30,000 | 4,635,939 | 3,992,158 | -13.89% |
| \$30,001-\$50,000 | 6,466,202 | 5,200,957 | -19.57% |
| \$50,001-\$100,000 | 13,493,716 | 11,171,608 | -17.21% |
| \$100,001-\$500,000 | 55,861,177 | 49,686,690 | -11.05% |
| \$500,001-\$1,000,000 | 43,581,032 | 38,719,372 | -11.16% |
| \$1,000,001-\$10,000,000 | 289,061,484 | 254,056,202 | -12.11% |
| \$10,000,001+ | 541,560,825 | 561,232,154 | 3.63% |
| Total | 958,482,337 | 927,501,994 | -3.23% |

* 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.

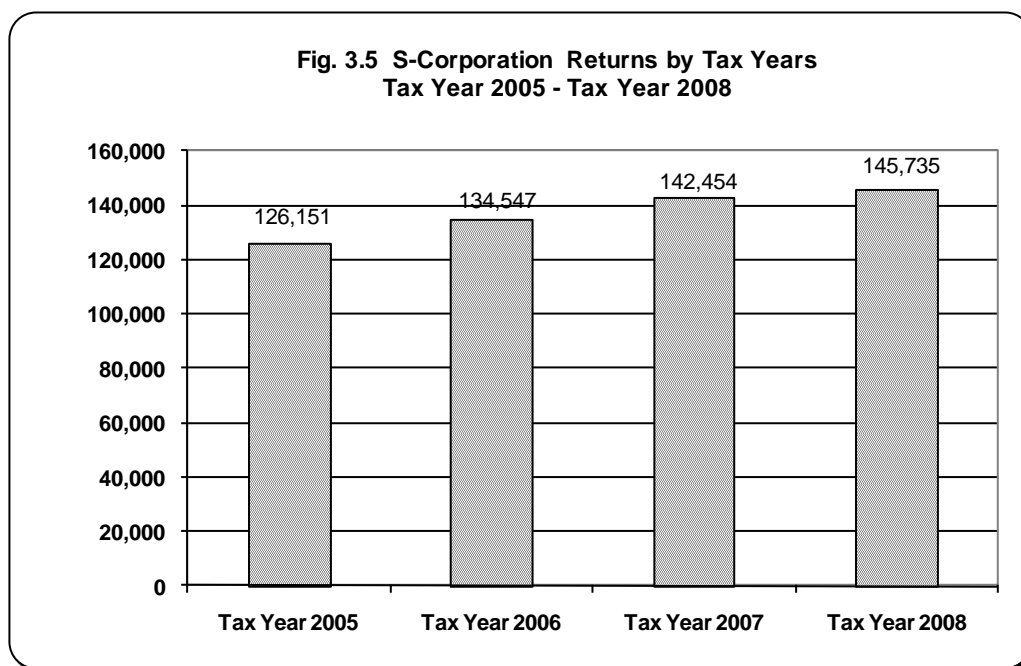
Note: Calculations are based on both audited and unaudited returns. Detail may not add to totals due to rounding.



S-CORPORATIONS

Table 3.5 compares the number of S-corporation returns by tax year. Unlike the C-corporations, the number of S-corporation returns continued to grow in recent years. However, the growth rate from 2007 to 2008 was slightly below that of the two prior years.

As mentioned above, there is a small but steady conversion of C-corps into S-corps in each of the last few years. There also is a larger number of initial filers each year among S-corporations – averaging over 11,000 new filers. This number of new firms has fallen slightly in 2007 and 2008.



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

Figure 3.6 illustrates the relative amounts of net tax liabilities for 2005 through 2008 for S-corporations. As discussed in Section II, the income tax liability for S-corporations only includes taxes paid for shareholders filing a composite return. Even so, the income tax exhibits the same business cycle trends as the C-corporation income tax – peaking at the height of economic activity in 2006 and falling for the two successive years.

The trend in the franchise tax liability is also consistent with that shown for C-corporations. The franchise tax has been increasing each year. However, the average rate of growth of the S-corporation franchise tax has been smaller than that for C-corporations.

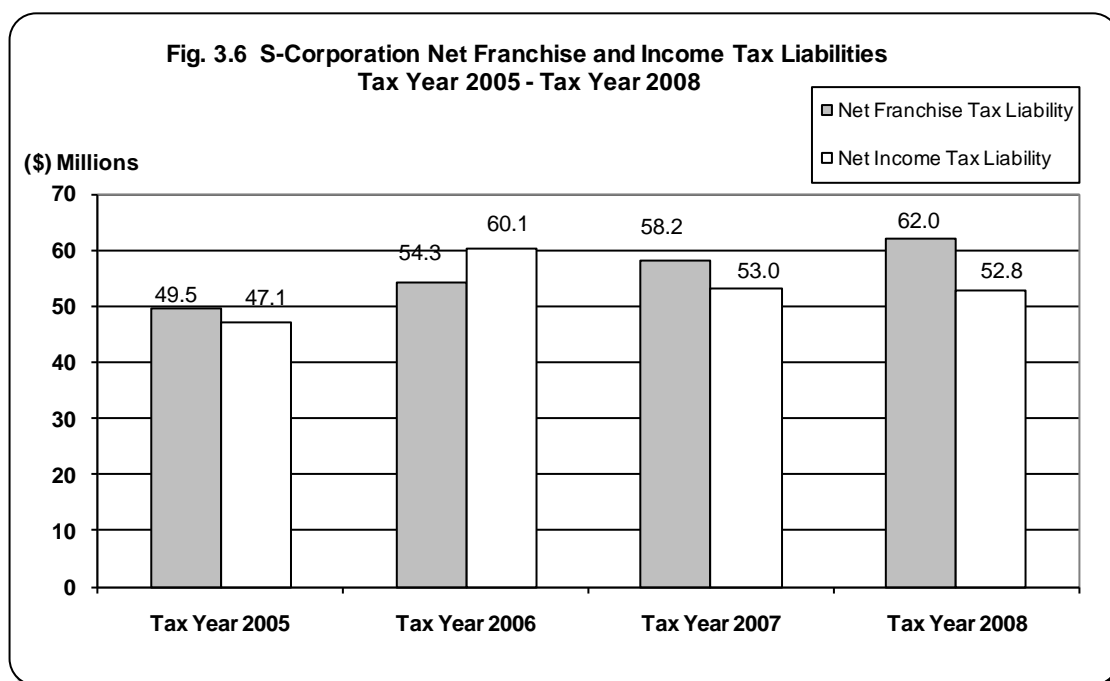


Figure 3.7 compares the number of S-corporation returns in Tax Years 2005 and 2008 by taxable income brackets. Although the number of returns had grown, most of the growth has been in companies with less than \$100,000 in taxable income.

