

North Carolina

**Corporation Income and Business
Franchise Taxes**

Statistics and Trends

Tax Year 2012

January 2015



NCDOR

Revenue Research Division

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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 2012 (TY12). 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 29, 2014. The returns may not have been audited by this date. 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.

Corporate tax returns are included in this report if they were filed for calendar year 2012 or for a tax year beginning sometime in 2012.

The relevant 2012 corporate tax forms and instructions are available for review on the following Department of Revenue website: www.dornc.com/downloads/corp_archive/12archive/index.html

This report is divided into five sections. Section I presents information related to the business franchise tax for TY12; Section II has information related to the corporation income tax for TY12; Section III presents data on the trends in these tax returns from tax year 2007 through tax year 2012; Section IV compares tax liabilities by the start month of the corporations' tax years; and Section V breaks out key data by major industry sectors.

The following table presents key summary statistics for the business franchise and corporation income taxes for TY12.

	C Corporations	S Corporations
Number of returns	75,804	147,214
Number of returns with nonzero net franchise tax	65,559	139,084
Amount of net franchise tax	\$430,084,621	\$63,003,341
Number of returns with nonzero net income tax	24,096	6,037
Amount of net income tax	\$1,049,660,438	\$76,181,587

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 allow the company to 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 2012. These descriptions are not official interpretations of the Revenue Laws and should not be relied upon as representing the 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). LLC's that choose 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.¹

The minimum franchise tax for companies covered by the tax is \$35. The tax on holding companies that receive more than 80% of their gross income from subsidiaries is capped at \$75,000 if the company uses the capital stock, surplus, and undivided profits base. (The taxpayer must ensure this amount is not less than the tax calculated using the alternative bases.)

CORPORATION INCOME TAX

The corporation income tax applies to corporations 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. 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 received 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

¹ The utilities franchise tax (G.S. 105-116) has been repealed, effective July 1, 2014.

not subject to apportionment is allocated to North Carolina if the business activity generating the income is located in North Carolina.

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

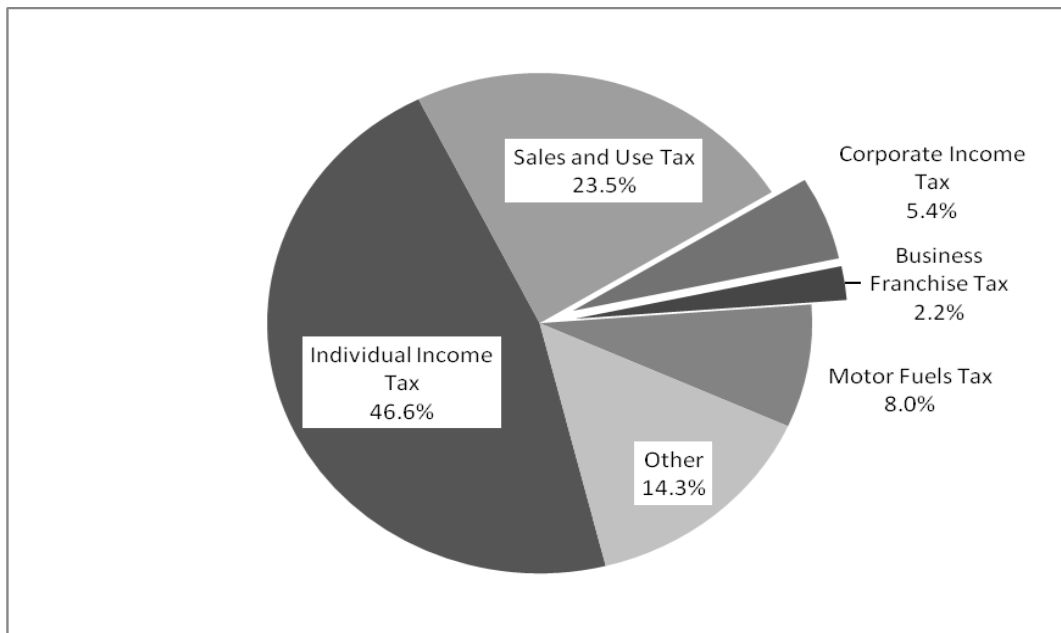
A taxpayer must add back 85% of the amount of bonus depreciation taken for federal income tax purposes during the tax year. This amount can then be deducted in equal installments over the next 5 tax years. Similar provisions existed for tax years 2008 through 2011.

S corporations 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 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 2012-13 were \$23.8 billion. (Licenses and fees are included in this amount, but unemployment insurance contributions are not.) Net collections for the corporation income tax and the business franchise tax accounted for \$1.8 billion (7.6%) of the total.

The corporation taxes included in this report 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, FY 12-13



Note: The "other" category includes motor vehicle licenses (2.4% of total), highway use tax (2.3%), insurance premiums tax (2.3%), utilities franchise tax (1.7%), alcoholic beverage tax (1.4%), and tobacco products tax (1.2%), among others. Unemployment insurance contributions are not included in this graph.

C CORPORATIONS

Overall, the net franchise tax liability for the C corporation returns in this report totaled \$430.1 million. (Net tax liability is the amount of tax liability after deducting tax credits.) After excluding filers that were not liable for franchise tax (10,150 returns), the average amount due from the remaining 65,654 returns was \$6,560. Half of these taxpayers owed \$72 or less; and 99% of taxpayers owed less than \$101,052 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. The highest bracket (\$40,000,000+) includes taxpayers whose tax liability before credits would be at least \$60,000.

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 45% of the 2012 tax year returns, followed by investment in tangible property base (12%), and appraised values in property base (7.5%). Thirty-five percent of the returns listed no assets because: 1) the taxpayer was exempt from franchise tax; 2) the 2012 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 2012**

Franchise Taxable Amount	Number of C-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	26,678	7,953	2,047	1,689	38,367
\$23,668-\$100,000	-	6,378	2,113	1,468	9,959
\$100,001-\$1,000,000	-	11,566	3,033	1,909	16,508
\$1,000,001-\$5,000,000	-	4,500	1,077	421	5,998
\$5,000,001-\$20,000,000	-	2,128	554	117	2,799
\$20,000,001-\$40,000,000	-	657	195	40	892
\$40,000,001+	-	997	251	33	1,281
Total	26,678	34,179	9,270	5,677	75,804

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

**SECTION I
FRANCHISE TAX**

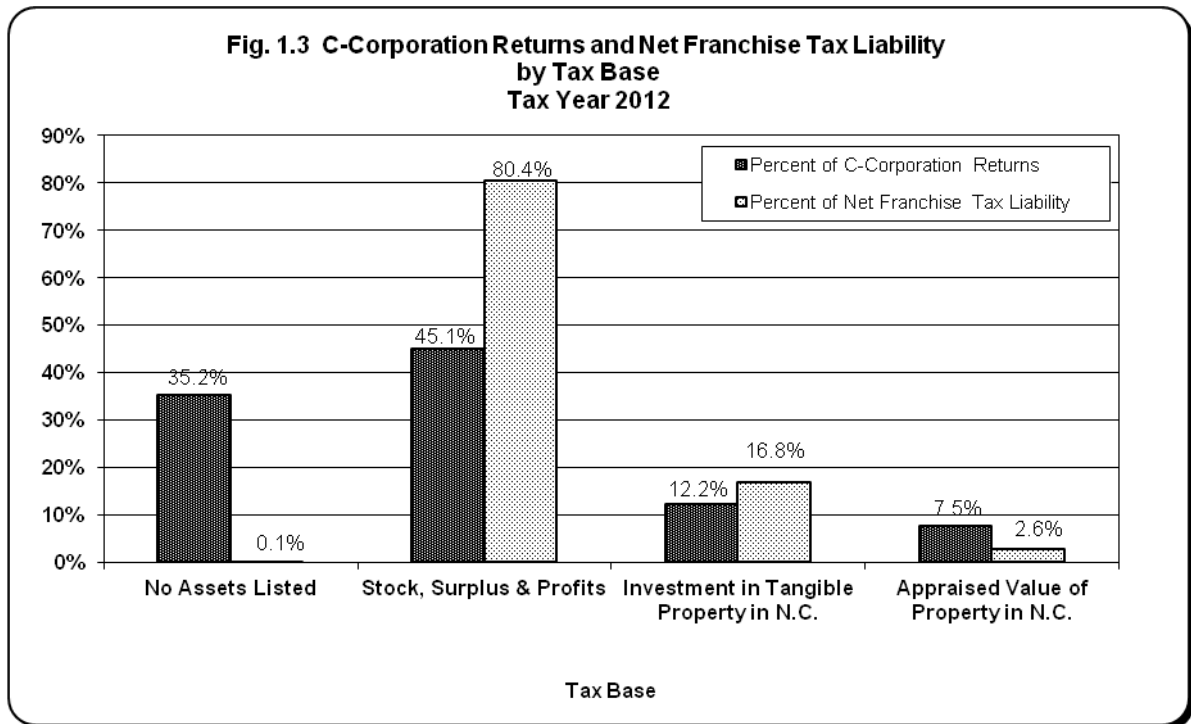
Table 1.2 compares the net franchise tax liability by tax base utilized. The greatest share of tax paid (80%) was under the capital stock, surplus and undivided profits base. Taxpayers using the investment in tangible property base paid 17% of the franchise tax, while the appraised value in property 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 2012**

Franchise Taxable Amount	Net Tax Liability (\$)				Total
	No Assets Listed	Capital Stock, Surplus & Profits	Investment in Tangible Property in	Appraised Value of Property in	
\$0-\$23,667	613,680	273,418	67,989	57,689	1,012,776
\$23,668-\$100,000	-	525,730	166,881	115,731	808,342
\$100,001-\$1,000,000	-	6,265,531	1,576,686	960,985	8,803,202
\$1,000,001-\$5,000,000	-	15,278,895	3,719,794	1,265,313	20,264,002
\$5,000,001-\$20,000,000	-	31,378,114	8,088,555	1,710,624	41,177,293
\$20,000,001-\$40,000,000	-	26,461,681	7,332,702	1,621,158	35,415,541
\$40,000,001+	-	265,623,866	51,395,917	5,583,682	322,603,465
Total	613,680	345,807,235	72,348,524	11,315,182	430,084,621

Note: Figures are based partially on unaudited returns.

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



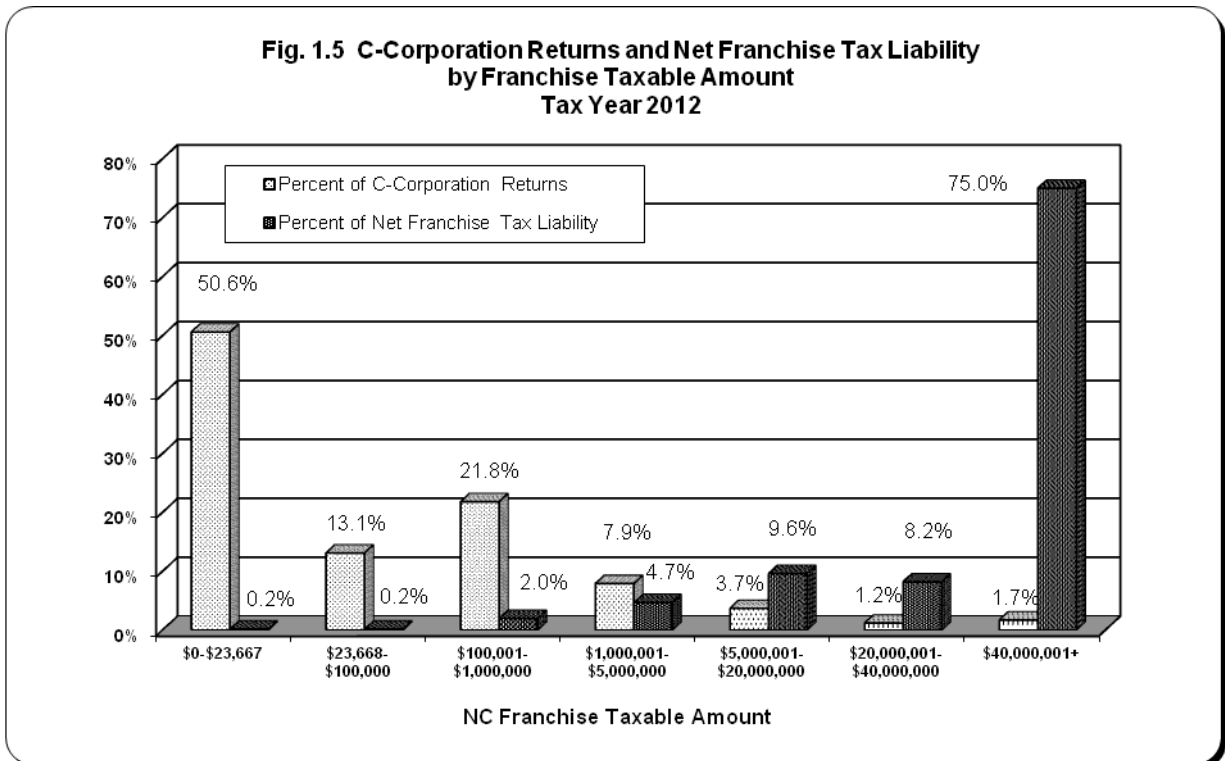
**SECTION I
FRANCHISE TAX**

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 of at least \$40 million made up only 1.7% of the returns, but paid 75.0% of net franchise tax.

**Table 1.4
C Corporation Returns and Net Franchise Tax Liability by Franchise Taxable Amount
Tax Year 2012**

Franchise Taxable Amount	Number of Returns		Net Franchise Tax Liability (\$)	
		Percent		Percent
\$0-\$23,667	38,367	50.6%	1,012,776	0.2%
\$23,668-\$100,000	9,959	13.1%	808,342	0.2%
\$100,001-\$1,000,000	16,508	21.8%	8,803,202	2.0%
\$1,000,001-\$5,000,000	5,998	7.9%	20,264,002	4.7%
\$5,000,001-\$20,000,000	2,799	3.7%	41,177,293	9.6%
\$20,000,001-\$40,000,000	892	1.2%	35,415,541	8.2%
\$40,000,001+	1,281	1.7%	322,603,465	75.0%
Total	75,804	100.0%	430,084,621	100.0%

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



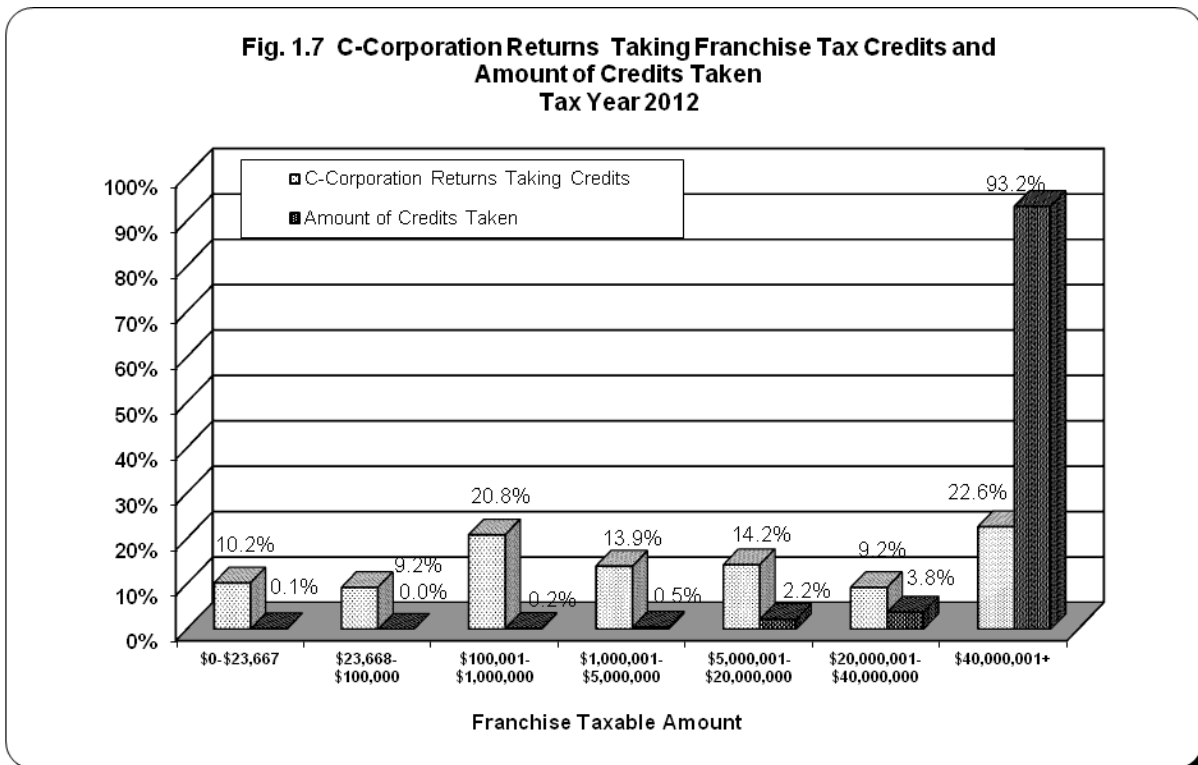
**SECTION I
FRANCHISE TAX**

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. Only 1,638 (2.5%) of the returns took credits. Returns with franchise taxable amount greater than \$40 million comprised only 22.6% of the returns taking credits, but 93.2% of the credits taken.

**Table 1.6
C Corporation Returns Taking Franchise Tax Credits and Amount of Credits Taken
Tax Year 2012**

Franchise Taxable Amount	Number of Returns Taking		Amount of Credits Taken (\$)	
		Percent		Percent
\$0-\$23,667	167	10.2%	52,409	0.1%
\$23,668-\$100,000	151	9.2%	7,733	0.0%
\$100,001-\$1,000,000	340	20.8%	100,382	0.2%
\$1,000,001-\$5,000,000	227	13.9%	334,351	0.5%
\$5,000,001-\$20,000,000	233	14.2%	1,434,820	2.2%
\$20,000,001-\$40,000,000	150	9.2%	2,467,724	3.8%
\$40,000,001+	370	22.6%	60,026,151	93.2%
Total	1,638	100.0%	64,423,570	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 13.8% of tax liability for taxpayers whose taxable amount was above \$5 million and 1.6% for those with lower taxable amounts.

**Table 1.8
C Corporation Franchise Tax Credits Taken by Credit Type and Franchise Taxable Amount
Tax Year 2012**

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	373	4,468,125	247	222,664	126	4,245,461
+ Other Credits Claimed*	202	10,148,410	173	34,739	29	10,113,671
- Other Credits Not Taken **	--	(7,540,750)	--	(12,929)	--	(7,527,821)
+ Credits Subject to 50% Limit Taken	1,097	57,347,785	475	250,401	622	57,097,384
= Credits Taken	1,638	64,423,570	885	494,875	753	63,928,695

* These credits include Major Computer Manufacturing Facility, Renovating Historic Mill Facility, Piped Natural Gas, Recycling Facilities, Expenses Related to Dividends, and Additional Annual Report Fee Paid.

** Credits were not taken against tax because a 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 on both audited and unaudited returns.

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 44% of 2012 tax year returns, followed by investment in tangible property base (19%), and appraised values in property (14%). Twenty-three percent of the returns listed no assets because: 1) the taxpayer was exempt from franchise tax; 2) the 2012 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 2012**

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	34,158	27,770	9,061	8,330	79,319
\$23,668-\$100,000	-	16,914	8,626	5,364	30,904
\$100,001-\$1,000,000	-	16,050	8,295	5,795	30,140
\$1,000,001-\$5,000,000	-	2,984	1,347	1,211	5,542
\$5,000,001-\$20,000,000	-	590	357	169	1,116
\$20,000,001-\$40,000,000	-	68	43	15	126
\$40,000,001+	-	34	22	11	67
Total	34,158	64,410	27,751	20,895	147,214

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 (52.6%) 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 2012**

Franchise Taxable Amount	Net Tax Liability (\$)				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	964,210	946,874	309,423	282,441	2,502,948
\$23,668-\$100,000	-	1,305,473	674,212	411,317	2,391,002
\$100,001-\$1,000,000	-	7,396,703	3,676,656	2,802,519	13,875,878
\$1,000,001-\$5,000,000	-	9,225,119	4,274,116	3,642,290	17,141,525
\$5,000,001-\$20,000,000	-	7,705,388	4,740,896	2,192,316	14,638,600
\$20,000,001-\$40,000,000	-	2,623,306	1,729,285	588,013	4,940,604
\$40,000,001+	-	3,957,660	2,422,067	1,133,057	7,512,784
Total	964,210	33,160,523	17,826,655	11,051,953	63,003,341

Note: Figures are based partially on unaudited returns.

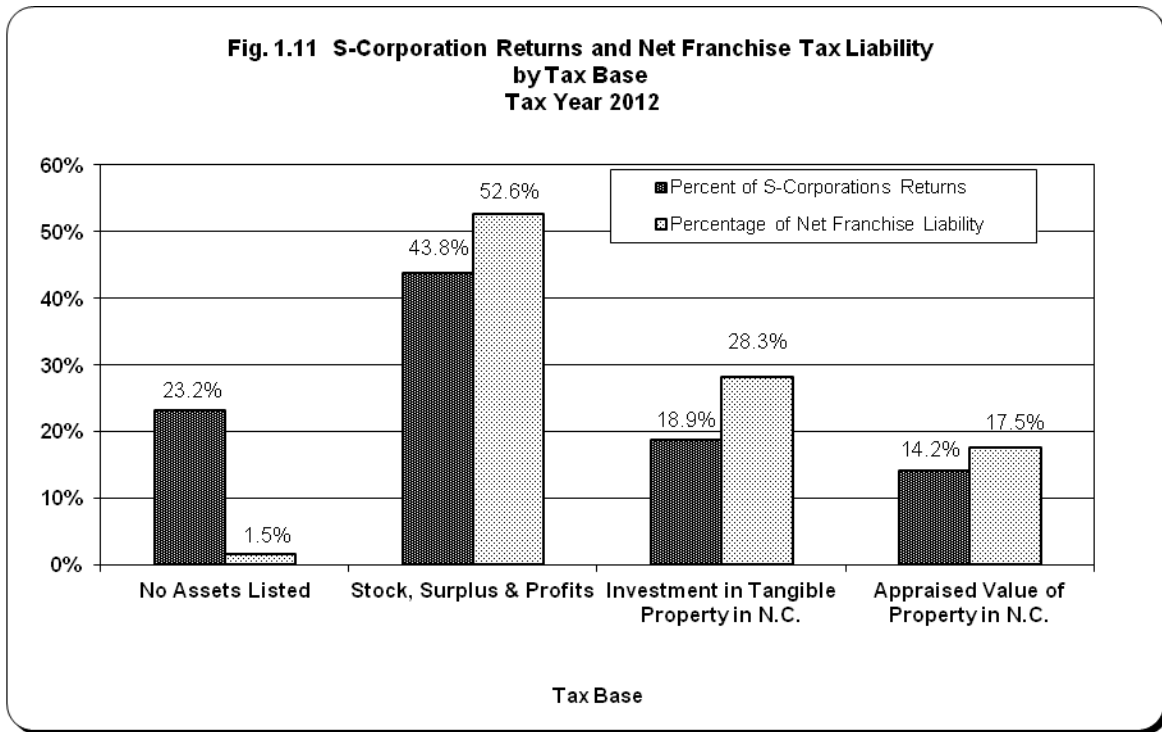


Table 1.12 and Figure 1.13 compare the distribution of S corporation returns and net franchise tax liability. The average tax was \$453, although half of taxpayers had a tax liability of \$35 or less. Twenty-seven taxpayers had a net tax liability above \$100,000.

**Table 1.12
S Corporation Returns and Net Franchise Tax Liability by Franchise Taxable Amount
Tax Year 2012**

Franchise Taxable Amount	Number of Returns		Net Franchise Tax Liability (\$)	
		Percent		Percent
\$0-\$23,667	79,319	53.9%	2,502,948	4.0%
\$23,668-\$100,000	30,904	21.0%	2,391,002	3.8%
\$100,001-\$1,000,000	30,140	20.5%	13,875,878	22.0%
\$1,000,001-\$5,000,000	5,542	3.8%	17,141,525	27.2%
\$5,000,001-\$20,000,000	1,116	0.8%	14,638,600	23.2%
\$20,000,001-\$40,000,000	126	0.1%	4,940,604	7.8%
\$40,000,001+	67	0.0%	7,512,784	11.9%
Total	147,214	100.0%	63,003,341	100.0%

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

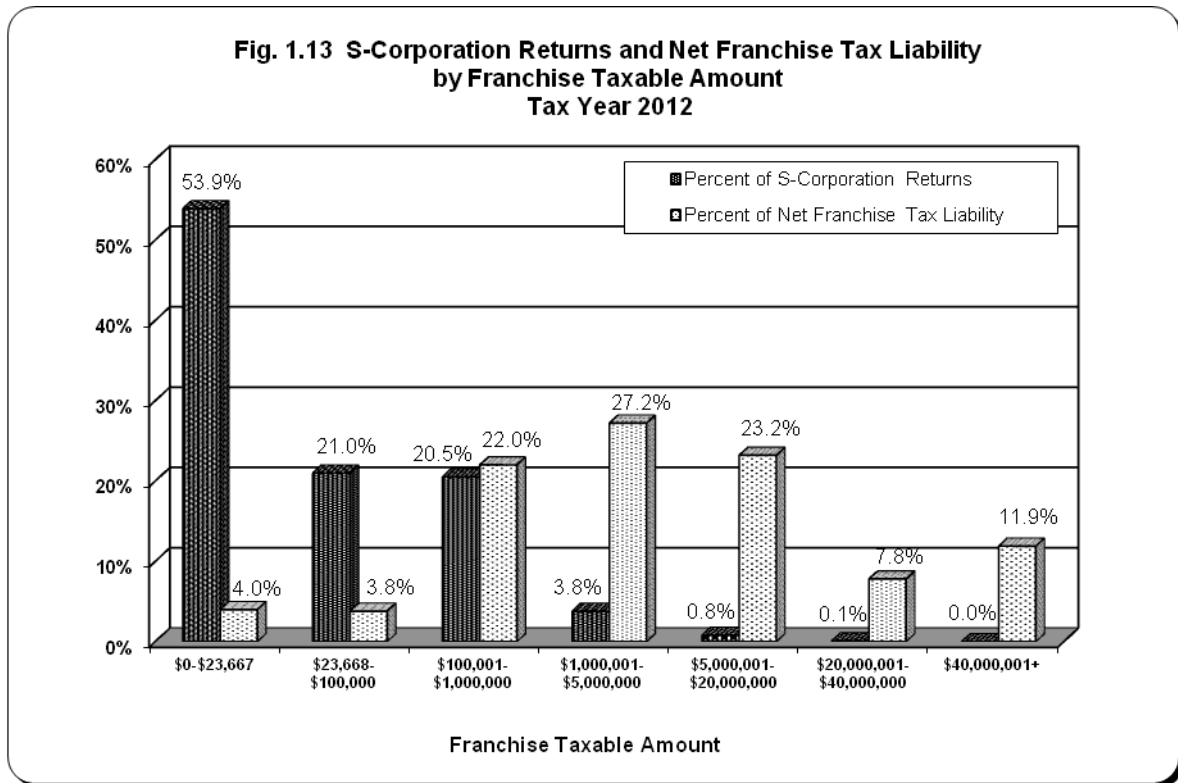


Table 1.14 and Figure 1.15 show the number of returns taking franchise tax credits and amount of credits taken. Returns with a franchise taxable amount greater than \$40 million comprised 0.4% of the returns taking credits and 42.5% of the credits taken.

**Table 1.14
S Corporation Returns Taking Franchise Tax Credits and Amount of Credits Taken
Tax Year 2012**

Franchise Taxable Amount	Number of Returns		Amount of Credits	
	Taking Credits	Percent	Taken (\$)	Percent
\$0-\$23,667	1,301	39.9%	56,882	3.2%
\$23,668-\$100,000	788	24.2%	59,779	3.4%
\$100,001-\$1,000,000	872	26.7%	169,071	9.5%
\$1,000,001-\$5,000,000	199	6.1%	193,462	10.9%
\$5,000,001-\$20,000,000	73	2.2%	334,124	18.8%
\$20,000,001-\$40,000,000	16	0.5%	211,150	11.9%
\$40,000,001+	12	0.4%	755,802	42.5%
Total	3,261	100.0%	1,780,270	100.0%

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

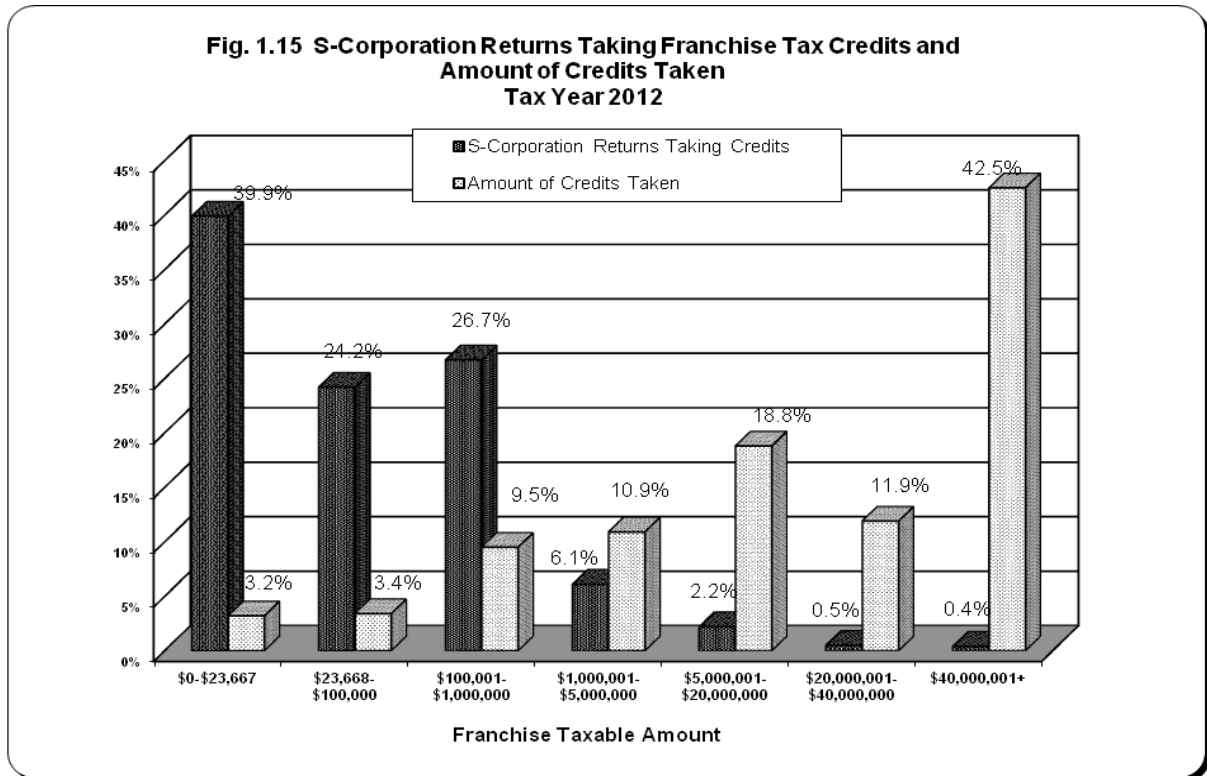


Table 1.16 shows the amount of franchise tax credits by credit type and franchise taxable amount.

**Table 1.16
S Corporation Franchise Tax Credits Taken by Credit Type and Franchise Taxable Amount
Tax Year 2012**

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	183	200,690	178	91,203	5	109,487
+ Other Credits Claimed*	2,768	487,877	2,749	484,670	19	3,207
- Other Credits Not Taken **	--	(237,414)	--	(237,414)	--	-
+ Credits Subject to 50% Limit Taken	346	1,329,117	267	140,735	79	1,188,382
= Credits Taken	3,261	1,780,270	3,160	479,194	101	1,301,076

* This category include Piped Natural Gas, LLC Report Fee 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 2012 tax year return was a final return; 3) or the taxpayer had no assets.

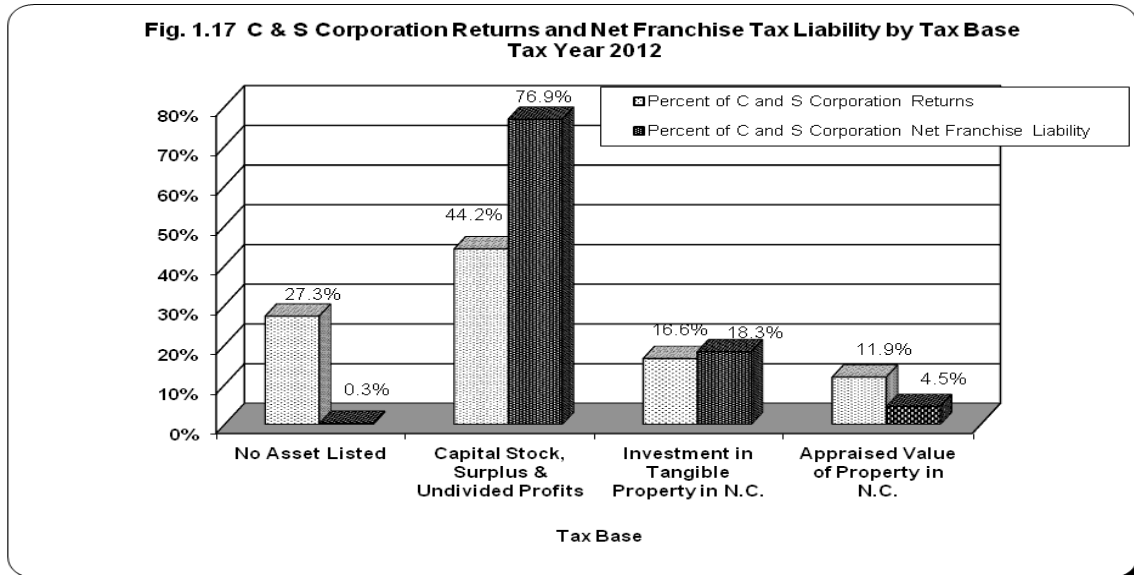
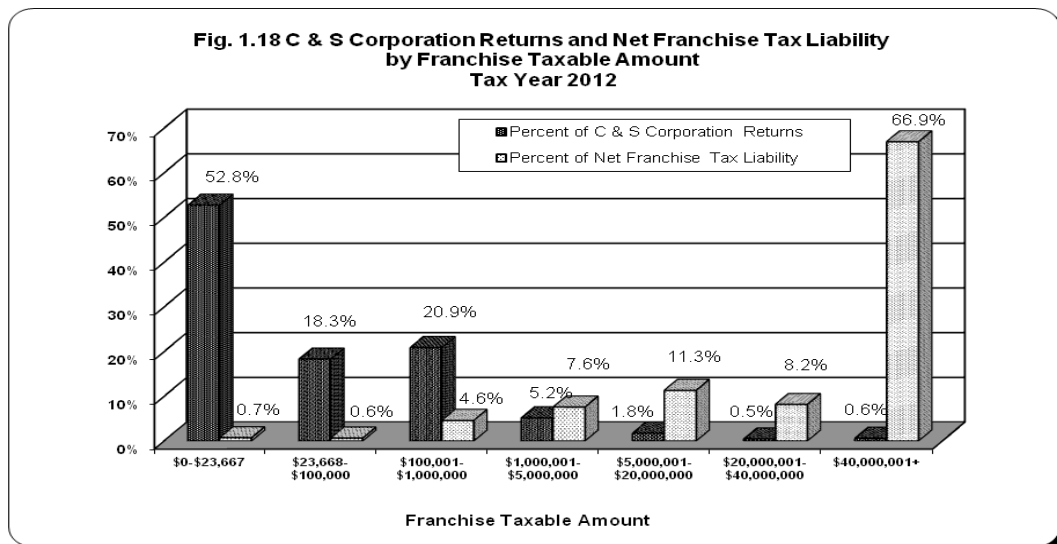
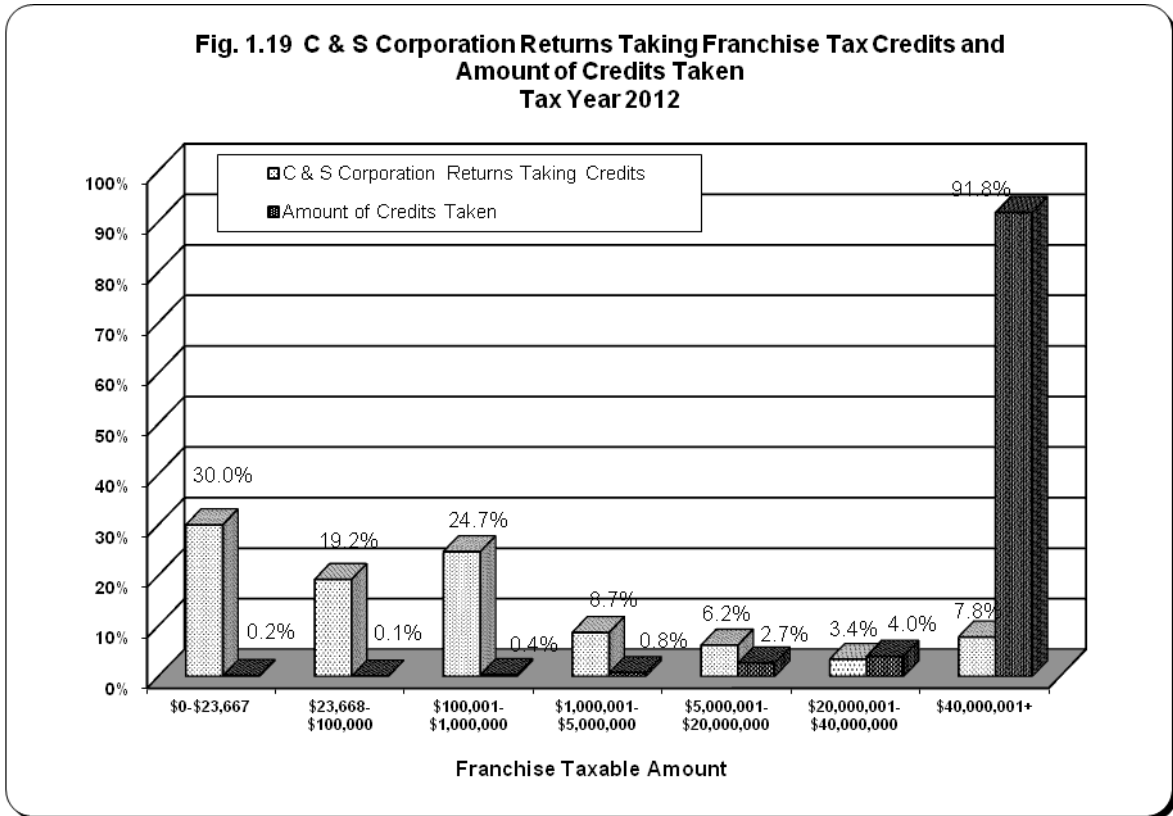


Figure 1.18 shows the number of C and S corporation returns and net franchise tax liability. The top 2.8% of returns, by taxable amount, paid 86.5% of the tax. Taxpayers with franchise taxable amount over \$20 million made up 1.1% of the returns, but paid 75.1% of net franchise tax.



**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 4,899 of the 223,018 corporations took credits in tax year 2012. Corporations with over \$40 million as their franchise tax base took over 90% of all credits.



C CORPORATIONS

Although 75,804 tax returns were filed for tax year 2012, only 24,096 (31.8%) of them had a net tax liability (i.e., a positive tax liability after credits were applied).

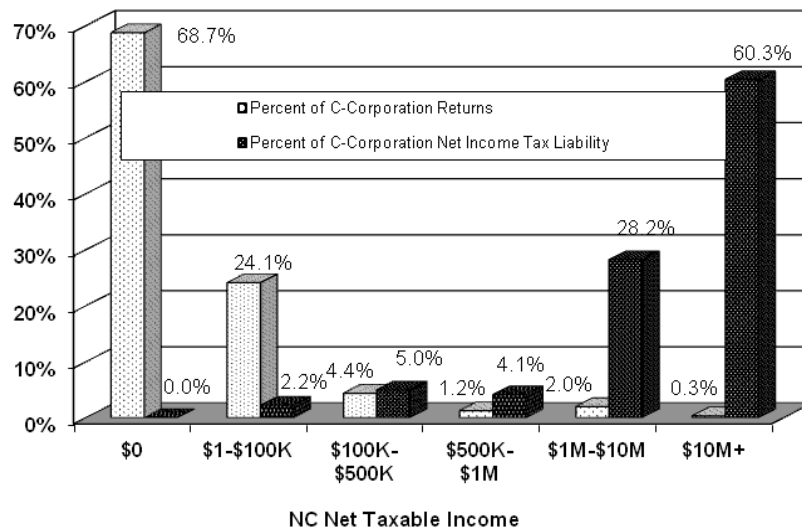
Table 2.1 and Figure 2.2 show the distribution of C corporation returns and net income tax liability by NC net taxable income (as calculated on Line 25 of Form CD-405).

**Table 2.1
C Corporation Returns and Net Income Tax Liability by NC Net Taxable Income
Tax Year 2012**

NC Net Taxable Income	Number of Returns	Percent	Cumulative Percent	Net Income Tax Liability [\$]	Percent	Cumulative Percent
\$0 or less	51,535	67.9%	68.0%	415,312	--	--
\$1-\$15,000	11,293	14.9%	82.8%	3,251,195	0.3%	0.3%
\$15,001-30,000	2,739	3.6%	86.4%	4,078,181	0.4%	0.7%
\$30,001-\$50,000	2,006	2.6%	89.0%	5,347,306	0.5%	1.2%
\$50,001-\$100,000	2,229	2.9%	91.9%	10,702,039	1.0%	2.2%
\$100,001-\$500,000	3,310	4.4%	96.3%	52,004,068	5.0%	7.2%
\$500,001-\$1,000,000	938	1.2%	97.5%	44,529,235	4.3%	11.5%
\$1,000,001-\$10,000,000	1,504	2.0%	99.5%	295,915,722	28.2%	39.7%
\$10,000,001+	250	0.3%	99.8%	633,417,380	60.3%	100.0%
Total	75,804	100.0%	--	1,049,660,438	100.0%	--

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

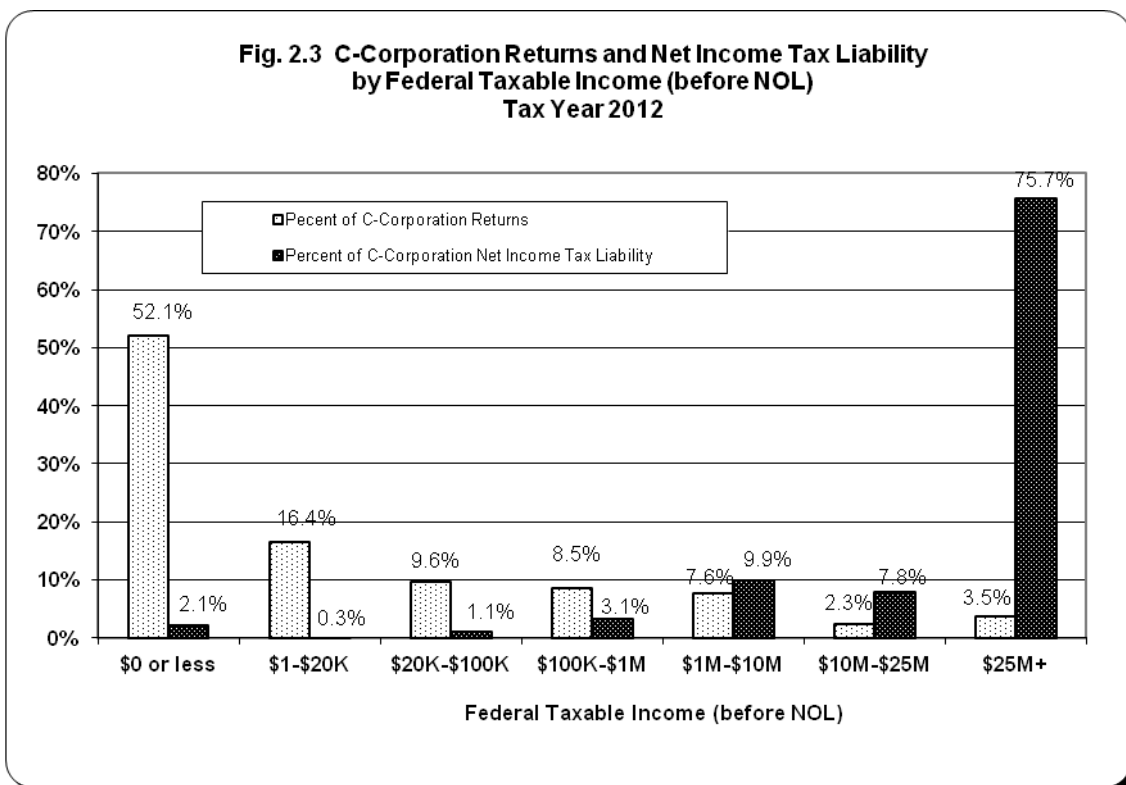
**Fig. 2.2 C-Corporation Returns and Net Income Tax Liability
by NC Net Taxable Income
Tax Year 2012**



As shown in Table 2.1 and Figure 2.2 on the previous page, C corporations with a North Carolina Taxable Income of over \$1 million represented 88.5% of the C corporation income tax liability, but made up 2.3% of the corporations filing returns. Sixty percent of the total C corporation net income tax liability was attributable to the 250 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 75% 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 total apportionable 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 2012**

Federal Taxable Income (before NOL)	NC Apportionment Percentage					Total
	<5%	5% - 24%	25% - 49%	50% - 99%	100%	
\$0 or less	10,776	1,639	585	899	25,563	39,462
\$1 - \$20,000	833	218	136	234	11,047	12,468
\$20,001 - \$100,000	1,366	369	147	399	5,008	7,289
\$100,001 - \$ 1,000,000	3,217	727	244	475	1,756	6,419
\$1,000,001 - \$10,000,000	4,344	707	238	229	242	5,760
\$10,000,001-\$25,000,000	1,446	193	45	34	16	1,734
\$25,000,001+	2,330	274	43	19	6	2,672
Total	24,312	4,127	1,438	2,289	43,638	75,804

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 operated exclusively within North Carolina, and so apportion all of their income to the state, made up 57.6% of the returns filed for tax year 2012. However, these corporations accounted for only 8.6% 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 2012**

Federal Taxable Income (before NOL)	NC Apportionment Percentage					Total
	<5% [\$]	5% - 24% [\$]	25% - 49% [\$]	50% - 99% [\$]	100% [\$]	
\$0 or less	7,700,441	11,273,434	433,842	1,782,305	1,356,856	22,546,878
\$1 - \$20,000	52,593	17,206	24,370	127,093	2,849,471	3,070,733
\$20,001 - \$100,000	113,915	186,081	168,451	822,965	9,861,184	11,152,596
\$100,001 - \$ 1,000,000	1,096,736	1,925,798	1,715,238	6,709,247	20,975,019	32,422,038
\$1,000,001 - \$10,000,000	12,662,280	16,869,680	16,800,210	26,139,090	31,236,806	103,708,066
\$10,000,001-\$25,000,000	18,903,613	17,888,783	14,791,936	18,137,491	12,524,842	82,246,665
\$25,000,001+	419,690,887	236,104,400	86,699,107	40,146,133	11,872,935	794,513,462
Total	460,220,465	284,265,382	120,633,154	93,864,324	90,677,113	1,049,660,438

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 sixty 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.

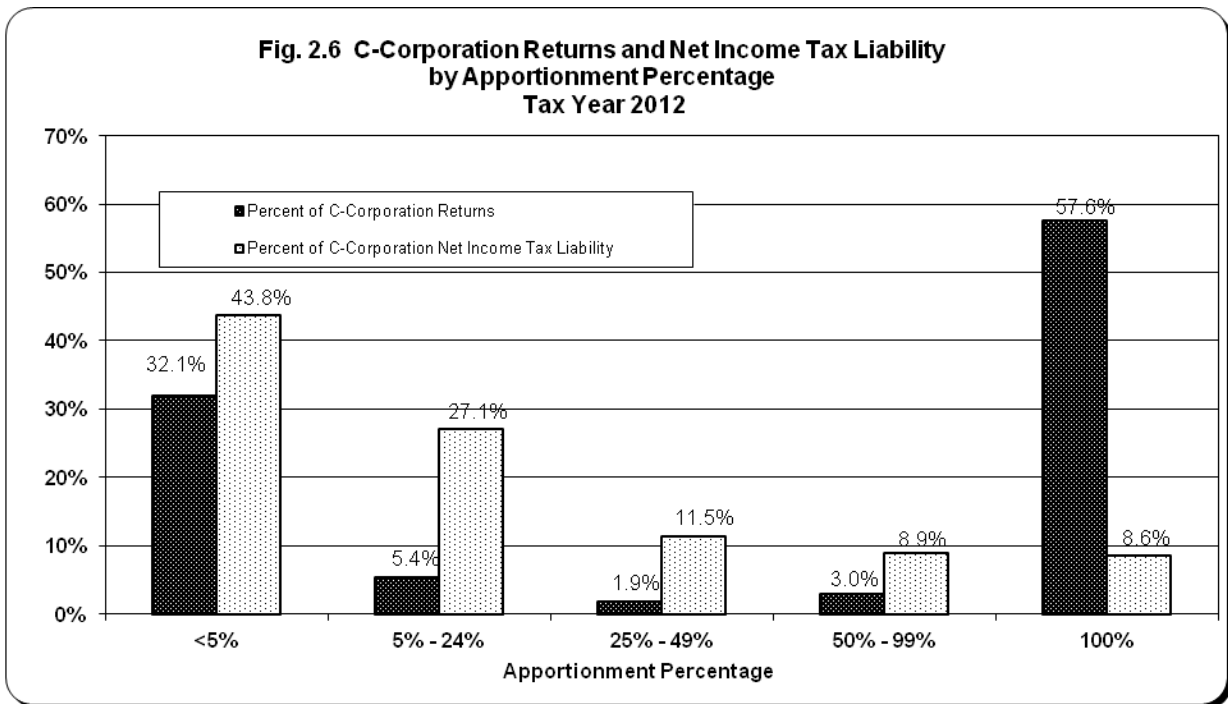


Table 2.7 on the next page shows statistics on the calculation of net tax liability at each step, starting with federal taxable income. Returns are divided into taxable and nontaxable returns, where taxable returns are defined as those with a positive tax liability before credits are applied. The taxable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

Out of 75,804 returns, 32% were taxable returns and 68% were nontaxable returns. Taxable returns with a federal taxable income over \$25 million made up 2.6% of the returns but accounted for 76% of the tax liability.

Of the 39,462 returns with federal taxable income of zero or less, 1,075 had a North Carolina tax liability as a result of adjustment to income or the allocation of nonapportionable income to North Carolina. Of the remaining 36,342 returns that did show a federal taxable income, 13,317 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 \$167.8 billion, there was a reduction of \$29.6 billion due to NC adjustments, a reduction of \$2.5 billion due to nonapportionable income, a reduction of \$131.8 billion due to apportioning income to North Carolina, and a reduction of \$9.0 billion due to Net Economic Loss carryforwards.

Some corporations have negative 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 2012 was for the bonus depreciation allowances created by 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.

Finally, North Carolina tax credits for businesses reduced overall C corporation tax liabilities by \$102.8 million.

**SECTION II
INCOME TAX**

**Table 2.7
C Corporation Income Tax Calculation Detail by Federal Taxable Income (Before NOL)
Tax Year 2012**

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 [\$]	(=) Apportioned to NC [\$]
<u>Taxable Returns</u>							
\$0 or less	1,075	(8,041,566,978)	14,765,422,318	64,938,918	77,624,374	6,271,203,073	310,088,975
\$1-\$20,000	7,256	44,366,188	41,292,154	139,208	359,145	37,247,831	47,912,158
\$20,001-\$100,000	4,573	221,256,270	51,409,521	1,046,453	3,343,623	86,701,580	181,574,135
\$100,001-\$1,000,000	3,945	1,485,258,906	351,974,616	8,907,816	26,943,771	1,285,511,832	515,870,103
\$1,000,001-\$10,000,000	3,970	15,284,563,278	2,284,463,444	73,601,053	158,495,517	15,671,108,814	1,665,821,338
\$10,000,001-\$25,000,000	1,282	20,515,548,801	2,729,244,387	78,576,264	198,050,970	21,598,948,855	1,369,217,099
\$25,000,001+	1,999	529,170,854,381	15,136,242,291	3,678,070,788	1,220,138,170	526,120,578,172	13,288,309,542
Total, Taxable	24,100	558,680,280,846	35,360,048,731	3,905,280,500	1,684,955,570	571,071,300,157	17,378,793,350
<u>Nontaxable Returns</u>							
\$0 or less	38,387	(229,349,278,385)	14,171,872,789	14,368,502	1,029,420,829	(207,648,447,665)	(8,572,747,262)
More than \$0	13,317	167,827,186,407	(29,600,270,377)	571,843,248	2,471,731,390	131,803,500,385	3,379,841,007
Total, Nontaxable	51,704	(61,522,091,978)	(15,428,397,588)	586,211,750	3,501,152,219	(75,844,947,280)	(5,192,906,255)

FTI of Corporation	(+) Nonapportionable Income Allocated [\$]	(-) Percentage Depletion Over Cost Depletion [\$]	(-) Net Economic Loss [\$]	(-) Contributions to NC Donees [\$]	(=) Net Taxable Income [\$]	Computed Income Tax [\$]	(-) Tax Credits [\$]	(=) Net Tax Liability [\$]
<u>Taxable Returns</u>								
\$0 or less	14,143,774	-	6,333,300	341,033	318,211,047	23,819,841	1,272,963	22,546,878
\$1-\$20,000	(119,138)	9,780	3,613,709	352,024	43,813,234	3,078,998	8,265	3,070,733
\$20,001-\$100,000	1,805,911	148,001	18,816,095	1,480,016	162,953,733	11,246,032	93,436	11,152,596
\$100,001-\$1,000,000	w	w	46,779,361	3,147,283	475,835,817	32,843,997	421,959	32,422,038
\$1,000,001-\$10,000,000	w	w	98,218,070	5,249,344	1,580,211,617	108,594,094	4,886,028	103,708,066
\$10,000,001-\$25,000,000	w	w	76,062,662	6,741,091	1,288,638,093	88,990,826	6,744,161	82,246,665
\$25,000,001+	5,233,934	6,520,217	468,526,514	44,067,574	12,774,429,171	883,901,904	89,388,442	794,513,462
Total, Taxable	21,064,481	6,677,998	718,349,711	61,378,365	16,644,092,712	1,152,475,692	102,815,254	1,049,660,438
<u>Nontaxable Returns</u>								
\$0 or less	(201,804,241)	10,665,241	7,509,471,302	5,285,018	(16,292,993,332)	-	-	-
More than \$0	(98,798)	112,245,320	9,032,798,380	27,245,381	(5,748,409,358)	-	-	-
Total, Nontaxable	(201,903,039)	122,910,561	16,542,269,682	32,530,399	(22,041,402,690)	-	-	-

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**

Income Tax Credits: Nearly 95% of the 24,100 returns with positive tax liability before credits did not take any income tax credits. Fifty percent of the 566 returns taking credits had over 40% of their tax liability offset by income tax credits. As shown in Table 2.9, these returns accounted for 59% of the total credits taken.

**Table 2.8
Number of C Corporation Taxable Returns Taking Credits as a Percentage of Tax Liability
Tax Year 2012**

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	11,240	w	w	7	41	11,293
\$15,001-30,000	2,713	w	w	4	17	2,739
\$30,001-\$50,000	1,981	w	w	4	17	2,006
\$50,001-\$100,000	2,187	7	6	7	22	2,229
\$100,001-\$500,000	3,243	16	7	5	39	3,310
\$500,001-\$1,000,000	893	4	3	7	31	938
\$1,000,001-\$10,000,000	1,292	78	26	29	79	1,504
\$10,000,001+	154	29	19	12	36	250
Total	23,703	139	70	75	282	24,269

Note: Figures are based partially on unaudited returns. The table does not include returns that had zero or negative taxable income. A "w" in a cell indicates that the data are withheld to protect confidentiality.

**Table 2.9
Amount of C Corporation Tax Credits Taken as a Percentage of Tax Liability
Tax Year 2012**

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	w	w	1,337	7,099	8,725
\$15,001-30,000	w	w	1,977	12,095	14,943
\$30,001-\$50,000	w	w	3,025	23,550	28,048
\$50,001-\$100,000	1,895	4,450	10,198	51,785	68,328
\$100,001-\$500,000	16,957	14,775	19,548	308,169	359,449
\$500,001-\$1,000,000	8,876	16,909	112,588	709,134	847,507
\$1,000,001-\$10,000,000	681,628	811,819	2,223,917	11,332,088	15,049,452
\$10,000,001+	5,437,941	18,088,480	14,725,445	48,186,936	86,438,802
Total	6,147,712	18,938,651	17,098,035	60,630,856	102,815,254

Note: Figures are based partially on unaudited returns. A "w" in a cell indicates that the data are withheld to protect confidentiality.

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.

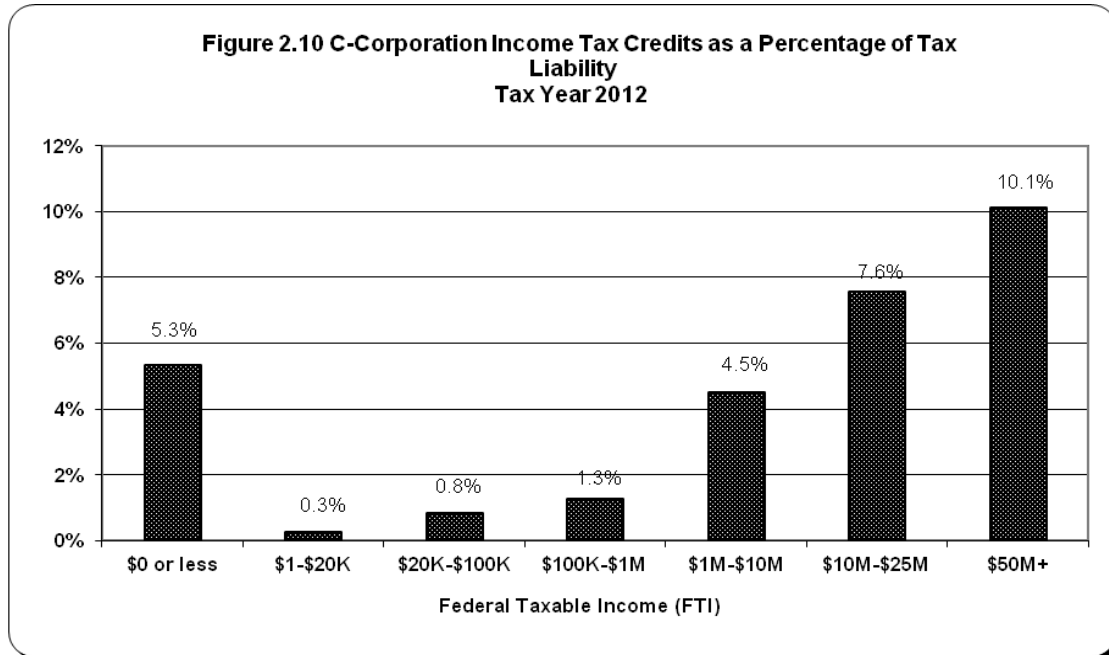


Table 2.11 provides the distribution of income tax credits by credit type and NC net taxable income.

**Table 2.11
C Corporation Income Tax Credits by Credit Type and NC Taxable Income (NCTI)
Tax Year 2012**

Income Tax Credits	All Returns		NCTI up to \$1,000,000		NCTI > \$1,000,000	
	Number of Credits*	Amount (\$)	Number of Credits	Amount (\$)	Number of Credits	Amount (\$)
Rehabilitating an Income-Producing Historic Structure	13	7,112,539	w	w	w	w
Savings and Loan Supervisory Fees	7	205,855	w	w	w	w
Other Non-Limited Credits **	23	17,344,014	13	20,953	10	17,323,061
Credit Carryover from Previous Years (Taken only)	7	3,539,747	w	w	w	w
Tax Credit Subject to 50% of Tax Limit (Taken only)	529	98,405,732	238	1,353,081	291	97,052,651
Credits Claimed	583	126,607,887	2,665	23,428,229	286	356,634,381
Credits Not Taken ***	--	23,792,633	--	22,101,229	--	255,146,127
Credits Taken	566	102,815,254	258	1,327,000	308	101,488,254

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

** This category includes Rehabilitating a Non-Income Producing Historic Structure, Rehabilitating Historic Mill Facility, Certain Real Property Donations, and Reinvestment by a 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 through 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 64.3% of the tax liability, but only 1.2% of returns.

The total net tax liability of \$76.2 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 2012**

NC Taxable Income*	Number of Returns	Percent	Number With Tax Due for Nonresidents	Net Tax Liability [\$]	Percent
\$0 or less	53,843	36.57%	31	28,140	0.04%
\$1-\$15,000	31,960	21.71%	2,688	705,085	0.93%
\$15,001-30,000	15,259	10.37%	771	969,629	1.27%
\$30,001-\$50,000	12,233	8.31%	544	1,283,265	1.68%
\$50,001-\$100,000	14,317	9.73%	641	2,689,539	3.53%
\$100,001-\$500,000	15,618	10.61%	978	13,622,624	17.88%
\$500,001-\$1,000,000	2,168	1.47%	186	7,923,813	10.40%
\$1,000,001-\$10,000,000	1,731	1.18%	185	26,557,582	34.86%
\$10,000,001+	85	0.06%	13	22,401,910	29.41%
Total	147,214	100.00%	Total 6,037	76,181,587	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

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

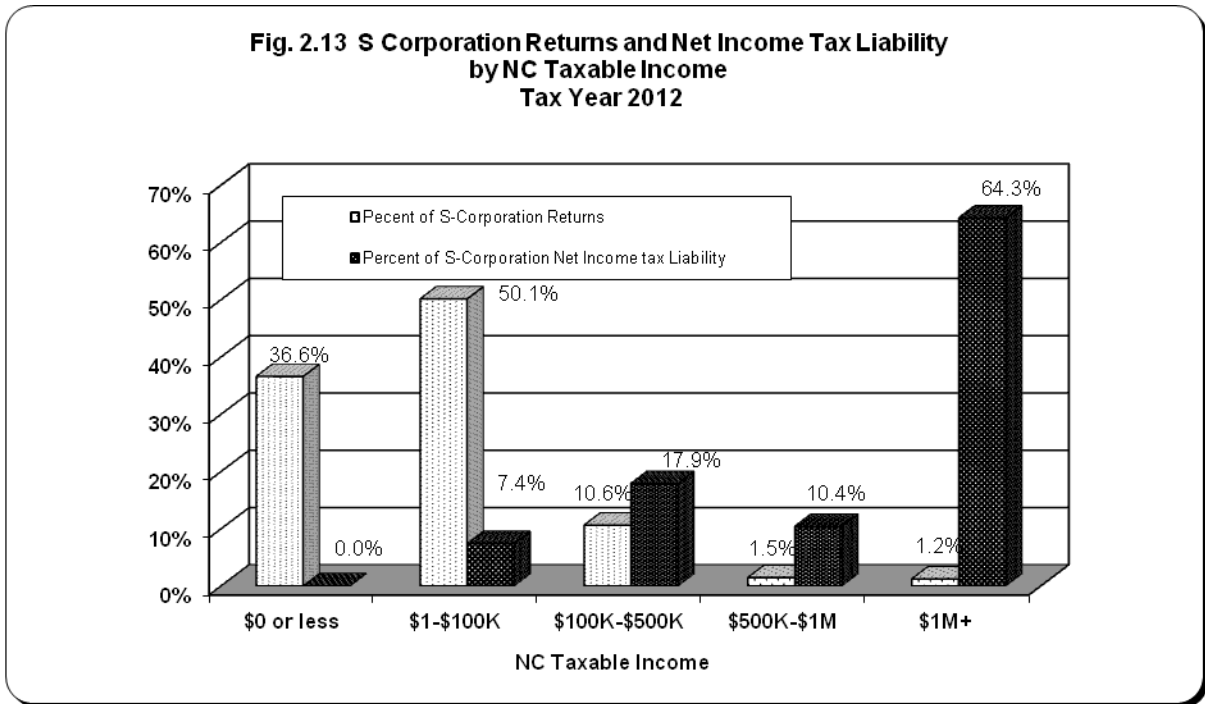
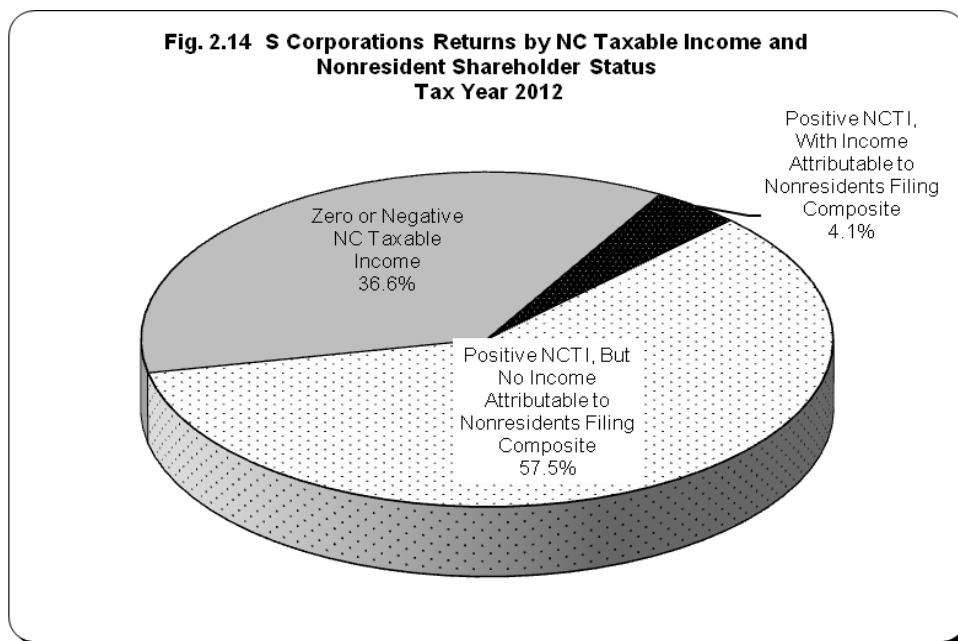


Figure 2.14 illustrates the distribution of returns by North Carolina taxable income and nonresident shareholder filing status. Only 4.1% of S corporation returns had a tax liability attributable to nonresidents who chose to allow the S corporation to file a composite return on their behalf.



**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 2012**

		(+)	(+)	(-)	(-)	(=)	(+)
NC Taxable Income	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
		[\$]	[\$]	[\$]	[\$]	[\$]	[\$]
Zero or Negative	53,843	4,325,643,891	(4,879,958,905)	1,380,063,525	734,794,003	(2,669,172,542)	(23,572,960)
Positive, But No Income Attributable to Nonresidents Filing Composite	87,362	34,879,085,854	1,390,741,259	2,667,278,389	22,312,630,328	11,289,918,396	125,874,591
Positive, With Income Attributable to Nonresidents Filing Composite	6,009	38,472,656,802	867,897,494	1,185,106,460	36,977,817,949	1,177,629,887	13,731,562
Total	147,214	77,677,386,547	(2,621,320,152)	5,232,448,374	60,025,242,280	9,798,375,741	116,033,193

	(=)	(+)	(=)			(-)	(=)
NC Taxable Income	NC Net Taxable Income	Adjustment for Shareholders Paying Tax on Shares	Taxable Income Attributable to Nonresidents Filing Composite	Separately Stated Income Attributable to Nonresidents Filing Composite	Computed Income Tax	Tax Credits	Net Tax Liability
	[\$]	[\$]	[\$]	[\$]	[\$]	[\$]	[\$]
Zero or Negative	(1,737,839,586)	1,679,948,141	(57,891,445)	(195,629)	28,140	-	28,140
Positive, But No Income Attributable to Nonresidents Filing Composite	11,415,792,987	(11,415,792,987)	-	1,265,915	361,126	-	361,126
Positive, With Income Attributable to Nonresidents Filing Composite	1,191,904,813	(168,171,436)	1,023,733,377	2,553,955	77,259,063	1,466,742	75,792,321
Total	10,869,858,214	(9,904,016,282)	965,841,932	3,624,241	77,648,329	1,466,742	76,181,587

Note: Figures are based partially on unaudited returns.

**SECTION II
INCOME TAX**

Table 2.16 shows the income tax credits by credit type and taxable income. Corporations with taxable income over \$1,000,000 took 93% 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 2012**

Income Tax Credits	All Returns		Taxable Income <\$1,000,001		Taxable Income \$1,000,001+	
	Number of Credits	Amount Claimed (\$)	Number of Credits	Amount Claimed (\$)	Number of Credits	Amount Claimed (\$)
Credits Claimed	63	1,500,103	45	132,429	18	1,367,674
Credits Not Taken *	--	33,361	--	32,361	--	1,000
Credits Taken	45	1,466,742	28	100,068	17	1,366,674

* 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 2007 through 2012. For years prior to these, see the earlier editions of this publication. The 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. For 2012, there was a small decrease over the prior year.

The number of first-time filers, as reported on the tax form, was 4,270 in 2012. This was an increase from 4,116 in 2011 and 3,794 in 2010. The number of new filers was approximately 5,000 annually during the period from 2005 through 2007.

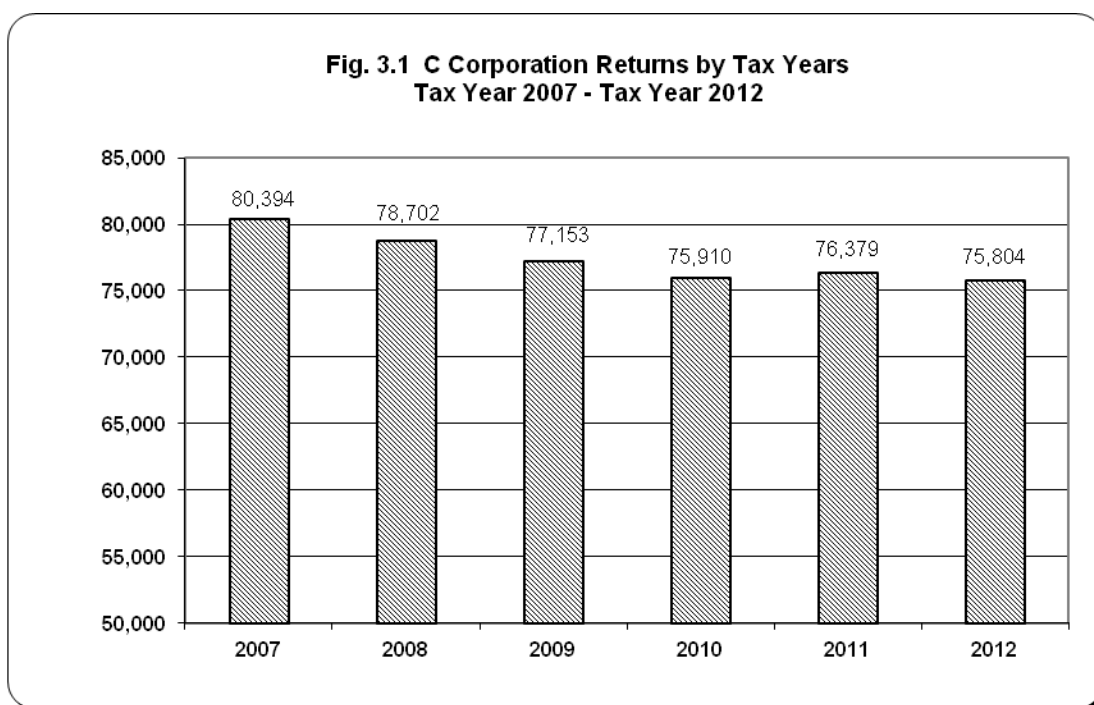


Figure 3.2 shows the net tax liability for both the franchise tax and the corporation income tax from 2007 through 2012. Although the income tax is of a greater magnitude than the franchise tax, the income tax exhibits more cyclical behavior. The income tax liability fell 21% from its peak in tax year 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. In TY11, the income tax liability was 6.4% higher than the prior year, while the franchise tax increased by 2.1%. In TY12, the income tax liability grew 8.0% and the franchise tax increased 7.4%.

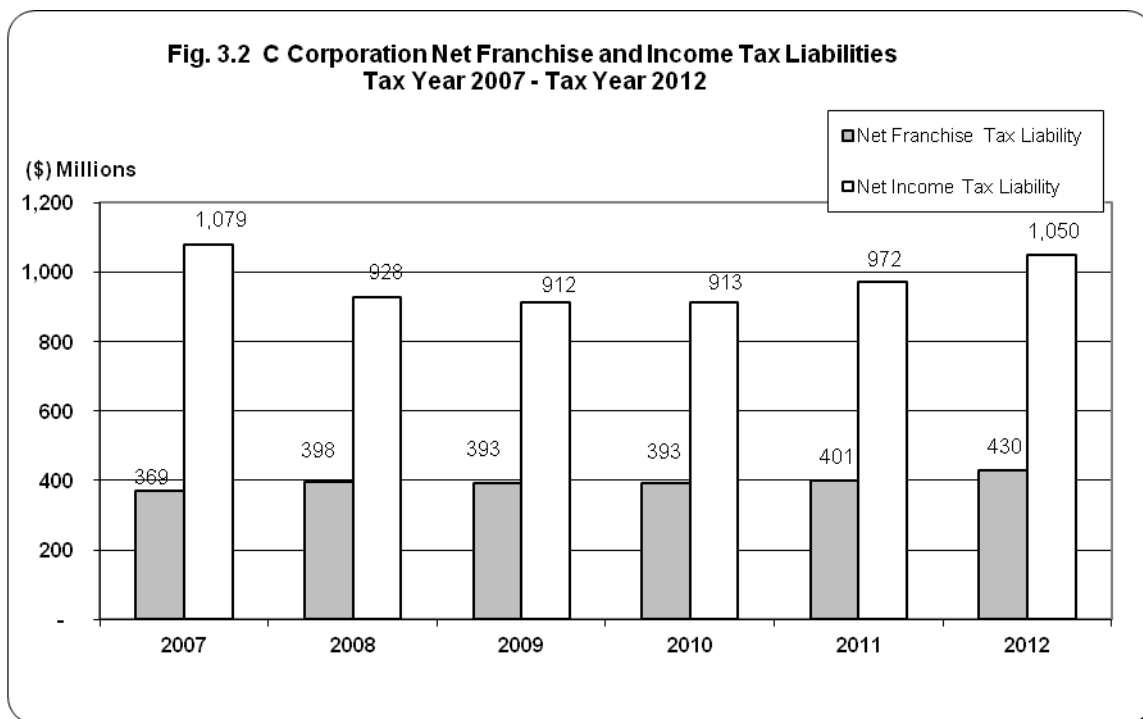


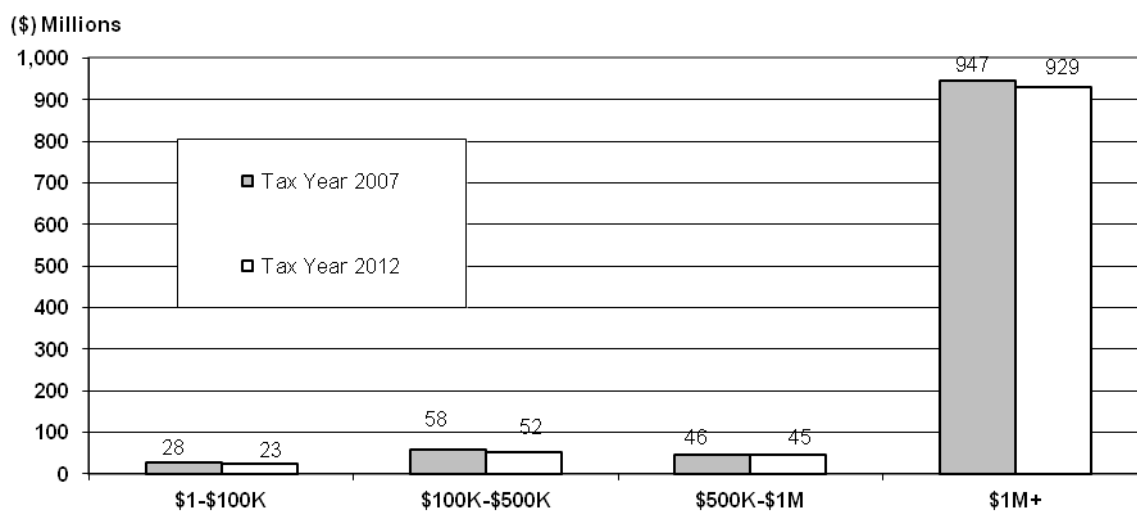
Table 3.3 and Figure 3.4 compare the net income tax liability of C corporations in tax year 2007 and tax year 2012 by NC Taxable Income brackets. Tax liabilities have not recovered from the recession that began in December 2007. The only group that has shown an increase in tax liability is those with a taxable income between \$1 million and \$10 million.

**Table 3.3
C Corporation Net Income Tax Liability by NC Taxable Income
Tax Year 2007 & Tax Year 2012**

NC Taxable Income	Net Income Tax Liability TY 2007	Net Income Tax Liability TY 2012	% Difference
\$0 or less	--	415,312	--
\$1-\$15,000	3,672,561	3,251,195	-11.47%
\$15,001-\$30,000	4,632,337	4,078,181	-11.96%
\$30,001-\$50,000	6,272,303	5,347,306	-14.75%
\$50,001-\$100,000	13,383,182	10,702,039	-20.03%
\$100,001-\$500,000	58,109,895	52,004,068	-10.51%
\$500,001-\$1,000,000	45,765,591	44,529,235	-2.70%
\$1,000,001-\$10,000,000	281,686,466	295,915,722	5.05%
\$10,000,001+	665,280,092	633,417,380	-4.79%
Total	1,078,802,427	1,049,660,438	-2.70%

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 2007 & Tax Year 2012**



S CORPORATIONS

Table 3.5 compares the number of S corporation returns by tax years 2007 through 2012. The rate of growth of the number of S corporations slowed in 2008 and showed a net decline between 2009 and 2010. In TY12, the number of filers decreased slightly from the prior year.

Due to recent increases in individual income tax rates at the federal level relative to corporate rates, conversions of C corporations into S corporations may have slowed. There are a larger number of initial filers among S corporations: in tax year 2012, there were 7,588 new S corporation filers. However, this is below the average of over 11,000 new filers for the period from 2005 through 2008.

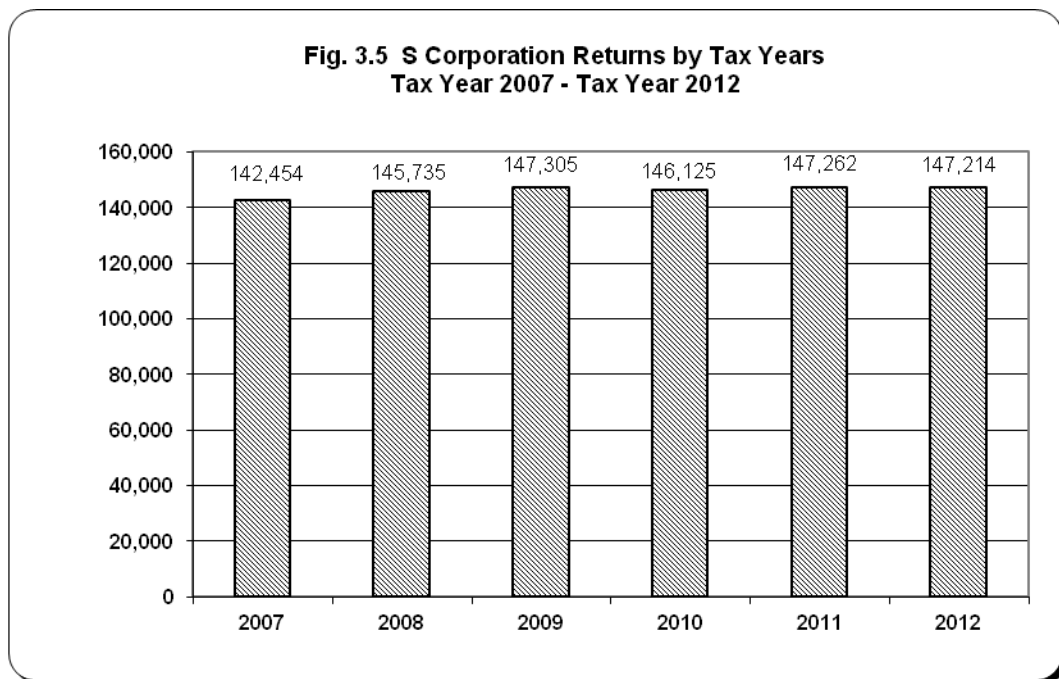


Figure 3.6 illustrates the relative amounts of net tax liabilities for 2007 through 2012 for S corporations. As discussed in Section II, the income tax liability for S corporations only includes taxes paid for shareholders filing a composite return.

The trend in the franchise tax liability is consistent with that shown for C corporations – small annual changes, even during the recession. 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 million for 2010. For 2012, the amount increased by 3.7% over the prior year.

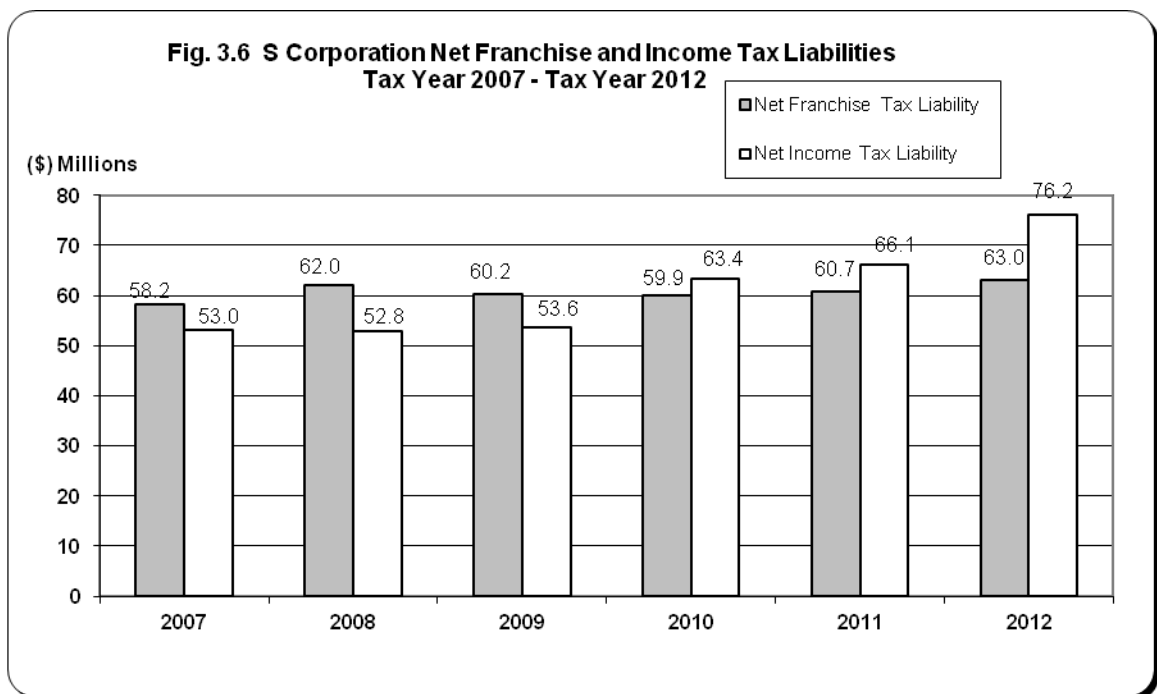
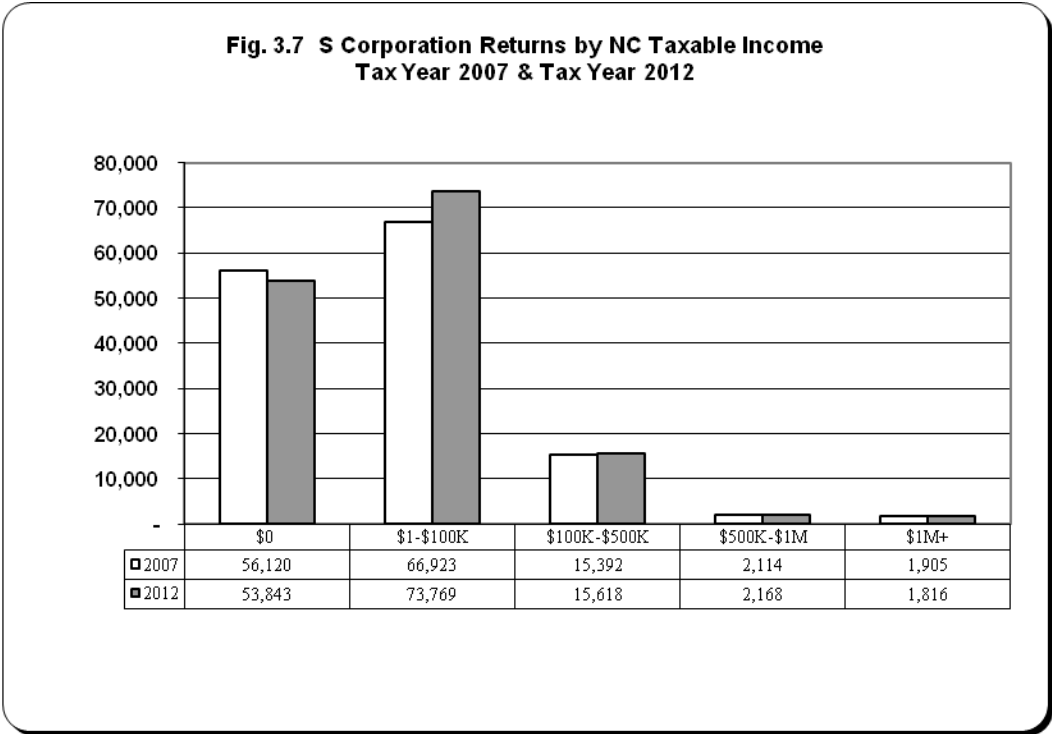


Figure 3.7 compares the number of S corporation returns in tax years 2007 and 2012 by taxable income brackets. Although the number of returns had grown, a larger proportion of taxpayers were in the smallest taxable income categories.



**SECTION IV
FISCAL YEAR STATISTICS**

Taxpayers may calculate their net income based on a calendar year or an alternative fiscal year that ends on the last day of any month other than December. Taxpayers may also use a 52/53 week fiscal year, as allowed under the IRS Code. This section reports tax statistics based on the month in which the fiscal year begins.

Table 4.1 shows that calendar year taxpayers comprised 85.3% of all taxpayers. Their net franchise tax liability was 74.6% of the total, and their net income tax liability made up 69.1% of the total.

**Table 4.1
All Corporation Statistics by Fiscal Year Start Month
Tax Year 2012**

Tax Year Start Month	All Returns	Franchise Tax		Income Tax	
	Number of returns	Number	Amount (\$)	Number	Amount (\$)
January	190,163	174,726	367,649,394	21,499	778,367,700
February	1,087	1,059	15,836,808	412	83,412,936
March	720	695	2,094,145	231	3,468,791
April	3,197	3,089	19,373,871	1,199	45,856,859
May	1,099	1,037	3,438,116	392	8,971,618
June	1,129	1,044	3,669,673	391	18,679,555
July	4,590	4,089	15,161,434	1,568	39,199,157
August	1,040	957	5,926,801	374	17,370,041
September	1,088	1,022	3,919,239	384	14,222,914
October	4,805	4,538	22,882,067	1,520	56,640,693
November	1,674	1,612	4,378,560	505	13,588,732
December	790	749	1,476,342	244	2,283,212
Short-period returns	11,636	10,026	27,281,512	1,414	43,779,817
Total	223,018	204,643	493,087,962	30,133	1,125,842,025

Note: For this table, short-period returns are all returns where the recorded tax year is less than 360 days. These were mainly corporations that changed their accounting periods during the year, existed less than 12 months, or adopted the tax year of an affiliated corporation.

**SECTION V
INDUSTRY SECTORS**

C-CORPORATIONS

Table 5.1 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 5.1
C Corporation Franchise Tax and Income Tax Liability by Industry Sector
Tax Year 2012**

Industry Sector	All Returns	Franchise Tax		Income Tax	
	Number of returns	Number	Amount (\$)	Number	Amount (\$)
Agriculture, Forestry, Fishing and Hunting	1,125	1,094	2,369,890	429	5,117,900
Mining	145	140	2,616,125	47	2,457,466
Utilities	220	188	5,440,409	62	18,347,068
Construction	6,329	6,094	6,976,470	1,712	14,753,246
Manufacturing	7,657	7,444	144,963,018	2,957	335,773,286
Wholesale	5,058	4,904	26,855,096	2,261	80,435,719
Retail	5,744	5,530	32,510,828	1,950	131,614,825
Transportation	1,900	1,842	5,803,178	741	27,072,238
Couriers and Warehousing	168	160	727,928	70	1,823,321
Information	2,076	1,953	40,866,397	643	84,841,435
Finance and Insurance	5,930	5,517	73,637,024	1,909	137,682,219
Real Estate and Rental & Leasing	10,901	6,471	23,538,863	2,261	47,926,982
Professional, Scientific and Technical Services	9,025	8,625	23,253,170	3,277	89,662,409
Management of Companies / see note	1,806	1,696	17,730,244	569	17,656,956
Administration & Support and Waste Management & Remediation Services	2,807	2,382	8,673,625	937	15,279,577
Educational Services	396	356	511,866	141	3,302,239
Health Care and Social Assistance	3,348	3,153	4,898,521	1,032	14,049,075
Arts, Entertainment and Recreation	956	841	1,143,237	306	1,231,733
Accommodations and Food Services	1,932	1,849	4,393,407	748	13,485,961
Other Services	3,623	2,866	1,551,988	1,072	5,572,474
Unidentifiable	4,658	2,454	1,623,337	972	1,574,309
Total	75,804	65,559	430,084,621	24,096	1,049,660,438

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-seven 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, mainly for four of the industry sectors: manufacturing; retail; information; and finance and insurance.)

S CORPORATIONS

Table 5.2 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) retail; (2) manufacturing; (3)) real estate and rental & leasing; 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 5.2
S Corporation Franchise Tax and Income Tax Liability by Industry Sector
Tax Year 2012**

Industry Sector	All Returns	Franchise Tax		Income Tax	
	Number of returns	Number	Amount (\$)	Number	Amount (\$)
Agriculture, Mining & Utilities	3,572	3,456	2,665,965	52	606,537
Construction	22,625	21,358	7,043,927	759	4,926,337
Manufacturing	6,500	6,175	9,220,567	787	19,296,790
Wholesale	6,206	5,884	5,873,198	578	6,639,623
Retail	15,324	14,385	9,952,680	287	3,562,747
Transportation	3,984	3,751	1,084,021	201	2,061,716
Couriers and Warehousing	418	401	198,621	14	133,652
Information	2,243	2,079	854,361	155	786,635
Finance and Insurance	5,886	5,583	2,266,407	350	10,191,092
Real Estate and Rental & Leasing	15,550	14,809	9,190,662	431	2,274,021
Professional, Scientific and Technical Services	22,854	21,456	3,463,359	1,296	8,570,397
Management of Companies	766	707	1,238,942	158	6,478,986
Administration & Support and Waste Management & Remediation Services	6,156	5,805	1,122,556	355	5,525,816
Educational Services	887	838	139,476	39	536,491
Health Care and Social Assistance	9,434	9,020	2,021,626	79	2,165,590
Arts, Entertainment and Recreation	3,382	3,108	911,411	206	727,830
Accommodations and Food Services	7,098	6,686	2,690,372	93	1,025,222
Other Services	10,599	10,030	1,542,131	130	413,856
Unidentifiable	3,730	3,553	1,523,059	67	258,249
Total	147,214	139,084	63,003,341	6,037	76,181,587

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 V
INDUSTRY SECTORS**

Table 5.3 shows the North Carolina net taxable income of S corporations in tax year 2012 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) retail trade; and (4) health care and social assistance.

**Table 5.3
S Corporation NC Net Taxable Income by Industry Sector
Tax Year 2012**

Industry Sector	Net Taxable Income		
	Number of taxpayers	Amount (\$)	Share of total amount
Agriculture, Forestry, Fishing and Hunting	3,166	252,052,799	2.3%
Mining	103	11,074,980	0.1%
Utilities	129	4,168,823	0.0%
Construction	20,496	1,161,600,363	10.7%
Manufacturing	5,978	1,356,191,715	12.5%
Wholesale	5,758	1,010,614,106	9.3%
Retail	14,608	1,008,003,841	9.3%
Transportation	3,681	246,813,243	2.3%
Couriers and Warehousing	385	25,084,005	0.2%
Information	2,052	128,193,954	1.2%
Finance and Insurance	5,029	601,418,803	5.5%
Real Estate and Rental & Leasing	14,239	632,170,483	5.8%
Professional, Scientific and Technical Services	21,034	1,646,574,533	15.1%
Management of Companies	636	297,048,749	2.7%
Administration & Support and Waste Management & Remediation Services	5,692	402,238,355	3.7%
Educational Services	838	39,208,224	0.4%
Health Care and Social Assistance	9,049	1,043,052,051	9.6%
Arts, Entertainment and Recreation	3,121	173,258,181	1.6%
Accommodations and Food Services	6,754	407,775,849	3.8%
Other Services	10,144	335,426,891	3.1%
Unidentifiable	2,680	87,291,447	0.8%
Total	135,572	10,869,261,395	

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.