

North Carolina

**Corporation Income and Business
Franchise Taxes**

Tax Year 2010

Statistics and Trends



Revenue Research Division

North Carolina

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North Carolina Department of Revenue**

July 2013

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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 2010 (TY10). It was prepared by the Revenue Research Division of the North Carolina Department of Revenue.

This report is based upon data submitted by corporations and limited liability companies filing as corporations on the CD-405, CD-401S, and CD-425 forms. The data were retrieved from the Department's Integrated Tax Administration System (ITAS) on October 15, 2012. Some of the returns upon which the 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 Revenue Research Division did examine the downloaded data in order to correct errors that were determined to have resulted from scanning the returns into ITAS.

The Tax Year 2010 corporate tax forms and instructions are available for review on the following Department of Revenue website: www.dornrc.com/downloads/corp_archive/10archive/index.html

This report is divided into four sections. Section I presents information related to the business franchise tax for TY10; Section II has information related to the corporation income tax for TY10; Section III presents data on the trends in these tax returns from Tax Year 2005 through Tax Year 2010; and Section IV breaks out key data by major industry sectors.

The following table presents key summary statistics for the business franchise and corporation income tax for Tax Year 2010.

	C-Corporations	S-Corporations
Number of returns	75,910	146,125
Number of returns with nonzero net franchise tax	67,940	139,636
Amount of net franchise tax	392,548,868	59,913,090
Number of returns with nonzero net income tax	24,267	6,505
Amount of net income tax	913,497,986	63,392,651

Note: Net tax liability is tax liability minus tax credits. Taxpayers may have negative net tax liability due to the usage of certain refundable tax credits. Note that S-corporations only report income tax liability for nonresident shareholders who request that the company file a composite return on their behalf.

OVERVIEW OF 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 2010. These descriptions are not official interpretations of the Revenue Laws and should not be relied upon as representing the official position of the Department 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 alternative 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.

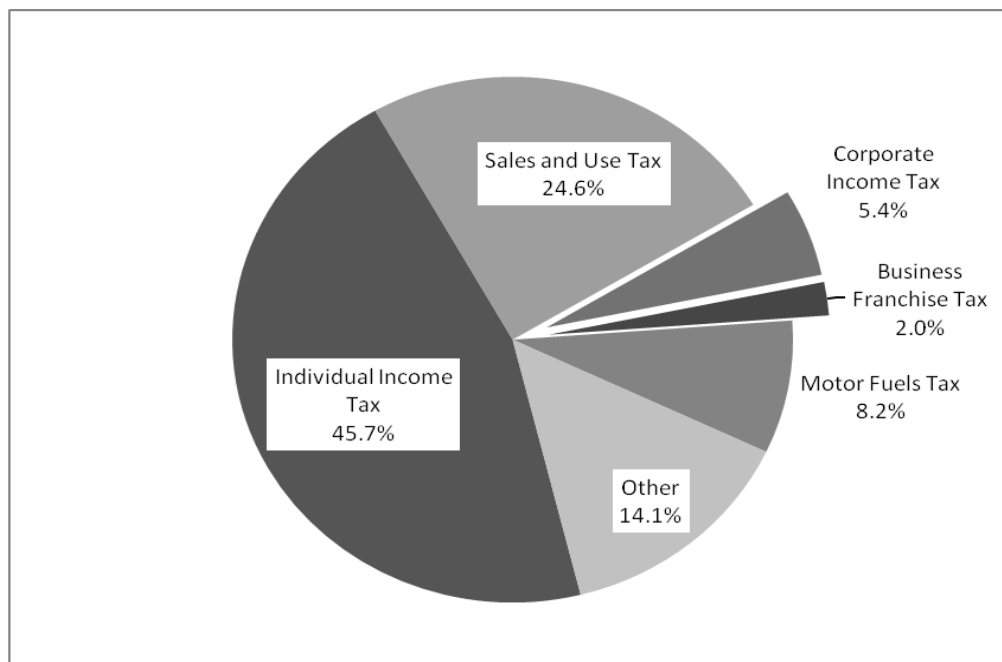
Total income allocated to North Carolina may be reduced by the value of net economic loss, percentage depletion over cost depletion, and contributions to North Carolina donees. The net taxable income is taxed at a rate of 6.9%. For Tax Years 2009 and 2010, a surcharge of 3% of the tax due is added to the taxpayer's tax liability.

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 illustrates the relative importance of corporation tax revenues to overall State tax revenues. State tax revenues in Fiscal Year 2011-12 were \$22.7 billion. (Licenses and fees are included in State tax revenues, but unemployment insurance contributions are excluded.) Net collections for the corporation income tax and the business franchise tax accounted for \$1.7 billion of the total, or 7.4%.

As the chart illustrates, corporation taxes are the fourth largest category of revenues for the State government, surpassing the insurance gross premium tax, highway use taxes, alcoholic beverage taxes and tobacco products taxes. Only the individual income tax, the sales & use tax and the motor fuels tax generated more revenue.

Composition of Net State Tax Revenues by Tax Category, FY11-12



Note: The "other" category includes motor vehicle licenses (2.5% of total); highway use tax (2.2%); insurance premiums tax (2.1%); public utilities franchise tax (1.8%); tobacco products tax (1.3%); and alcoholic beverage tax (1.4%), among others. State tax revenues exclude unemployment insurance contributions.

C-CORPORATIONS

Overall, the net franchise tax liability for the C-corporation returns in our analysis totaled \$392.5 million. (Net tax liability is the amount of tax liability after deducting tax credits.) After we excluded filers with zero due (7,970 returns), the average amount due from the remaining 67,940 returns was \$5,778. Half of these taxpayers owed \$65 or less; and 99% of taxpayers owed less than \$95,000 each.

In order to provide a distributional analysis for the franchise tax, returns have been broken out into 7 brackets based on their franchise taxable amount. The first bracket (\$0 to \$23,667) represents those taxpayers that had the minimum \$35 amount of tax due or were exempt from the franchise tax.

Table 1.1 shows the distribution of returns based on which tax base was used to calculate the taxable amount. The capital stock, surplus and undivided profits base was used on 44% of the 2010 tax year returns, followed by investment in tangible property base (13%), 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 2010 tax year return was a final return; or 3) the taxpayer had no assets.

**Table 1.1
C-Corporation Returns by Tax Base Utilized
Tax Year 2010**

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	26,088	7,940	2,225	1,824	38,077
\$23,668-\$100,000	-	6,308	2,353	1,613	10,274
\$100,001-\$1,000,000	-	11,505	3,340	2,083	16,928
\$1,000,001-\$5,000,000	-	4,387	1,089	484	5,960
\$5,000,001-\$20,000,000	-	1,984	555	125	2,664
\$20,000,001-\$40,000,000	-	586	181	36	803
\$40,000,001+	-	940	236	28	1,204
Total	26,088	33,650	9,979	6,193	75,910

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

**SECTION I
FRANCHISE TAX**

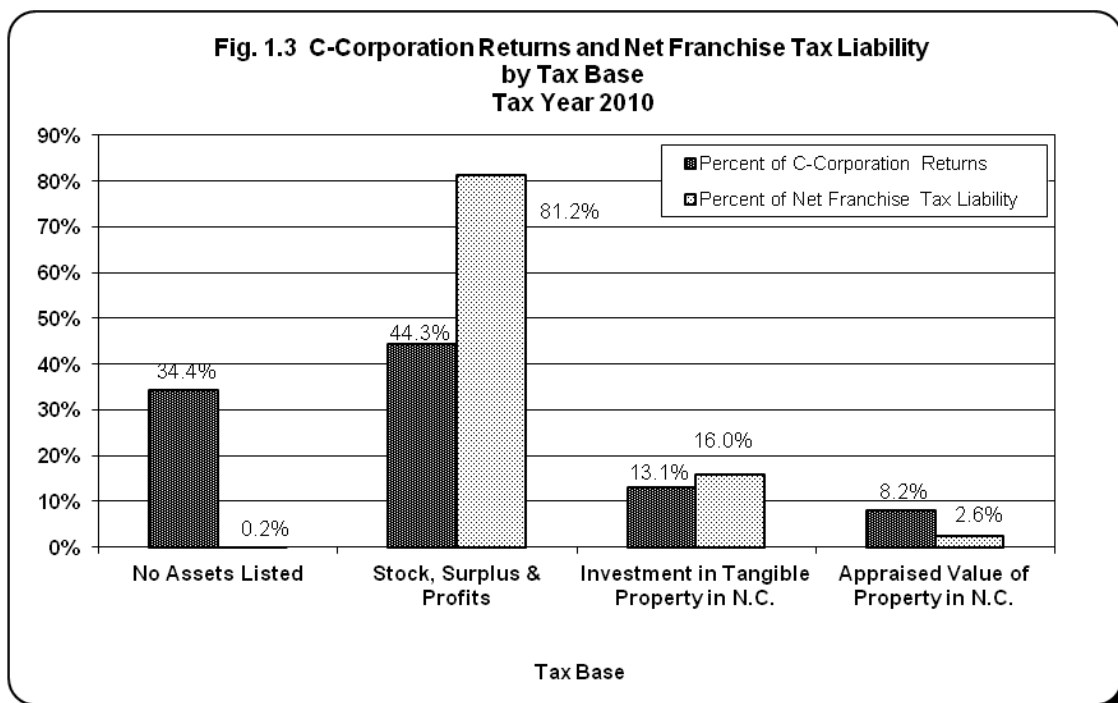
Table 1.2 compares the net franchise tax liability by tax base utilized. The greatest share of tax paid (81%) was under the capital stock, surplus and undivided profits base. Taxpayers using the investment in tangible property base paid 16% of the franchise tax, while the appraised value in property base represented only 2.6% of the net tax liability.

**Table 1.2
C-Corporation Net Franchise Tax Liability by Tax Base Utilized
Tax Year 2010**

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	802,025	272,186	76,089	61,985	1,212,285
\$23,668-\$100,000	-	516,895	187,565	125,336	829,796
\$100,001-\$1,000,000	-	6,181,001	1,684,308	1,012,113	8,877,422
\$1,000,001-\$5,000,000	-	14,776,790	3,668,363	1,490,155	19,935,308
\$5,000,001-\$20,000,000	-	29,326,387	7,988,863	1,726,767	39,042,017
\$20,000,001-\$40,000,000	-	23,602,527	6,665,407	1,471,491	31,739,425
\$40,000,001+	-	244,166,249	42,485,197	4,261,169	290,912,615
Total	802,025	318,842,035	62,755,792	10,149,016	392,548,868

Note: Figures are based partially on unaudited returns.

Figure 1.3 illustrates graphically the data in Tables 1.1 and 1.2.



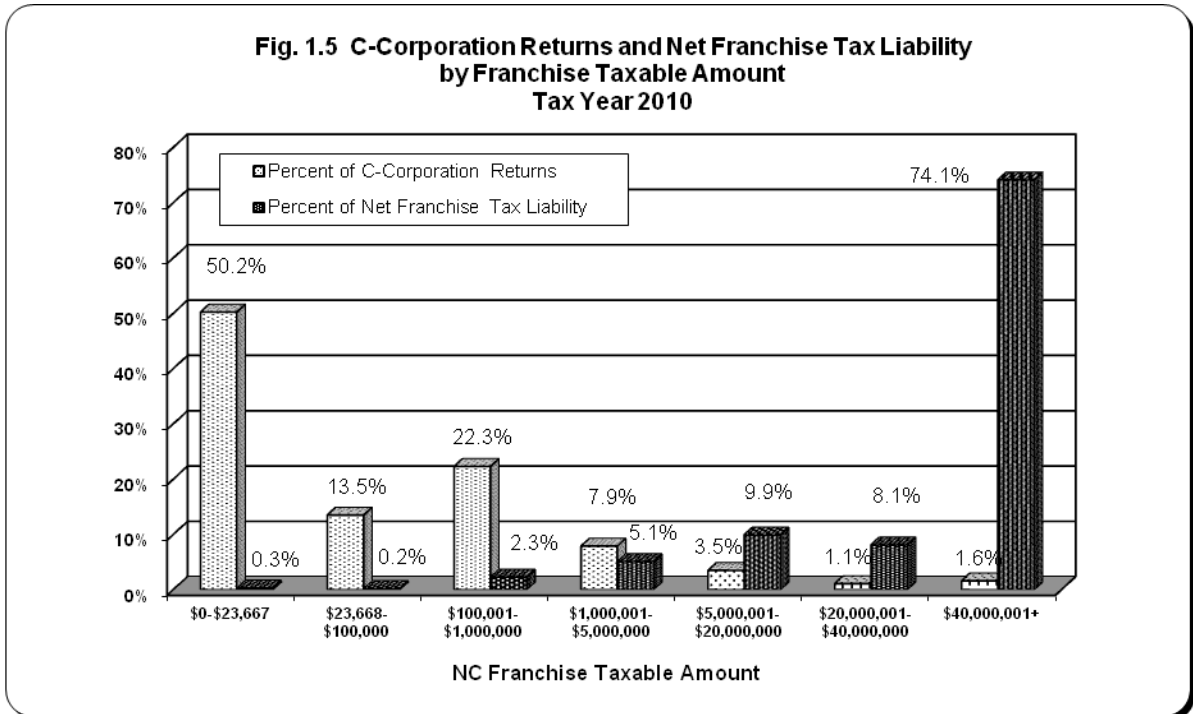
**SECTION I
FRANCHISE TAX**

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 1.6% of the returns, but paid 74.1% of net franchise tax.

**Table 1.4
C-Corporation Returns and Net Franchise Tax Liability by Franchise Taxable Amount
Tax Year 2010**

Franchise Taxable Amount	Number of Returns		Net Franchise Tax Liability (\$)	
		Percent		Percent
\$0-\$23,667	38,077	50.2%	1,212,285	0.3%
\$23,668-\$100,000	10,274	13.5%	829,796	0.2%
\$100,001-\$1,000,000	16,928	22.3%	8,877,422	2.3%
\$1,000,001-\$5,000,000	5,960	7.9%	19,935,308	5.1%
\$5,000,001-\$20,000,000	2,664	3.5%	39,042,017	9.9%
\$20,000,001-\$40,000,000	803	1.1%	31,739,425	8.1%
\$40,000,001+	1,204	1.6%	290,912,615	74.1%
Total	75,910	100.0%	392,548,868	100.0%

Note: Figures are based partially on unaudited returns. Breakout percentages may not add to totals due to rounding.



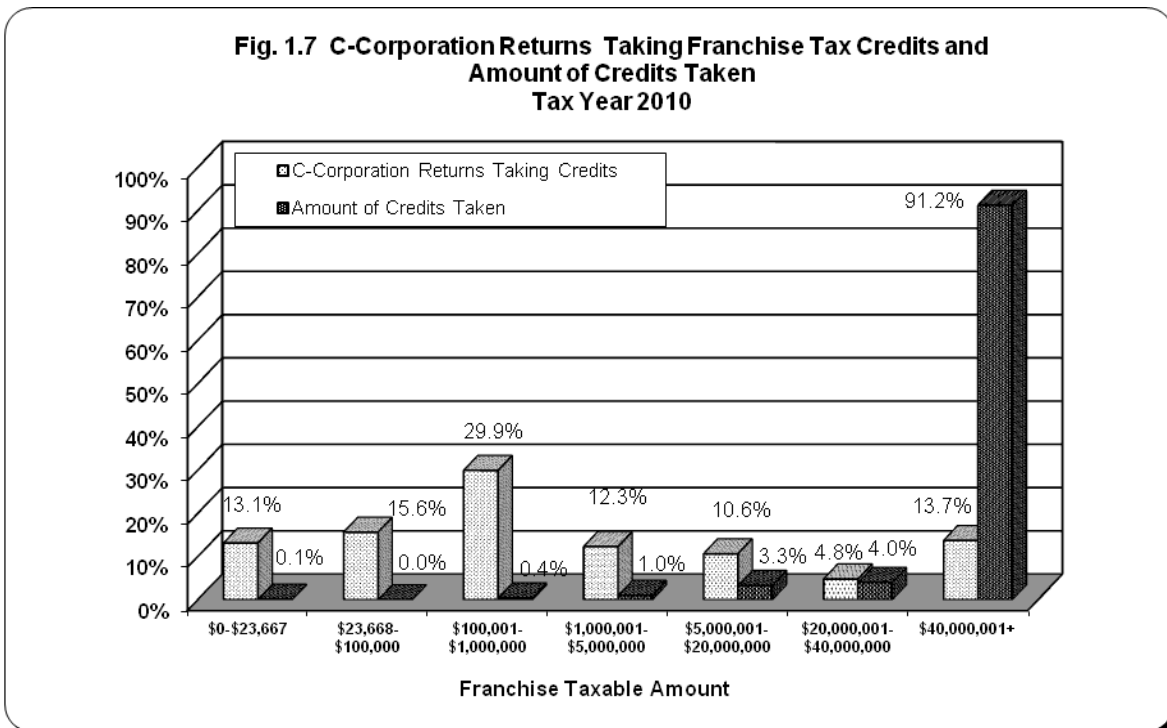
**SECTION I
FRANCHISE TAX**

Table 1.6 and Figure 1.7 compare the number of C-corporation returns taking franchise tax credits and amount of credits taken by taxable amount brackets. Of the 68,013 returns with positive tax liability before credits, only 2,515 (3.7%) took credits. Returns with franchise taxable amount greater than \$40 million comprised only 13.7% of the returns taking credits, but 91.2% of the credits taken.

**Table 1.6
C-Corporation Returns Taking Franchise Tax Credits and Amount of Credits Taken
Tax Year 2010**

Franchise Taxable Amount	Number of Returns Taking Credits		Amount of Credits Taken (\$)	
		Percent		Percent
\$0-\$23,667	329	13.1%	29,016	0.1%
\$23,668-\$100,000	393	15.6%	17,052	0.0%
\$100,001-\$1,000,000	752	29.9%	194,739	0.4%
\$1,000,001-\$5,000,000	309	12.3%	489,680	1.0%
\$5,000,001-\$20,000,000	266	10.6%	1,714,538	3.3%
\$20,000,001-\$40,000,000	121	4.8%	2,057,585	4.0%
\$40,000,001+	345	13.7%	46,829,705	91.2%
Total	2,515	100.0%	51,332,315	100.0%

Note: Figures are based partially on unaudited returns. Breakout percentages may not add to totals due to rounding.



**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 12.3% of tax liability for taxpayers whose taxable amount was above \$5 million and 2.3% for those with lower taxable amounts.

**Table 1.8
C-Corporation Franchise Tax Credits Taken by Credit Type and Franchise Taxable Amount
Tax Year 2010**

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	341	4,966,893	225	218,667	116	4,748,226
+ Other Credits Claimed*	170	71,173,918	145	50,180	25	71,123,738
- Other Credits Not Taken **	--	(64,918,325)	--	(25,597)	--	(64,892,728)
+ Credits Subject to 50% Limit Taken	2,026	40,109,829	1,419	487,237	607	39,622,592
= Credits Taken	2,515	51,332,315	1,783	730,487	732	50,601,828

* This category includes Major Computer Manufacturing Facility, Historic Mill Rehabilitation, Expenses Related to Dividends, Investing in Recycling Facility, and Piped Natural Gas credits.

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

Note: Confidentiality prevents the disclosure of the individual credits and credit amounts. Figures are based partially on 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 41% of 2010 tax year returns, followed by investment in tangible property base (20%), and appraised values in property (15%). Twenty-four percent of the returns listed no assets because: 1) the taxpayer was exempt from franchise tax; 2) the 2010 tax year return was a final return; or 3) the taxpayer had no assets.

**Table 1.9
S-Corporation Returns by Tax Base Utilized
Tax Year 2010**

Franchise Taxable Amount	Number of S-Corporation Returns				Total
	No Assets Listed	Capital Stock, Surplus & Profits	Investment in Tangible Property in N.C.	Appraised Value of Property in N.C.	
\$0-\$23,667	34,487	26,639	10,078	8,802	80,006
\$23,668-\$100,000	-	15,400	9,243	5,746	30,389
\$100,001-\$1,000,000	-	14,405	8,534	6,213	29,152
\$1,000,001-\$5,000,000	-	2,692	1,324	1,330	5,346
\$5,000,001-\$20,000,000	-	521	331	204	1,056
\$20,000,001-\$40,000,000	-	63	35	18	116
\$40,000,001+	-	30	18	12	60
Total	34,487	59,750	29,563	22,325	146,125

Note: Figures are based partially on 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 (50%) was under the capital stock, surplus and undivided profits base.

**Table 1.10
S-Corporation Net Franchise Tax Liability by Tax Base Utilized
Tax Year 2010**

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	1,015,291	915,179	345,182	301,707	2,577,359
\$23,668-\$100,000	-	1,186,999	723,132	441,192	2,351,323
\$100,001-\$1,000,000	-	6,695,552	3,753,735	3,001,649	13,450,936
\$1,000,001-\$5,000,000	-	8,375,463	4,233,924	3,978,943	16,588,330
\$5,000,001-\$20,000,000	-	6,834,131	4,109,049	2,587,226	13,530,406
\$20,000,001-\$40,000,000	-	2,545,852	1,280,996	722,523	4,549,371
\$40,000,001+	-	3,442,855	2,224,764	1,197,746	6,865,365
Total	1,015,291	29,996,031	16,670,782	12,230,986	59,913,090

Note: Figures are based partially on unaudited returns.

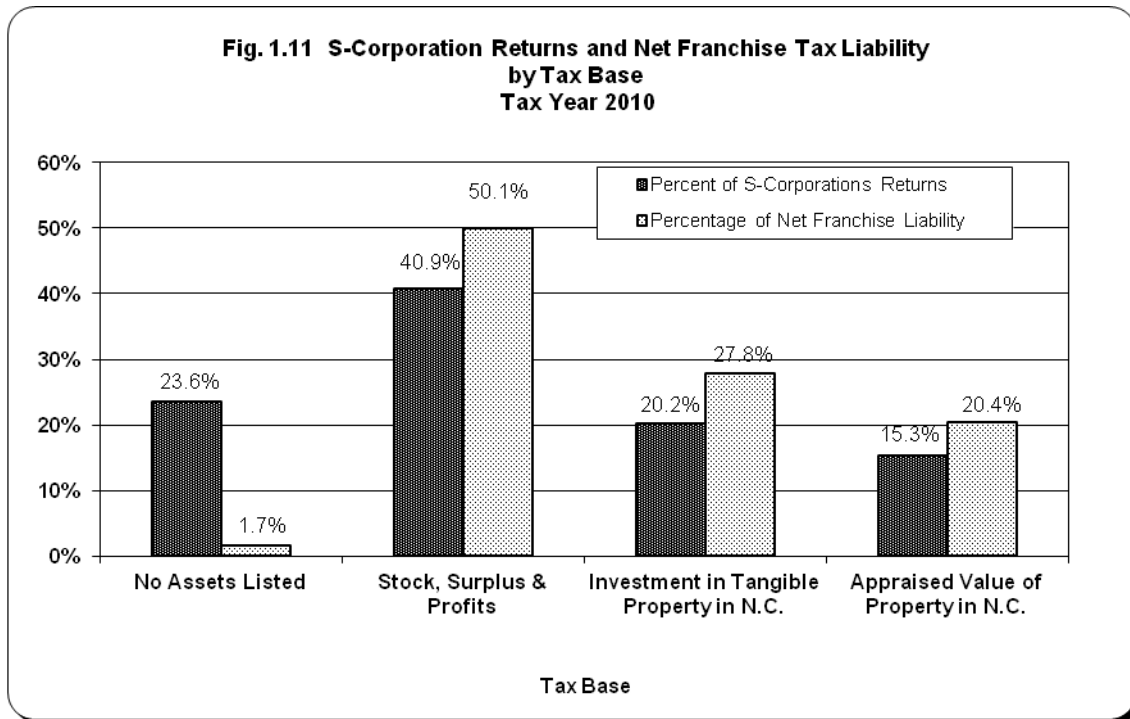


Table 1.12 and Figure 1.13 compare the distribution of S-corporation returns and net franchise tax liability. The average tax paid was \$425. The top 1% of returns, by taxable amount, paid 44% of the tax. Of the tax brackets shown in the table, taxpayers with franchise taxable amount between \$1 million and \$5 million paid the largest share of net franchise tax.

**Table 1.12
S-Corporation Returns and Net Franchise Tax Liability by Franchise Taxable Amount
Tax Year 2010**

Franchise Taxable Amount	Number of Returns		Net Franchise Tax Liability (\$)	
	Number	Percent	Liability	Percent
\$0-\$23,667	80,006	54.8%	2,577,359	4.3%
\$23,668-\$100,000	30,389	20.8%	2,351,323	3.9%
\$100,001-\$1,000,000	29,152	20.0%	13,450,936	22.5%
\$1,000,001-\$5,000,000	5,346	3.7%	16,588,330	27.7%
\$5,000,001-\$20,000,000	1,056	0.7%	13,530,406	22.6%
\$20,000,001-\$40,000,000	116	0.1%	4,549,371	7.6%
\$40,000,001+	60	0.0%	6,865,365	11.5%
Total	146,125	100.0%	59,913,090	100.0%

Note: Figures are based partially on unaudited returns. Breakout percentages may not add to totals due to rounding.

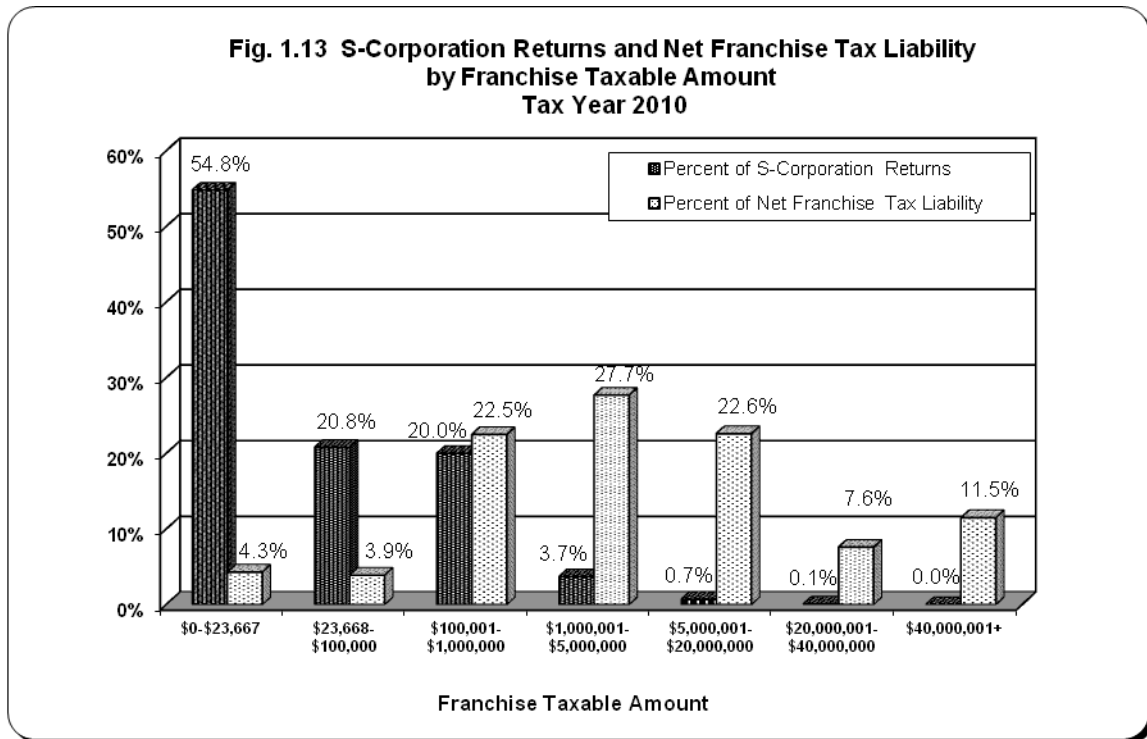


Table 1.14 and Figure 1.15 show the number of returns taking franchise tax credits and amount of credits taken. Returns with a franchise taxable amount greater than \$40 million comprised 0.4% of the returns taking credits and 28.8% of the credits taken.

**Table 1.14
S-Corporation Returns Taking Franchise Tax Credits and Amount of Credits Taken
Tax Year 2010**

Franchise Taxable Amount	Number of Returns Taking Credits		Amount of Credits Taken (\$)	
		Percent		Percent
\$0-\$23,667	1,040	34.5%	34,825	2.4%
\$23,668-\$100,000	739	24.5%	49,261	3.4%
\$100,001-\$1,000,000	917	30.4%	194,048	13.4%
\$1,000,001-\$5,000,000	215	7.1%	194,724	13.5%
\$5,000,001-\$20,000,000	77	2.6%	367,814	25.5%
\$20,000,001-\$40,000,000	14	0.5%	188,068	13.0%
\$40,000,001+	11	0.4%	415,463	28.8%
Total	3,013	100.0%	1,444,203	100.0%

Note: Figures are based partially on unaudited returns. Breakout percentages may not add to totals due to rounding.

**SECTION I
FRANCHISE TAX**

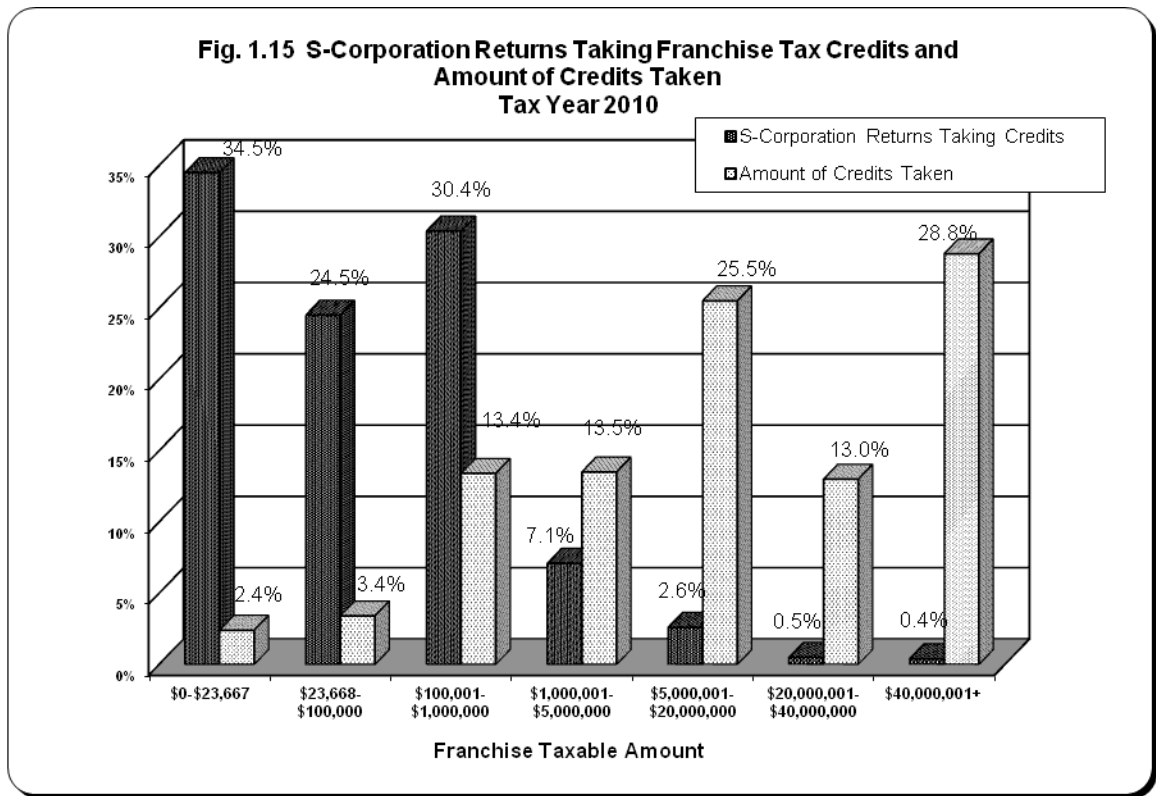


Table 1.16 shows the amount of franchise tax credits by credit type and franchise taxable amount.

**Table 1.16
S-Corporation Franchise Tax Credits Taken by Credit Type and Franchise Taxable Amount
Tax Year 2010**

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	139	48,328	136	32,725	3	15,603
Credits Subject to 50% Limit	1,038	1,226,851	955	277,209	83	949,642
Others**	1,856	327,705	1,838	321,605	18	6,100
Credits Claimed	3,033	1,602,884	2,929	631,539	104	971,345
Credits Not Taken ***	--	158,681	--	158,681	--	-
Credits Taken	3,013	1,444,203	2,911	472,858	102	971,345

* 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

*** 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 partially based on unaudited returns.

C & S CORPORATIONS COMBINED

Figure 1.17 compares the number of returns and net franchise tax liability for all C and S corporations combined by tax base used. The largest amount of net franchise tax was paid by the returns having capital stock, surplus and profits as the tax base. Twenty-seven percent of the returns listed no assets because: 1) the taxpayer was exempt from franchise tax; 2) the 2010 tax year return was a final return; 3) or the taxpayer had no assets.

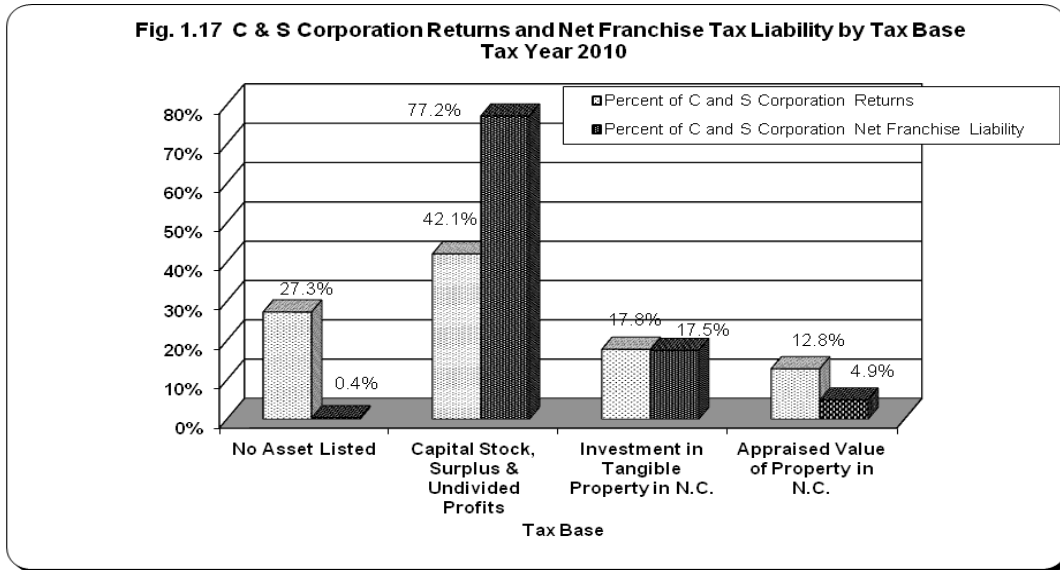
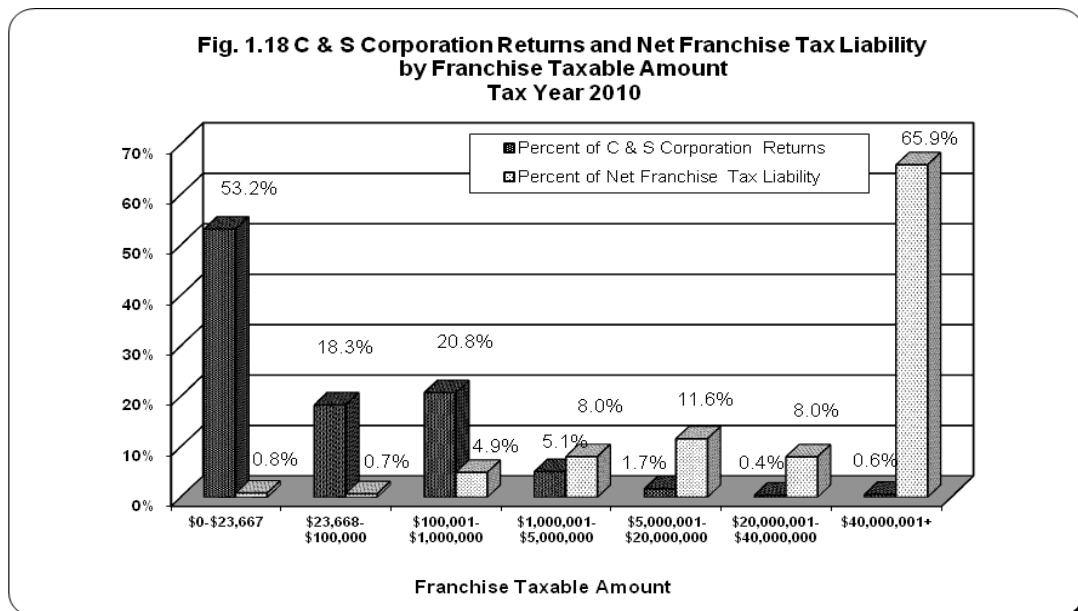
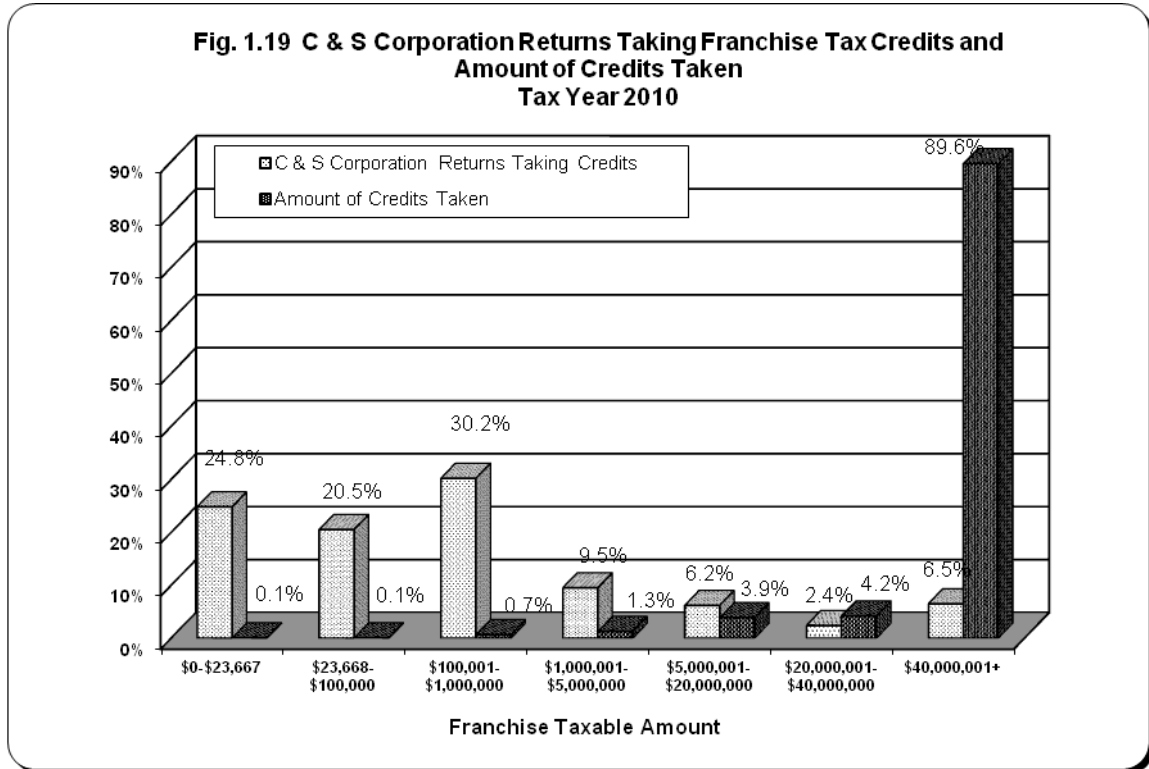


Figure 1.18 shows the number of C and S corporation returns and net franchise tax liability. The top 2.7% of returns, by taxable amount, paid 85.5% of the tax. Taxpayers with franchise taxable amount over \$20 million made up less than 1% of the returns, but paid 74% of net franchise tax.



**SECTION I
FRANCHISE TAX**

Figure 1.19 shows the distribution of C and S corporation returns that took franchise tax credits and the amount of credits taken. Only 5,528 of the 222,035 corporations took credits in tax year 2010. Corporations with over \$40 million as their franchise tax base took nearly 90% of credits.



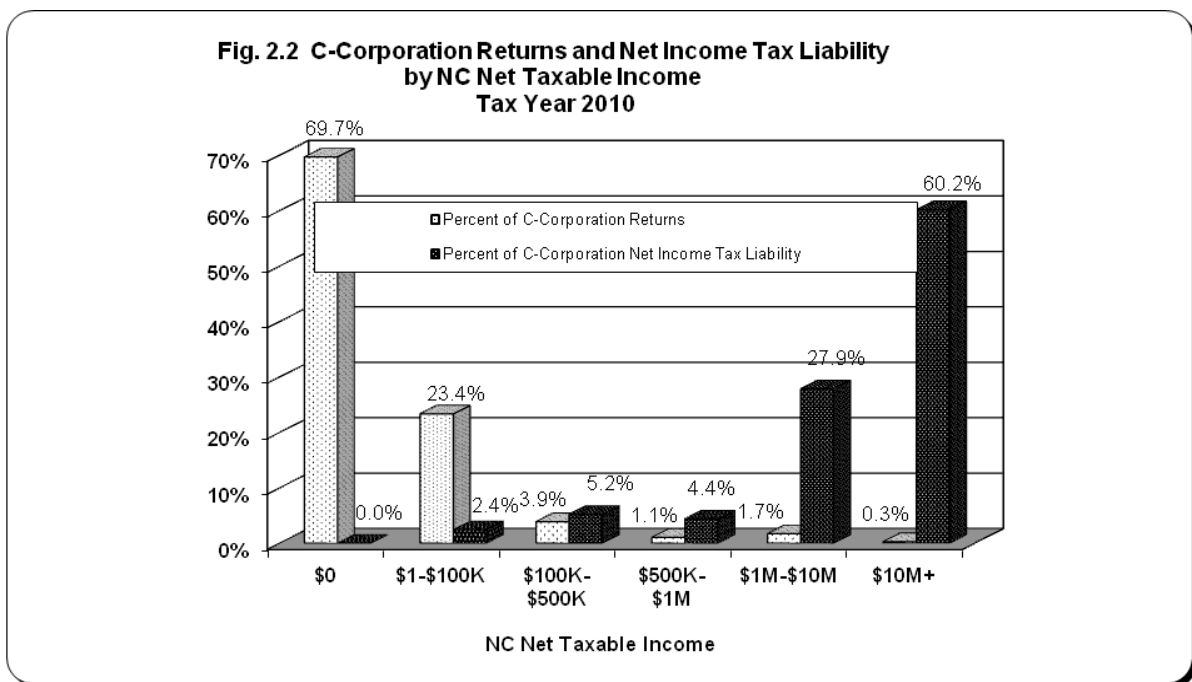
C-CORPORATIONS

Table 2.1 and Figure 2.2 show the distribution of C-corporation returns and net income tax liability by NC net taxable income (as calculated on Line 25 of Form CD-405). Although 75,910 C-corporations filed a tax return for tax year 2010, only 22,649 of them (less than 30%) had a net tax liability (i.e., a positive tax liability after credits were applied). In addition, 1,618 taxpayers had a *negative* net tax liability, due to the application of the refundable Unemployment Insurance tax credit that was in effect during tax years 2010 and 2011.

**Table 2.1
C-Corporation Returns and Net Income Tax Liability by NC Net Taxable Income
Tax Year 2010**

NC Net Taxable Income	Number of Returns	Percent	Cumulative Percent	Net Income Tax Liability [\$]	Percent	Cumulative Percent
\$0 or less	52,885	69.7%	69.7%	-662,588	--	--
\$1-\$15,000	11,291	14.9%	84.5%	3,119,892	0.3%	0.3%
\$15,001-\$30,000	2,551	3.4%	87.9%	3,806,704	0.4%	0.7%
\$30,001-\$50,000	1,763	2.3%	90.2%	4,839,205	0.5%	1.2%
\$50,001-\$100,000	2,120	2.8%	93.0%	10,526,118	1.2%	2.4%
\$100,001-\$500,000	2,959	3.9%	96.9%	47,623,123	5.2%	7.6%
\$500,001-\$1,000,000	802	1.1%	98.0%	39,999,922	4.5%	12.1%
\$1,000,001-\$10,000,000	1,307	1.7%	99.7%	254,620,191	27.9%	40.0%
\$10,000,001+	232	0.4%	100.0%	549,625,419	60.2%	100.2%
Total	75,910	100.0%	--	913,497,986	100.0%	--

Note: Figures are partially based on unaudited returns. Breakout percentages may not add to totals due to rounding.

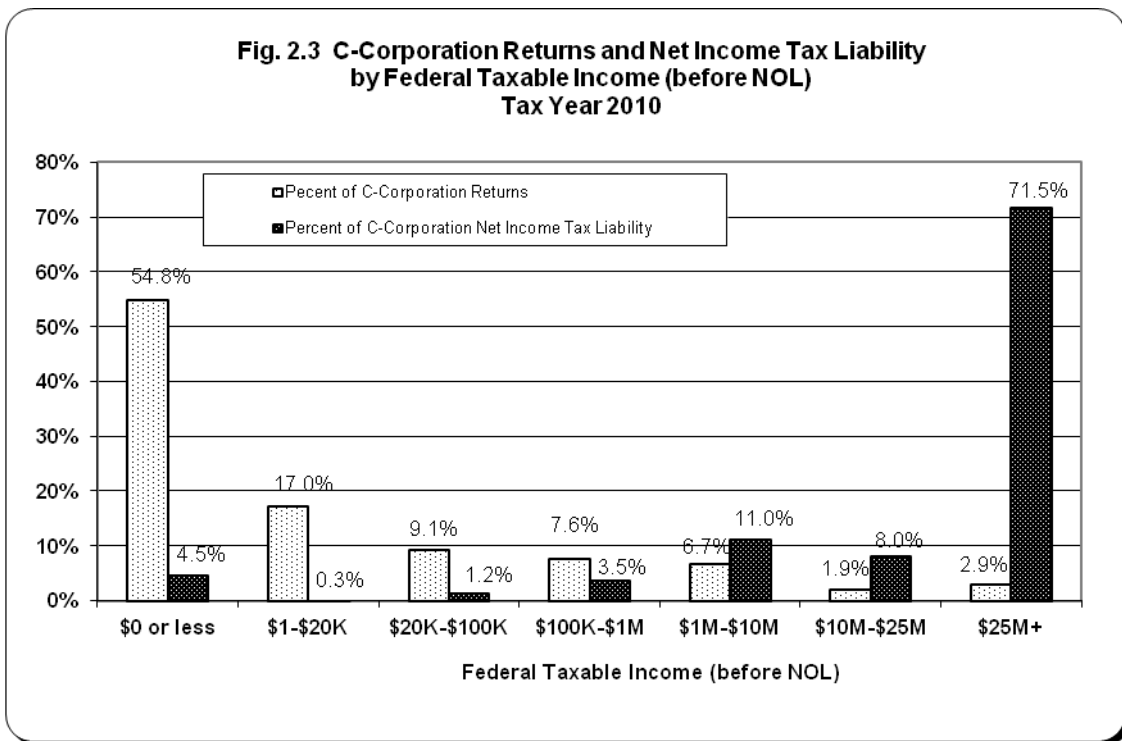


**SECTION II
INCOME TAX**

As shown in Table 2.1 and Figure 2.2, C-corporations with a North Carolina Taxable Income of over \$1 million represented 88% of the C-corporation income tax liability, but made up barely 2% of the corporations filing returns. Sixty percent of the total corporation income tax liability was attributable to the 232 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 carryforwards*. Therefore, this distribution gives a break-down of income based on a company's current-year national income.

As shown in Figure 2.3, corporations with federal taxable income (before NOL) over \$25 million paid over 71% of NC net income tax.



**SECTION II
INCOME TAX**

Table 2.4 compares 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 national 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 2010**

Federal Taxable Income (before NOL)	NC Apportionment Percentage					Total
	<5%	5% - 24%	25% - 49%	50% - 99%	100%	
\$0 or less	11,023	1,851	665	986	27,092	41,617
\$1 - \$20,000	771	206	93	254	11,610	12,934
\$20,001 - \$100,000	1,207	320	148	398	4,816	6,889
\$100,001 - \$ 1,000,000	2,919	641	234	440	1,557	5,791
\$1,000,001 - \$10,000,000	3,837	635	194	204	214	5,084
\$10,000,001-\$25,000,000	1,201	150	36	25	15	1,427
\$25,000,001+	1,900	207	36	18	7	2,168
Total	22,858	4,010	1,406	2,325	45,311	75,910

Note: Figures are based partially on 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 2010. However, these corporations accounted for only 9.5% of the corporation income tax liability.

**Table 2.5
C-Corporation Net Income Tax Liability by Federal Taxable Income (Before NOL) and
Apportionment Percentage
Tax Year 2010**

Federal Taxable Income (before NOL)	NC Apportionment Percentage					Total
	<5% [\$]	5% - 24% [\$]	25% - 49% [\$]	50% - 99% [\$]	100% [\$]	
\$0 or less	18,636,184	5,358,650	9,531,567	6,502,805	1,103,031	41,132,237
\$1 - \$20,000	19,181	40,598	12,389	79,536	2,611,291	2,762,995
\$20,001 - \$100,000	131,785	175,972	148,327	804,596	9,907,502	11,168,182
\$100,001 - \$ 1,000,000	1,234,029	1,915,933	1,844,422	7,540,011	19,782,176	32,316,571
\$1,000,001 - \$10,000,000	13,164,454	16,746,952	14,241,569	25,870,496	30,125,495	100,148,966
\$10,000,001-\$25,000,000	16,656,077	15,500,357	11,228,337	17,713,563	11,966,797	73,065,131
\$25,000,001+	337,388,447	184,870,770	68,509,983	51,122,410	11,012,294	652,903,904
Total	387,230,157	224,609,232	105,516,594	109,633,417	86,508,586	913,497,986

Note: Figures are based partially on unaudited returns.

The State receives a significant portion of its corporation income taxes from a small number of large multi-state firms. Over fifty percent of corporation income tax was attributable to 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.

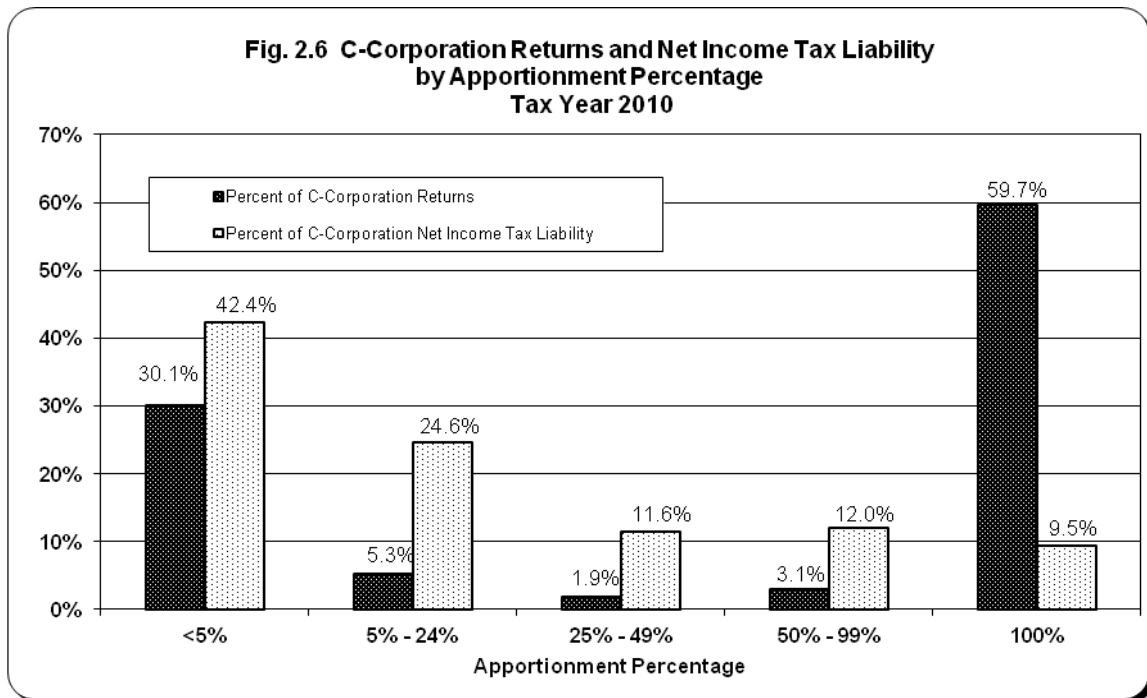


Table 2.7 on the next page shows statistics on the calculation of net tax liability at each step, starting with federal taxable income. Returns are divided into taxable and nontaxable returns, where taxable returns are defined as those with a positive tax liability before credits are applied. The taxable returns are further broken out by federal taxable income brackets.

Out of 75,910 returns, 30% were taxable returns and 70% were nontaxable returns. Taxable returns with a federal taxable income over \$25 million made up 2.2% of the returns but accounted for 96% of the federal taxable income before NOL and 72% of the tax liability.

Of the 41,617 returns with federal taxable income of zero or less, 1,173 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 34,293 returns that did show a federal taxable income, 1,663 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 \$129.0 billion, there was a reduction of \$21.2 billion due to adjustments, a reduction of \$126.3 billion due to apportioning income to North Carolina, and a reduction of \$11.0 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 2010 was for the bonus depreciation allowances created by the Small Business Jobs Act of 2010 and the Tax Relief Act of 2010 at the federal level. As such, these addbacks are only a temporary addition to tax, as they will be offset by future deductions.

The 3% surtax enacted for tax years 2009 and 2010 increased tax liability by \$29.2 million.

Finally, North Carolina tax credits for businesses reduced overall C-Corporation tax liabilities by \$89.0 million.

**SECTION II
INCOME TAX**

**Table 2.7
C-Corporation Income Tax Calculation Detail by Federal Taxable Income (Before NOL)
Tax Year 2010**

		Federal Taxable Income, Before NOL [\$]	(+) Adjustments to Federal Income [\$]	(-) Contributions to Donees Outside NC [\$]	(-) Nonapportionable Income [\$]	(-) Reduction Due To Apportionment [\$]	(=) Income Apportioned to NC [\$]
FIT of Corporation							
Taxable Returns							
\$0 or less	1,178	(15,163,664,536)	29,191,980,325	142,130,314	(2,171,151,799)	15,394,515,734	662,821,540
\$1-\$20,000	7,689	43,925,477	22,327,569	151,681	2,335,977	16,838,632	46,926,756
\$20,001-\$100,000	4,255	204,340,859	95,482,750	1,494,969	1,111,939	115,448,378	181,768,323
\$100,001-\$1,000,000	3,581	1,338,802,189	448,844,211	7,814,197	19,821,362	1,253,475,628	506,535,213
\$1,000,001-\$10,000,000	3,456	13,213,193,300	4,287,678,560	77,273,766	108,412,613	15,703,067,285	1,612,118,196
\$10,000,001-\$25,000,000	1,016	16,375,320,741	3,536,203,842	65,923,232	70,043,729	18,603,122,321	1,172,435,301
\$25,000,001+	1,633	383,748,592,439	38,555,122,723	3,683,053,539	846,075,391	407,141,089,238	10,633,496,994
Total, Taxable	22,808	399,760,510,469	76,137,639,980	3,977,841,698	(1,123,350,788)	458,227,557,216	14,816,102,323
Nontaxable Returns							
\$0 or less	40,439	(250,934,715,970)	27,777,224,771	243,565,544	22,471,411	(339,284,773,223)	(10,389,922,919)
More than \$0	12,663	129,002,308,471	(21,236,703,802)	711,355,275	7,018,049,040	126,276,591,695	2,390,183,454
Total, Nontaxable	53,102	(121,932,407,499)	6,540,520,969	954,920,819	7,040,520,451	(213,008,181,528)	(7,999,739,465)

	(+) Nonapportionable Income Allocated to NC [\$]	(-) Percentage Depletion Over Cost Depletion [\$]	(-) Net Economic Loss [\$]	(-) Contributions to NC Donees [\$]	(=) Net Taxable Income [\$]	Computed Income Tax [\$]	(+) Surtax [\$]	(-) Tax Credits [\$]	(=) Net Tax Liability [\$]
FIT of Corporation									
Taxable Returns									
\$0 or less	w	w	68,284,345	687,623	604,403,897	41,703,870	1,251,093	1,425,834	41,529,129
\$1-\$20,000	w	w	6,054,462	318,540	42,809,848	2,953,936	88,570	159,390	2,883,116
\$20,001-\$100,000	w	w	17,101,308	1,535,353	164,212,812	11,330,687	339,898	371,429	11,299,156
\$100,001-\$1,000,000	7,413,776	195,566	45,711,209	3,252,022	464,790,192	32,070,534	962,125	696,929	32,335,730
\$1,000,001-\$10,000,000	11,264,148	11,204,268	117,574,708	5,235,660	1,489,367,708	102,766,380	3,082,998	5,700,412	100,148,966
\$10,000,001-\$25,000,000	1,377,625	176,780	57,624,718	15,803,115	1,100,208,313	75,914,377	2,277,438	5,126,684	73,065,131
\$25,000,001+	8,544,702	7,522,969	356,981,716	37,447,787	10,240,089,224	706,566,175	21,197,007	74,859,278	652,903,904
Total, Taxable	42,454,653	19,104,348	669,332,466	64,280,100	14,105,881,994	973,305,959	29,199,129	88,339,956	914,165,132
Nontaxable Returns									
\$0 or less	(70,506,885)	612,622	8,440,391,628	13,144,141	(18,858,568,151)	-	-	396,892	(396,892)
More than \$0	(14,811,368)	103,535,156	10,967,481,975	31,511,341	(8,711,928,037)	-	-	270,254	(270,254)
Total, Nontaxable	(85,318,253)	104,147,778	19,407,873,603	44,655,482	(27,570,496,188)	-	-	667,146	(667,146)

Note: Figures are based on both audited and unaudited returns. Detail may not add to totals due to rounding or taxpayer error. A "w" indicates that the number is withheld to protect confidentiality.

**SECTION II
INCOME TAX**

Tables 2.8 and 2.9 show the distribution of taxable returns by income tax credit as a percentage of tax liability and North Carolina taxable income, respectively. Ninety-four percent of the 22,808 returns with positive tax liability before credits did not take any income tax credits. Forty-six percent of the 1,360 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 over 54% of the total credits taken.

**Table 2.8
Number of C-Corporation Taxable Returns Taking Credits as a Percentage of Tax Liability
Tax Year 2010**

NC Taxable Income	Income Tax Credits as a Percentage of Tax					Total
	0%	0.1% -9.9%	10% -19.9%	20% -39.9%	40% +	
\$1-\$15,000	10,595	43	56	63	317	11,074
\$15,001-30,000	2,353	50	32	34	82	2,551
\$30,001-\$50,000	1,645	42	22	17	37	1,763
\$50,001-\$100,000	1,992	44	20	34	30	2,120
\$100,001-\$500,000	2,835	42	18	17	47	2,959
\$500,001-\$1,000,000	753	15	6	7	21	802
\$1,000,001-\$10,000,000	1,132	67	20	28	60	1,307
\$10,000,001+	143	35	18	8	28	232
Total	21,448	338	192	208	622	22,808

Note: Figures are based partially on unaudited returns. The table does not include returns that had zero or negative taxable income.

**Table 2.9
Amount of C-Corporation Tax Credits Taken as a Percentage of Tax Liability
Tax Year 2010**

NC Taxable Income	Income Tax Credits as a Percentage of Tax				
	0.1% -9.9%	10% -19.9%	20% -39.9%	40% +	Total
	[\$]	[\$]	[\$]	[\$]	[\$]
\$1-\$15,000	1,880	4,271	8,871	111,500	126,522
\$15,001-30,000	3,586	7,274	15,039	95,657	121,556
\$30,001-\$50,000	6,167	9,206	13,715	62,906	91,994
\$50,001-\$100,000	9,007	13,868	50,735	81,420	155,030
\$100,001-\$500,000	23,856	36,794	70,486	424,074	555,210
\$500,001-\$1,000,000	36,218	45,941	103,855	572,284	758,298
\$1,000,001-\$10,000,000	676,885	730,539	1,945,294	7,411,301	10,764,019
\$10,000,001+	3,478,559	5,704,792	27,424,246	39,159,730	75,767,327
Total	4,236,158	6,552,685	29,632,241	47,918,872	88,339,956

Note: Figures are based partially on unaudited returns. The table does not include \$667,146 credits taken by taxpayers with zero or less taxable income.

Figure 2.10 shows the average amount of tax liability offset by tax credits for the various taxable income groups. The offset was greater for taxpayers with at least \$10 million in federal taxable income.

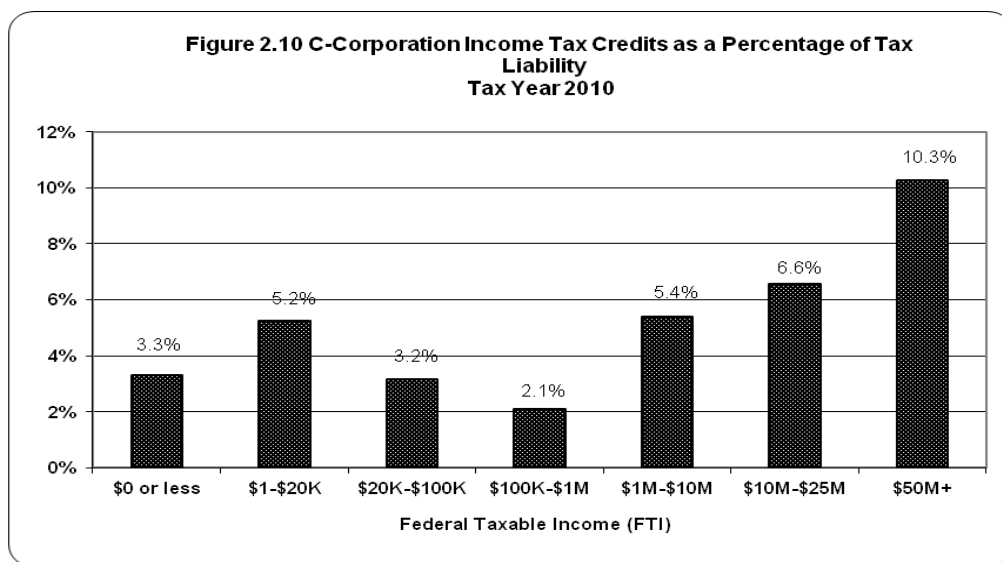


Table 2.11 provides the distribution of income tax credits by credit type and NC net taxable income.

**Table 2.11
C-Corporation Income Tax Credits by Credit Type and NC Taxable Income
Tax Year 2010**

Income Tax Credits	All Returns		NCTI up to \$1,000,000		NCTE-\$1,000,000	
	Number of Credits*	Amount (\$)	Number of Credits	Amount (\$)	Number of Credits	Amount (\$)
Rehabilitating an Income-Producing Historic Structure	9	12,984,700	5	10,496,044	4	2,488,656
Certain Real Property Donation	w	w	w	w	w	w
Savings and Loan Supervisory Fees	w	w	w	w	w	w
Other Non-Limited Credits	26	30,837,315	17	28,194,523	9	2,642,792
Credit Carryover from Previous Years	13	603,845	13	603,845	1	40,371,985
Tax Credit Subject to 50% of Tax Limit (Taken only)	693	87,195,733	446	1,464,022	247	85,731,711
Others **	6	3,086,681	w	w	w	w
Credits Claimed	2,907	134,708,274	481	40,758,434	261	131,235,144
Credits Not Taken ***	--	45,701,172	--	38,282,678	--	44,703,798
Credits Taken	2,827	89,007,102	2,563	2,475,756	264	86,531,346

* A given taxpayer may be counted in more than one category.

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

*** Most corporation income tax credits are reduced by 6.9% due to G.S. 105-130.5(a)(10). Also, credits may be reduced because a taxpayer's liability was less than the amount of credits claimed or due to taxpayer error.

Note: Calculations are based partially on unaudited returns. A "w" indicates that the number is withheld to protect confidentiality.

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 65% of the tax liability.

The total net tax liability of \$63.4 million shown in Table 2.12 belies the importance of taxation of the net income of S-corporations 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 2010**

NC Taxable Income*	Number of Returns	Percent	Number With Tax Due for Nonresidents	Net Tax Liability [\$]	Percent
\$0 or less**	59,313	40.59%	411	-87,835	-0.14%
\$1-\$15,000	31,885	21.82%	2,713	529,164	0.83%
\$15,001-30,000	14,805	10.13%	853	738,786	1.17%
\$30,001-\$50,000	11,114	7.61%	596	949,443	1.50%
\$50,001-\$100,000	12,607	8.63%	680	2,101,474	3.32%
\$100,001-\$500,000	13,117	8.98%	921	11,324,410	17.86%
\$500,001-\$1,000,000	1,804	1.23%	156	6,659,199	10.50%
\$1,000,001-\$10,000,000	1,411	0.97%	164	22,332,671	35.23%
\$10,000,001+	69	0.05%	11	18,845,339	29.73%
Total	146,125	100.00%	6,505	63,392,651	100.00%

* North Carolina taxable income is the sum of the corporation's total apportionable and allocable income plus separately stated items of income attributable to nonresidents filing composite return

**The Net Tax Liability in this bracket is negative due to refundability of certain tax credits.

Note: Calculations are based partially on unaudited returns. Breakout percentages may not add to totals due to rounding.

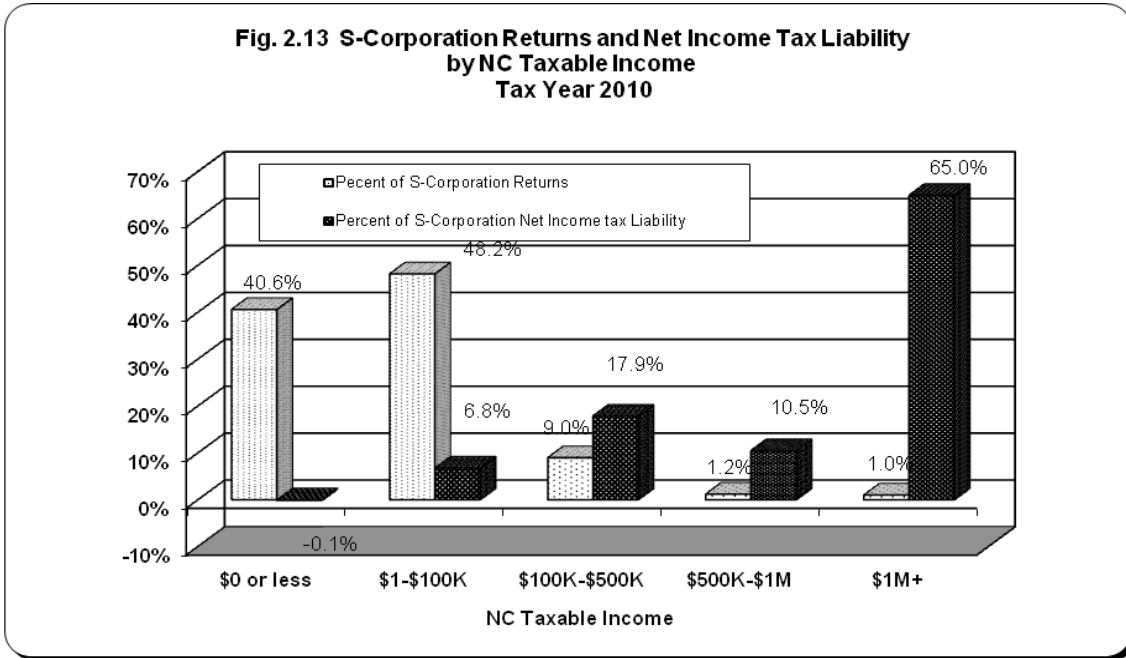
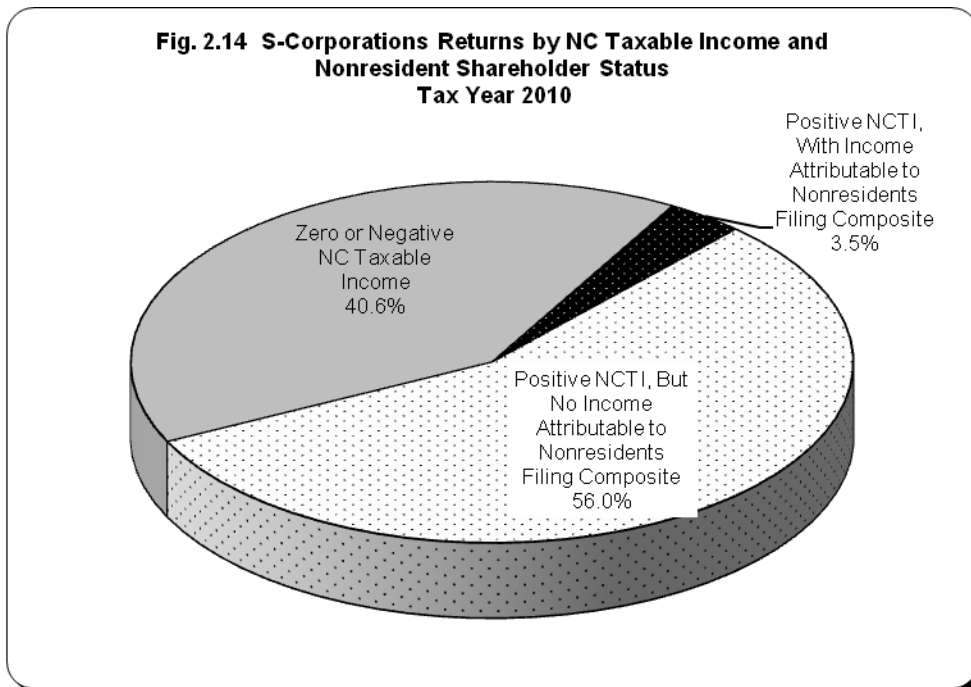


Figure 2.14 illustrates the distribution of returns by North Carolina taxable income and nonresident shareholder filing status. Only 3.5% of S-corporation returns had a tax liability attributable to nonresidents who chose to allow the S-corporation to file a composite return on their behalf.



**SECTION II
INCOME TAX**

Table 2.15 provides summary data for the main components of the progression from taxpayers' federal taxable income to North Carolina net tax liability.

**Table 2.15
S-Corporation Income Tax Calculation Detail
Tax Year 2010**

		(+)	(+)	(-)	(-)	(=)	(+)
	Number of Returns	Federal Corporation Income [\$]	Adjustments to Federal Income [\$]	Nonapportionable Income [\$]	Reduction Due To Apportionment [\$]	Income Apportioned to NC [\$]	Nonapportionable Income Allocated to NC [\$]
NC Taxable Income							
Zero or Negative	59,313	(222,282,560)	(47,143,915)	1,161,136,119	787,515,705	(2,218,078,299)	(35,789,892)
Positive, But No Income Attributable to Nonresidents Filing Composite	81,750	23,997,516,455	973,931,755	1,351,624,498	14,250,198,602	9,369,625,110	65,481,524
Positive, With Income Attributable to Nonresidents Filing Composite	5,062	30,691,423,811	2,142,665,819	1,158,414,100	30,709,320,263	966,355,267	8,898,025
Total	146,125	54,466,657,706	3,069,453,659	3,671,174,717	45,747,034,570	8,117,902,078	38,589,657

	(=)	(+)	(=)	Separately Stated Income Attributable to Nonresidents	Computed Income Tax [\$]	(+) Surtax [\$]	(-) Tax Credits [\$]	(=) Net Tax Liability [\$]
	NC Net Taxable Income [\$]	Adjustment for Shareholders Paying Tax on Shares [\$]	Taxable Income Attributable to Nonresidents Filing [\$]					
NC Taxable Income								
Zero or Negative	(2,253,901,188)	2,186,318,594	(67,582,594)	(151,440)	15,566	-	103,401	(87,835)
Positive, But No Income Attributable to Nonresidents Filing Composite	9,435,106,634	(9,435,554,296)	(447,662)	572,755	721,366	15,325	308,536	428,155
Positive, With Income Attributable to Nonresidents Filing Composite	977,308,321	(159,462,094)	817,846,227	1,975,438	59,536,551	4,441,687	925,907	63,052,331
Total	8,158,513,767	(7,408,697,796)	749,815,971	2,396,753	60,273,483	4,457,012	1,337,844	63,392,651

Note: Figures are based partially on 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 76% of the credits. Note that 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 apply these credits against their individual income tax liability.

**Table 2.16
S-Corporation Income Tax Credits by Credit Type and NC Taxable Income
Tax Year 2010**

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 (\$)
Small Business UI Tax Credit	1,396	357,710	1,289	313,642	107	44,068
Total Credits Claimed	1,440	1,352,387	1,306	330,241	134	1,022,146
Credits Not Taken *	--	14,543	--	9,785	--	4,758
Credits Taken	1,433	1,337,844	1,302	320,456	131	1,017,388

* Most corporation income tax credits are reduced by 6.9% due to G.S. 105-130.5(a)(10). Also, credits may be reduced because a taxpayer's liability was less than the amount of credits claimed or due to taxpayer error.

Note: Total number of credits is unavailable for Credits Not Taken. Confidentiality prevents the disclosure of other individual credits and credits amounts.

C-CORPORATIONS

In this section, data on corporate returns are presented for tax years 2005 through 2010. For years prior to these, see the “Tax Year 2005” edition of this publication. The 2006 and 2007 data were not previously 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 recent decline in the number of returns starting in 2007. The larger drop-off in the number of filers for tax years 2008 and 2009 may have a business cycle component.

The number of first-time filers, as reported on the tax form, was 3,794 in 2010. This was a decrease from 3,884 in 2009 and 4,095 in 2008, which was itself approximately 1,000 fewer than the average for the prior 3 years.

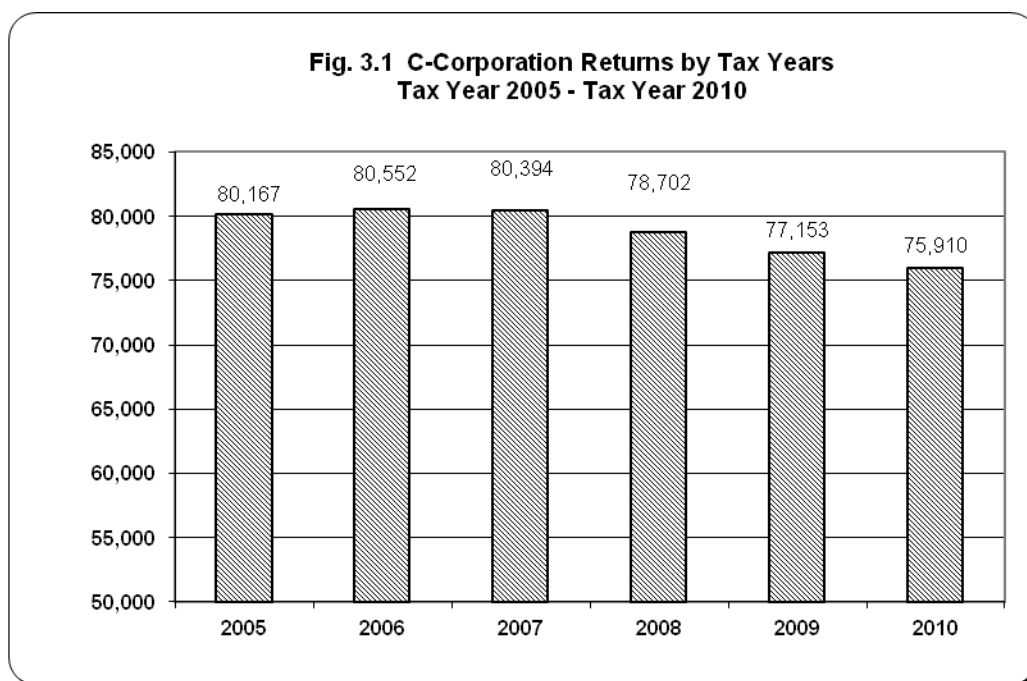


Figure 3.2 shows the net tax liability for both the franchise tax and the corporation income tax from 2005 through 2010. Although the income tax is of a greater magnitude than the franchise tax, the income tax exhibits more cyclical behavior. The income tax liability fell 21% from its peak in tax year 2006 to tax year 2009 (even with the surtax added for TY09 and TY10). The franchise tax, meanwhile, had only a \$5 million drop off its high in the prior year. Both taxes remained at approximately the same levels from 2009 to 2010.

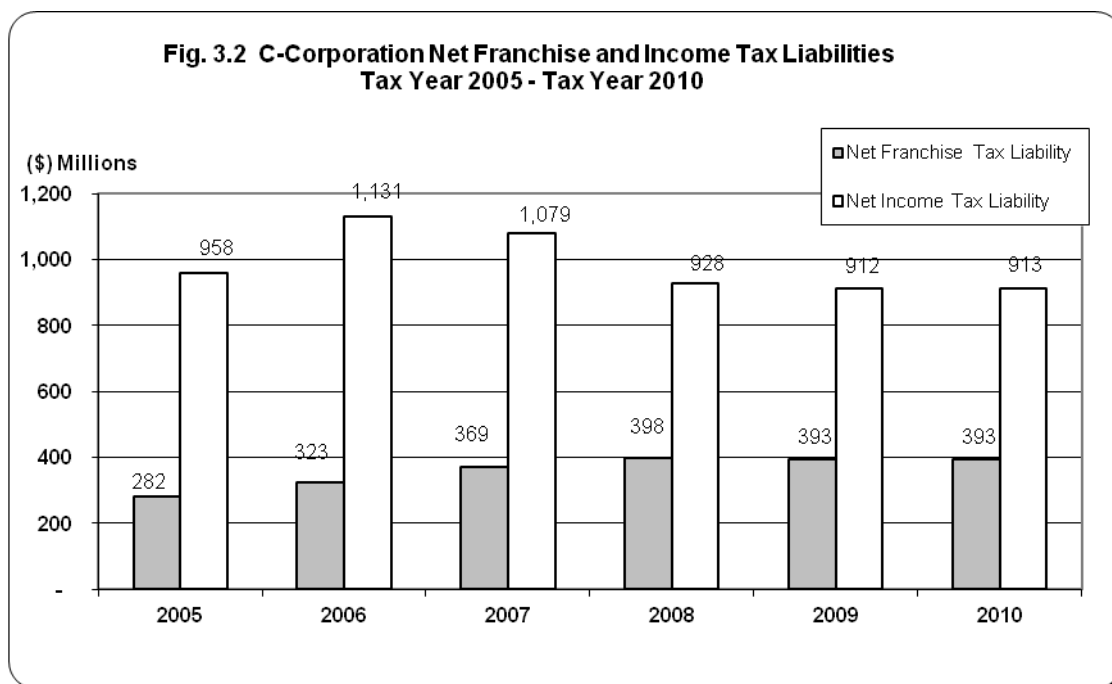


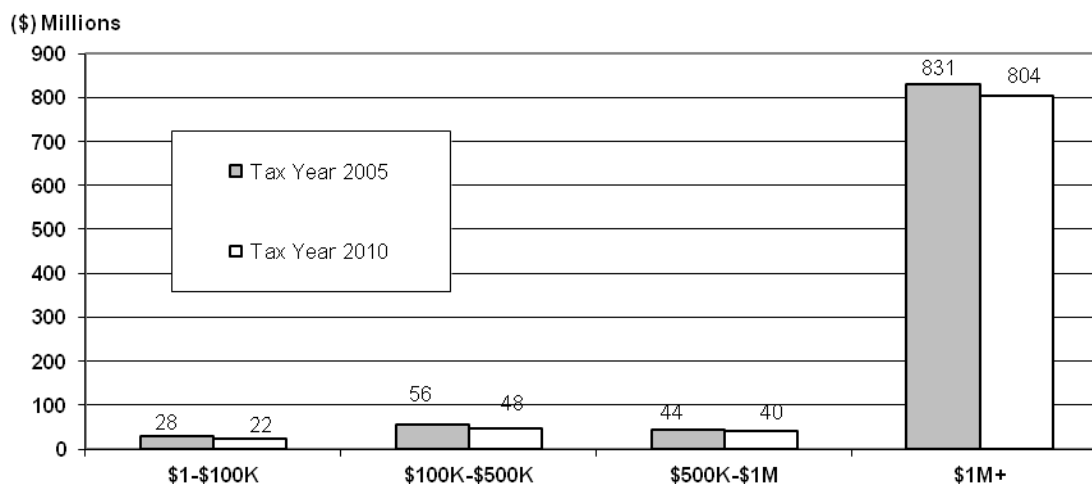
Table 3.3 and Figure 3.4 compare the net income tax liability of C-corporations in tax year 2005 and tax year 2010 by Taxable Income brackets. The only group that has shown an increase in tax liability is those with a taxable income in excess of \$10 million.

**Table 3.3
C-Corporation Net Income Tax Liability by NC Taxable Income
Tax Year 2005 & Tax Year 2010**

NC Taxable Income	Net Income Tax Liability TY 2005	Net Income Tax Liability TY 2010	% Difference
\$0 or less	--	-662,588	--
\$1-\$15,000	3,821,962	3,119,892	-18.37%
\$15,001-\$30,000	4,635,939	3,806,704	-17.89%
\$30,001-\$50,000	6,466,202	4,839,205	-25.16%
\$50,001-\$100,000	13,493,716	10,526,118	-21.99%
\$100,001-\$500,000	55,861,177	47,623,123	-14.75%
\$500,001-\$1,000,000	43,581,032	39,999,922	-8.22%
\$1,000,001-\$10,000,000	289,061,484	254,620,191	-11.91%
\$10,000,001+	541,560,825	549,625,419	1.49%
Total	958,482,337	913,497,986	-4.69%

Note: Calculations in the above table are based partially on unaudited returns.

**Fig. 3.4 C-Corporation Net Income Tax Liability by NC Taxable Income
Tax Year 2005 & Tax Year 2010**



S-CORPORATIONS

Table 3.5 compares the number of S-corporation returns by tax years 2005 through 2010. The rate of growth of the number of S-Corporations slowed in 2008 and showed a net decline between 2009 and 2010.

There is a small but steady conversion of C-corporations into S-corporations in each of the last few years. There are also a larger number of initial filers each year among S-corporations. In tax year 2010, there were 7,682 new filers. However, this is below the average of over 11,000 new filers for the period from 2005 through 2008.

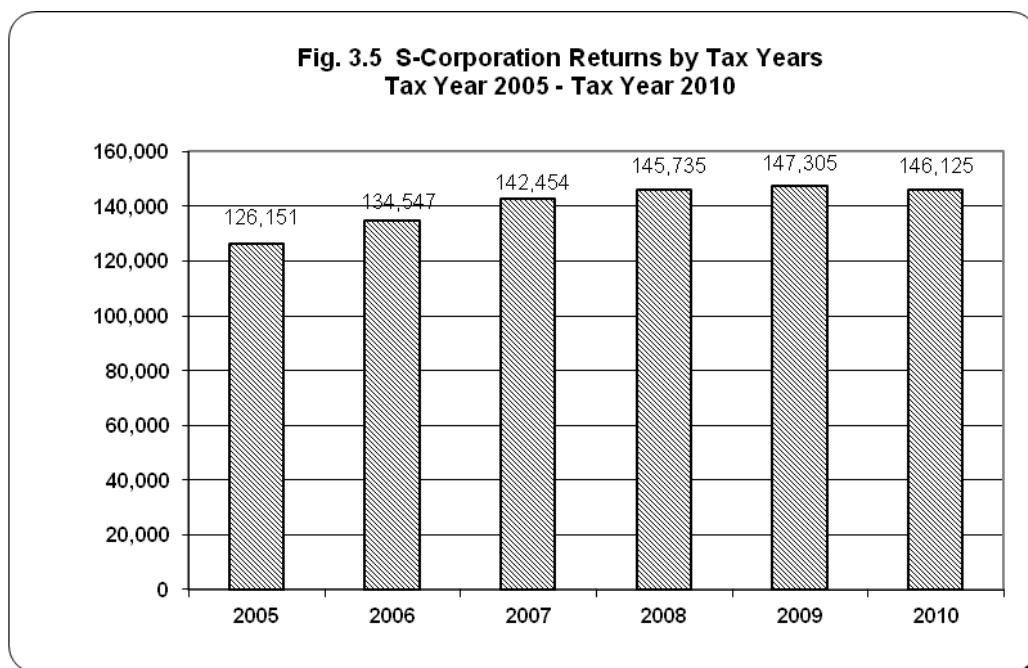


Figure 3.6 illustrates the relative amounts of net tax liabilities for 2005 through 2010 for S-corporations. As discussed in Section II, the income tax liability for S-corporations only includes taxes paid for shareholders filing a composite return.

The trend in the franchise tax liability is also consistent with that shown for C-corporations. The franchise tax has been increasing each year up through 2008. There was a slight decline of \$1.8 million for tax year 2009 and \$0.3 for 2010.

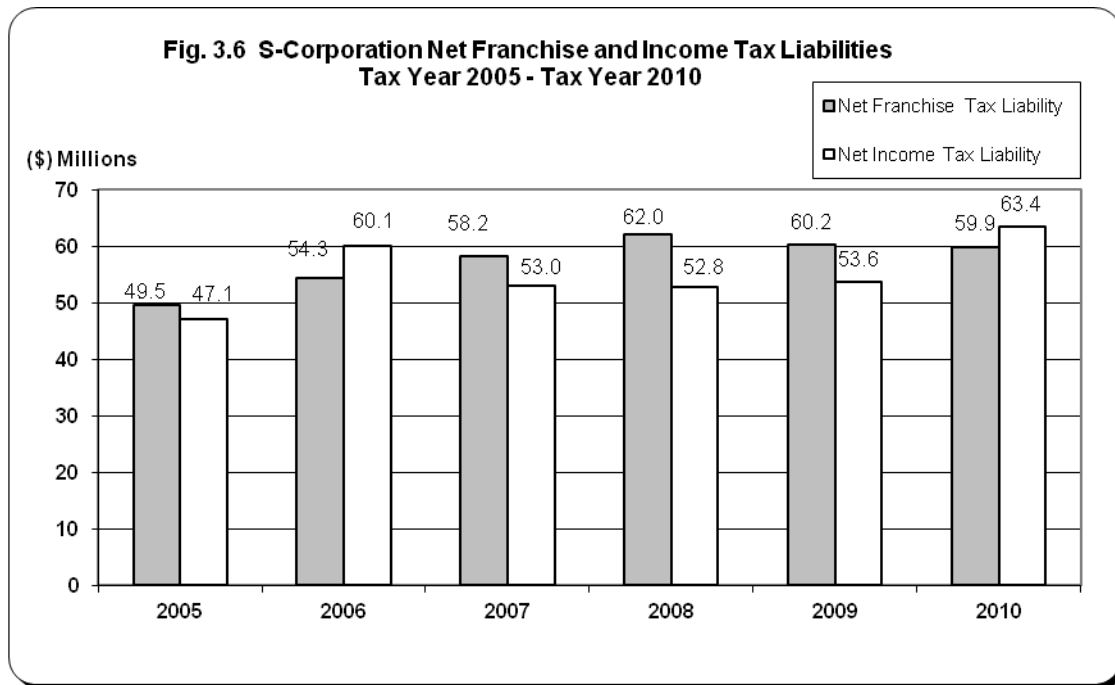
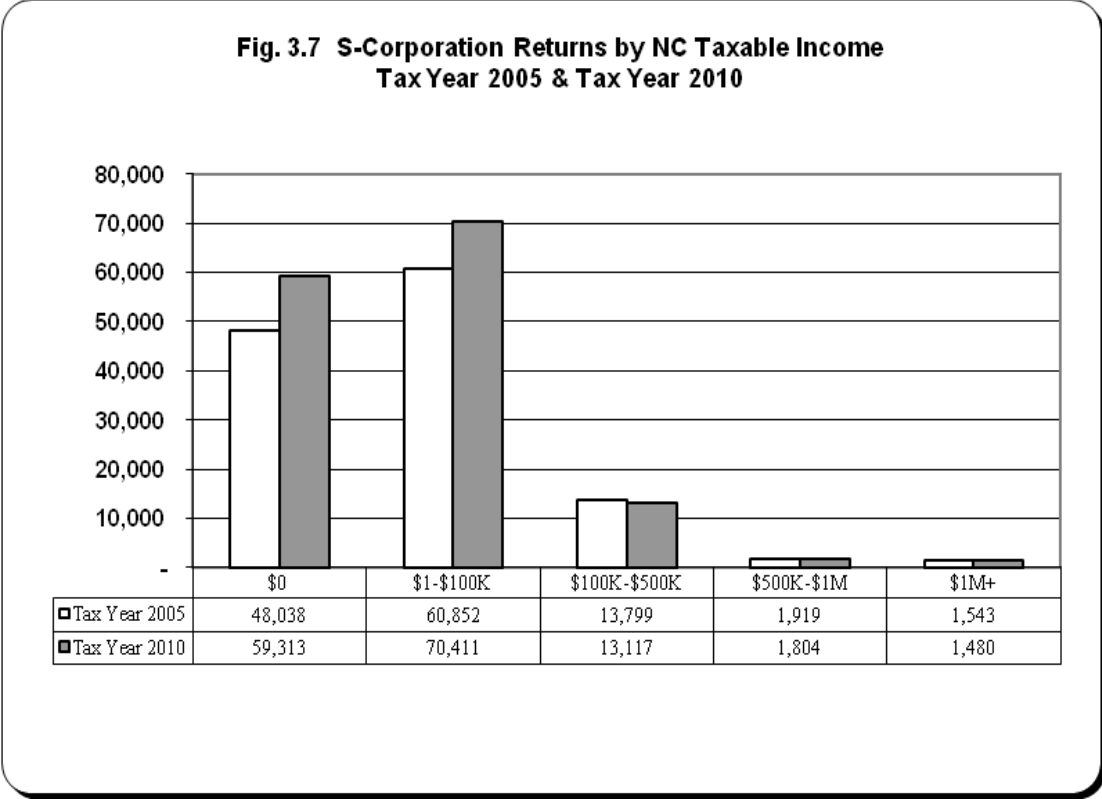


Figure 3.7 compares the number of S-corporation returns in tax years 2005 and 2010 by taxable income brackets. Although the number of returns had grown, a larger proportion of taxpayers were in the smallest taxable income categories.



**SECTION IV
INDUSTRY SECTORS**

C-CORPORATIONS

Table 4.1 shows franchise and income tax liabilities by major industry sector. The manufacturing sector had the largest tax liability for both the franchise tax and the income tax, paying approximately one-third of the total amount. Other sectors with relatively high shares of tax liability include finance and insurance, retail, and information.

**Table 4.1
C-Corporation Franchise Tax and Income Tax Liability by Industry Sector
Tax Year 2010**

Industry Sector	All Returns	Franchise Tax		Income Tax	
	Number of returns	Number	Amount (\$)	Number	Amount (\$)
Agriculture, Forestry, Fishing and Hunting	1,166	1,142	2,210,755	410	5,102,695
Mining	137	134	2,178,032	41	1,821,057
Utilities	171	145	948,821	46	13,958,863
Construction	6,830	6,617	6,805,361	1,953	14,435,730
Manufacturing	7,631	7,434	128,894,821	2,849	280,419,115
Wholesale	5,024	4,865	23,159,979	2,108	70,116,818
Retail	6,055	5,844	31,233,443	2,115	127,080,768
Transportation	2,009	1,895	5,355,846	759	22,171,942
Couriers and Warehousing	190	178	575,860	75	2,108,531
Information	1,923	1,847	41,680,949	605	76,501,390
Finance and Insurance	5,556	5,298	75,450,723	1,602	103,700,980
Real Estate and Rental & Leasing	10,525	7,671	20,041,087	2,359	38,898,771
Professional, Scientific and Technical Services	8,935	8,589	19,366,420	3,268	80,273,712
Management of Companies / see note	1,551	1,473	12,333,509	430	21,550,274
Administration & Support and Waste Management & Remediation Services	2,667	2,320	6,004,227	910	13,428,990
Educational Services	371	356	1,915,550	138	6,167,311
Health Care and Social Assistance	3,525	3,365	4,483,251	1,237	15,383,316
Arts, Entertainment and Recreation	888	795	1,406,870	288	806,808
Accommodations and Food Services	1,896	1,828	4,033,998	665	9,358,607
Other Services	3,410	2,958	2,087,391	1,151	4,820,313
Unidentifiable	5,450	3,186	2,381,975	1,258	5,391,995
Total	75,910	67,940	392,548,868	24,267	913,497,986

Note: The amounts in this table are based partially on unaudited returns. In some cases, revisions were made to the NAICS codes reported by taxpayers. If it was evident that a taxpayer reported an old NAICS or SIC code, these were converted to newer codes. Also, holding companies often listed their NAICS code as "Management of Companies." Eighty-three of these taxpayers were reassigned to other industries based on information concerning the main business of these companies. (These reassignments were made by staff of the Revenue Research Division for four of the industry sectors: manufacturing; retail; information; and finance and insurance.)

**SECTION IV
INDUSTRY SECTORS**

S-CORPORATIONS

Table 4.2 shows franchise and income tax liabilities by major industry sector for S-corporations. Industry sectors that pay a relatively high share of the franchise tax include (1) real estate and rental & leasing; (2) retail; (3) manufacturing; and (4) construction.

As mentioned in prior sections of this report, the income tax liability only includes the tax liability of certain nonresident shareholders. An alternative measure of relative tax liability is shown on the following page.

**Table 4.2
S-Corporation Franchise Tax and Income Tax Liability by Industry Sector
Tax Year 2010**

Industry Sector	All Returns	Franchise Tax		Income Tax	
	Number of returns	Number	Amount (\$)	Number	Amount (\$)
Agriculture, Mining & Utilities	3,514	3,418	2,525,019	70	368,845
Construction	23,464	22,687	7,661,154	909	5,757,208
Manufacturing	6,304	6,103	8,472,069	721	14,873,346
Wholesale	6,028	5,841	5,295,749	555	5,800,957
Retail	15,382	14,775	8,891,100	431	2,650,002
Transportation	3,873	3,740	1,027,305	229	1,414,369
Couriers and Warehousing	381	366	206,887	17	142,298
Information	2,168	2,063	750,929	138	601,956
Finance and Insurance	5,639	5,473	2,279,211	339	11,874,518
Real Estate and Rental & Leasing	15,769	15,213	9,336,936	450	2,850,623
Professional, Scientific and Technical Services	21,732	20,954	2,933,939	1,194	4,185,943
Management of Companies	708	660	1,043,955	128	4,209,043
Administration & Support and Waste Management & Remediation Services	6,019	5,762	990,698	374	4,058,494
Educational Services	837	802	116,170	41	1,276,202
Health Care and Social Assistance	9,023	8,785	1,891,553	159	1,221,914
Arts, Entertainment and Recreation	3,151	3,006	1,018,018	174	467,346
Accommodations and Food Services	7,001	6,729	2,563,759	195	858,722
Other Services	10,307	9,990	1,395,025	257	408,969
Unidentifiable	4,825	4,610	1,513,614	124	371,896
Total	146,125	140,977	59,913,090	6,505	63,392,651

Note: Calculations are based partially on unaudited returns. In some cases, revisions were made to the NAICS codes reported by taxpayers. If it was evident that a taxpayer reported an old NAICS or SIC code, these were converted to newer codes. Agriculture, Mining and Utilities were reported as one sector to protect confidentiality of taxpayers.

**SECTION IV
INDUSTRY SECTORS**

Table 4.3 shows the North Carolina net taxable income of S-corporations in tax year 2010 by industry sector. This is the income that is passed through to shareholders who then report this income on their individual income tax returns. The industry sectors with the largest net taxable income are (1) professional, scientific and technical services; (2) manufacturing; (3) health care and social assistance; and (4) retail trade.

**Table 4.3
S-Corporation NC Net Taxable Income by Industry Sector
Tax Year 2010**

Industry Sector	Net Taxable Income		
	Number of taxpayers	Amount (\$)	Share of total amount
Agriculture, Forestry, Fishing and Hunting	3,088	240,440,122	2.9%
Mining	101	7,196,969	0.1%
Utilities	136	3,782,175	0.0%
Construction	21,414	641,419,719	7.9%
Manufacturing	5,803	1,118,083,683	13.7%
Wholesale	5,573	630,826,770	7.7%
Retail	14,613	759,001,546	9.3%
Transportation	3,551	162,850,719	2.0%
Couriers and Warehousing	339	31,901,410	0.4%
Information	1,984	150,250,908	1.8%
Finance and Insurance	4,855	516,784,922	6.3%
Real Estate and Rental & Leasing	14,453	314,146,836	3.9%
Professional, Scientific and Technical Services	20,062	1,187,016,306	14.6%
Management of Companies	576	160,974,268	2.0%
Administration & Support and Waste Management & Remediation Services	5,558	300,419,835	3.7%
Educational Services	778	43,547,621	0.5%
Health Care and Social Assistance	8,660	1,063,965,839	13.0%
Arts, Entertainment and Recreation	2,905	224,274,432	2.7%
Accommodations and Food Services	6,697	252,987,835	3.1%
Other Services	9,878	247,082,096	3.0%
Unidentifiable	3,695	99,560,298	1.2%
Total	134,719	8,156,514,309	

Note: Calculations are based partially on unaudited returns. In some cases, revisions were made to the NAICS codes reported by taxpayers. If it was evident that a taxpayer reported an old NAICS or SIC code, these were converted to newer codes.