

North Carolina

**Corporation Income and Business
Franchise Taxes**

Statistics and Trends

Tax Year 2013

February 2016



NCDOR

**Revenue Research Section
Financial Services 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 2013 (TY13).

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 November 4, 2015. All returns may not have been audited by this date. As such, the data may reflect errors made by taxpayers. The Revenue Research staff 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 2013 or for a tax year beginning sometime in 2013.

The relevant 2013 corporate tax forms and instructions are available for review on the following Department of Revenue website: www.dornrc.com/downloads/corp_archive/13archive/index.html

This report is divided into five sections. Section I presents information related to the business franchise tax; Section II has information related to the corporation income tax; Section III presents data on the trends in these tax returns from tax year 2008 through tax year 2013; 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 TY13.

	C Corporations	S Corporations
Number of returns	74,465	148,444
Number of returns with nonzero net franchise tax	64,204	140,243
Amount of net franchise tax	436,033,156	65,088,980
Number of returns with nonzero net income tax	24,180	6,310
Amount of net income tax	1,138,856,943	71,227,711

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 2013. 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%.

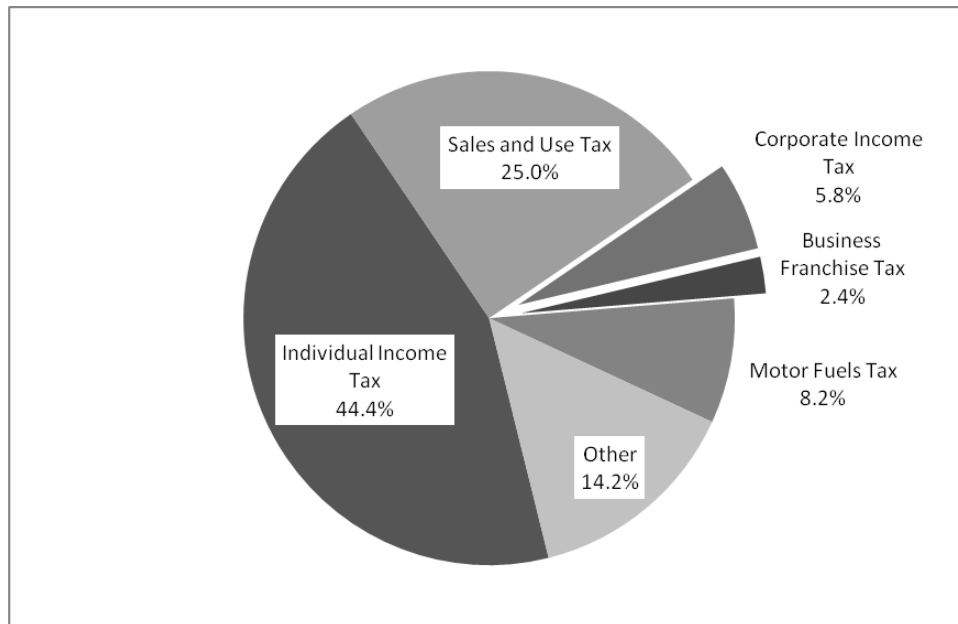
A taxpayer must add back 85% of the amount of bonus depreciation taken for federal income tax purposes during the tax year. This amount can then be deducted in equal installments over the next 5 tax years. Similar provisions existed for tax years 2008 through 2012. The State also adopted lower limits on Section 179 expensing for TY13, requiring an 85% addback of excess federal expensing.

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 2013-14 were \$23.4 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 \$1.9 billion (8.2%) of the total.

The corporation taxes included in this report comprise the third largest category of revenues for the State government, surpassing the motor fuels tax, insurance gross premium tax, highway use taxes, alcoholic beverage taxes and tobacco products taxes. Only the individual income tax and the sales & use tax generated more revenue.

Composition of Net State Tax Revenues by Tax Category, FY 13-14



Note: The “other” category includes the highway use tax (2.6% of total), motor vehicle licenses (2.5%), insurance premiums tax (2.0%), utilities franchise tax (1.7%), alcoholic beverage tax (1.5%), 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 \$436.0 million. (Net tax liability is the amount of tax liability after deducting tax credits.) After excluding filers that were not liable for franchise tax (10,181 returns), the average amount due from the remaining 64,284 returns was \$6,783. Half of these taxpayers owed \$72 or less; and 99% of taxpayers owed less than \$110,334 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 2013 tax year returns, followed by investment in tangible property base (12%), and appraised values in property base (6.9%). Thirty-six percent of the returns listed no assets because: 1) the taxpayer was exempt from franchise tax; 2) the 2013 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 2013**

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	26,667	7,696	1,961	1,497	37,821
\$23,668-\$100,000	-	6,346	1,982	1,307	9,635
\$100,001-\$1,000,000	-	11,348	2,930	1,730	16,008
\$1,000,001-\$5,000,000	-	4,483	1,087	399	5,969
\$5,000,001-\$20,000,000	-	2,165	545	112	2,822
\$20,000,001-\$40,000,000	-	646	193	41	880
\$40,000,001+	-	1,029	265	36	1,330
Total	26,667	33,713	8,963	5,122	74,465

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**

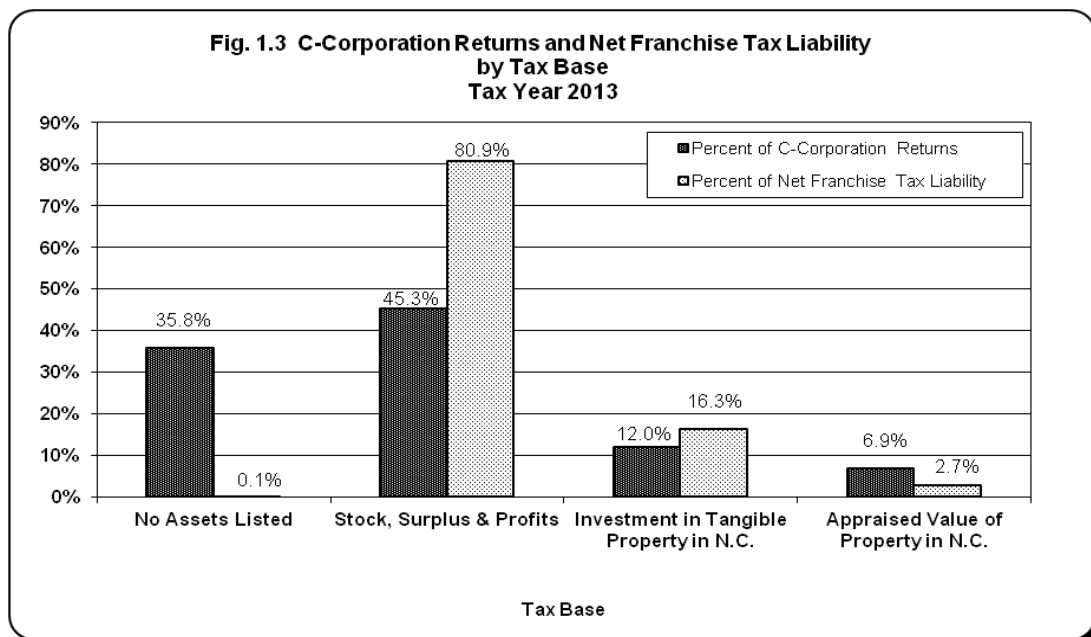
Table 1.2 compares the net franchise tax liability by tax base utilized. The greatest share of tax paid (81%) was under the capital stock, surplus and undivided profits base. Taxpayers using the investment in tangible property base paid 16% of the franchise tax, while the appraised value in property base represented only 2.7% of the net tax liability.

**Table 1.2
C Corporation Net Franchise Tax Liability by Tax Base Utilized
Tax Year 2013**

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	640,771	265,120	67,039	51,678	1,024,608
\$23,668-\$100,000	-	523,009	158,869	104,862	786,740
\$100,001-\$1,000,000	-	6,142,615	1,507,657	877,627	8,527,899
\$1,000,001-\$5,000,000	-	15,207,559	3,763,694	1,203,413	20,174,666
\$5,000,001-\$20,000,000	-	31,974,523	8,097,845	1,643,815	41,716,183
\$20,000,001-\$40,000,000	-	26,122,845	7,219,375	1,611,051	34,953,271
\$40,000,001+	-	272,515,024	50,079,644	6,255,121	328,849,789
Total	640,771	352,750,695	70,894,123	11,747,567	436,033,156

Note: Figures are based partially on unaudited returns.

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



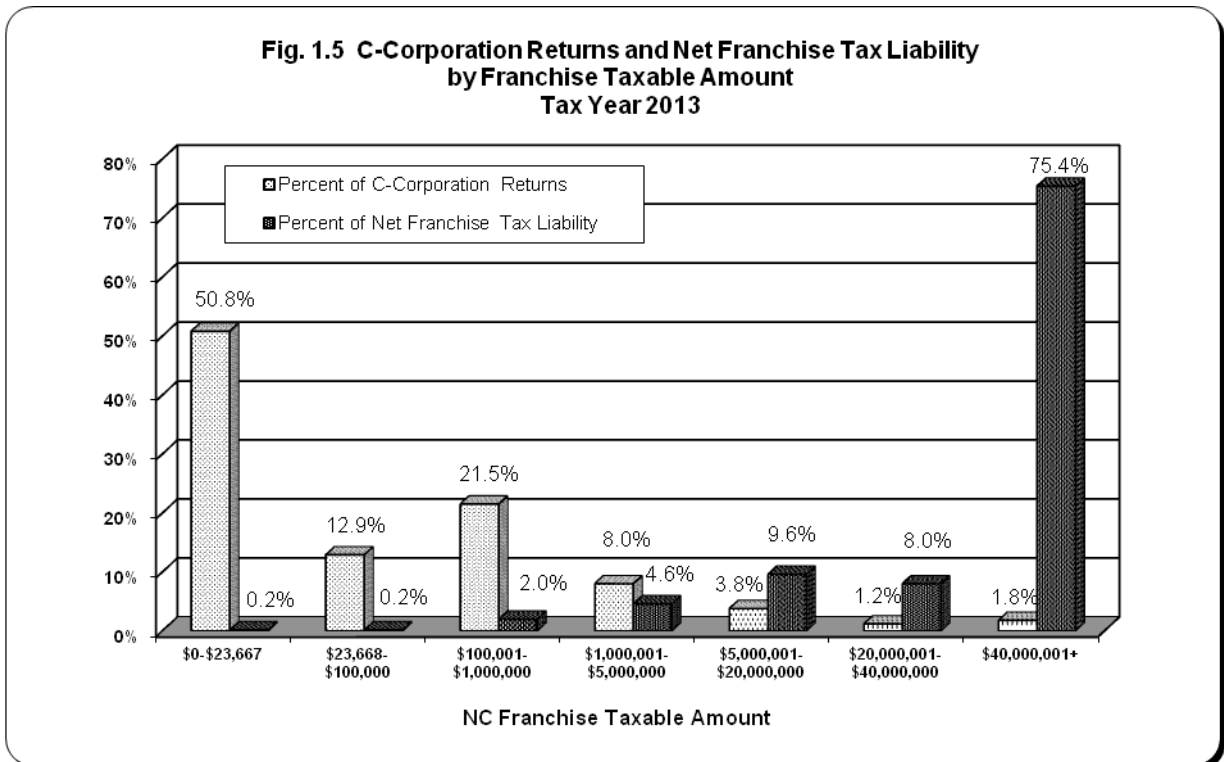
**SECTION I
FRANCHISE TAX**

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 1.8% of the returns, but paid 75.4% of net franchise tax.

**Table 1.4
C Corporation Returns and Net Franchise Tax Liability by Franchise Taxable Amount
Tax Year 2013**

Franchise Taxable Amount	Number of Returns		Net Franchise Tax Liability (\$)	
	Number of Returns	Percent	Net Franchise Tax Liability (\$)	Percent
\$0-\$23,667	37,821	50.8%	1,024,608	0.2%
\$23,668-\$100,000	9,635	12.9%	786,740	0.2%
\$100,001-\$1,000,000	16,008	21.5%	8,527,899	2.0%
\$1,000,001-\$5,000,000	5,969	8.0%	20,174,666	4.6%
\$5,000,001-\$20,000,000	2,822	3.8%	41,716,183	9.6%
\$20,000,001-\$40,000,000	880	1.2%	34,953,271	8.0%
\$40,000,001+	1,330	1.8%	328,849,789	75.4%
Total	74,465	100.0%	436,033,156	100.0%

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



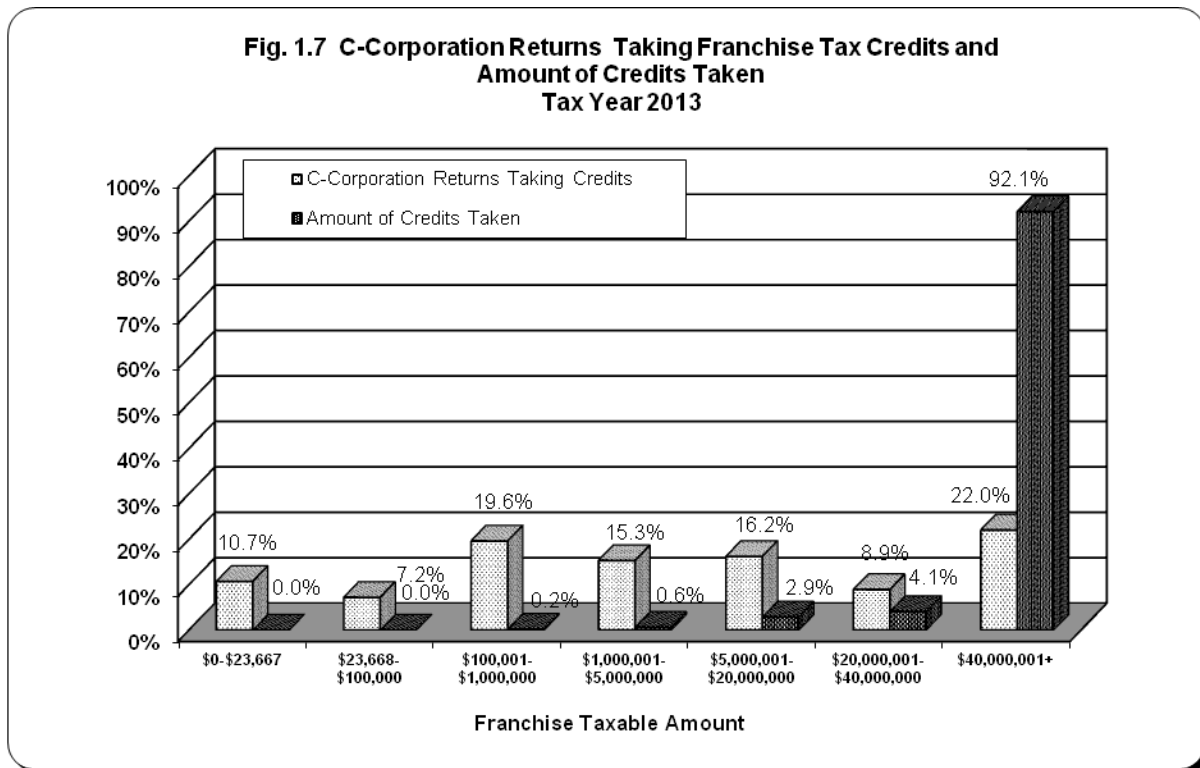
**SECTION I
FRANCHISE TAX**

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 1,632 (2.5%) of the taxable returns took credits. Returns with franchise taxable amount greater than \$40 million comprised only 22.0% of the returns taking credits, but 92.1% of the credits taken.

**Table 1.6
C Corporation Returns Taking Franchise Tax Credits and Amount of Credits Taken
Tax Year 2013**

Franchise Taxable Amount	Number of Returns Taking Credits		Amount of Credits Taken (\$)	
		Percent		Percent
\$0-\$23,667	175	10.7%	21,222	0.0%
\$23,668-\$100,000	118	7.2%	5,862	0.0%
\$100,001-\$1,000,000	320	19.6%	118,419	0.2%
\$1,000,001-\$5,000,000	249	15.3%	377,753	0.6%
\$5,000,001-\$20,000,000	265	16.2%	1,857,230	2.9%
\$20,000,001-\$40,000,000	146	8.9%	2,610,477	4.1%
\$40,000,001+	359	22.0%	58,346,913	92.1%
Total	1,632	100.0%	63,337,876	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 13.4% of tax liability for taxpayers whose taxable amount was above \$5 million and 1.7% for those with lower taxable amounts.

**Table 1.8
C Corporation Franchise Tax Credits Taken by Credit Type and Franchise Taxable Amount
Tax Year 2013**

Income Tax Credits	All Returns		Taxable Amount ≤\$5,000,000		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	444	7,615,463	280	237,783	164	7,377,680
+ Other Credits Claimed*	207	11,991,718	179	28,356	28	11,963,362
- Other Credits Not Taken **	--	(9,254,837)	--	(8,147)	--	(9,246,690)
+ Credits Subject to 50% Limit Taken	1,015	52,985,532	417	265,264	598	52,720,268
= Credits Taken	1,632	63,337,876	862	523,256	770	62,814,620

* These credits include 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 45% of 2013 tax year returns, followed by investment in tangible property base (19%), and appraised values in property (13.5%). Twenty-three percent of the returns listed no assets because: 1) the taxpayer was exempt from franchise tax; 2) the 2013 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 2013**

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	34,365	27,959	8,795	7,947	79,066
\$23,668-\$100,000	-	17,683	8,564	5,086	31,333
\$100,001-\$1,000,000	-	16,932	8,512	5,687	31,131
\$1,000,001-\$5,000,000	-	3,032	1,381	1,145	5,558
\$5,000,001-\$20,000,000	-	593	397	166	1,156
\$20,000,001-\$40,000,000	-	66	46	14	126
\$40,000,001+	-	43	22	9	74
Total	34,365	66,308	27,717	20,054	148,444

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 (53.3%) 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 2013**

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	977,663	949,427	298,412	267,524	2,493,026
\$23,668-\$100,000	-	1,361,866	667,362	391,400	2,420,628
\$100,001-\$1,000,000	-	7,753,842	3,801,523	2,720,431	14,275,796
\$1,000,001-\$5,000,000	-	9,374,903	4,378,082	3,464,867	17,217,852
\$5,000,001-\$20,000,000	-	7,722,157	5,364,572	2,094,989	15,181,718
\$20,000,001-\$40,000,000	-	2,625,831	1,792,200	570,515	4,988,546
\$40,000,001+	-	4,893,798	2,717,497	900,119	8,511,414
Total	977,663	34,681,824	19,019,648	10,409,845	65,088,980

Note: Figures are based partially on unaudited returns.

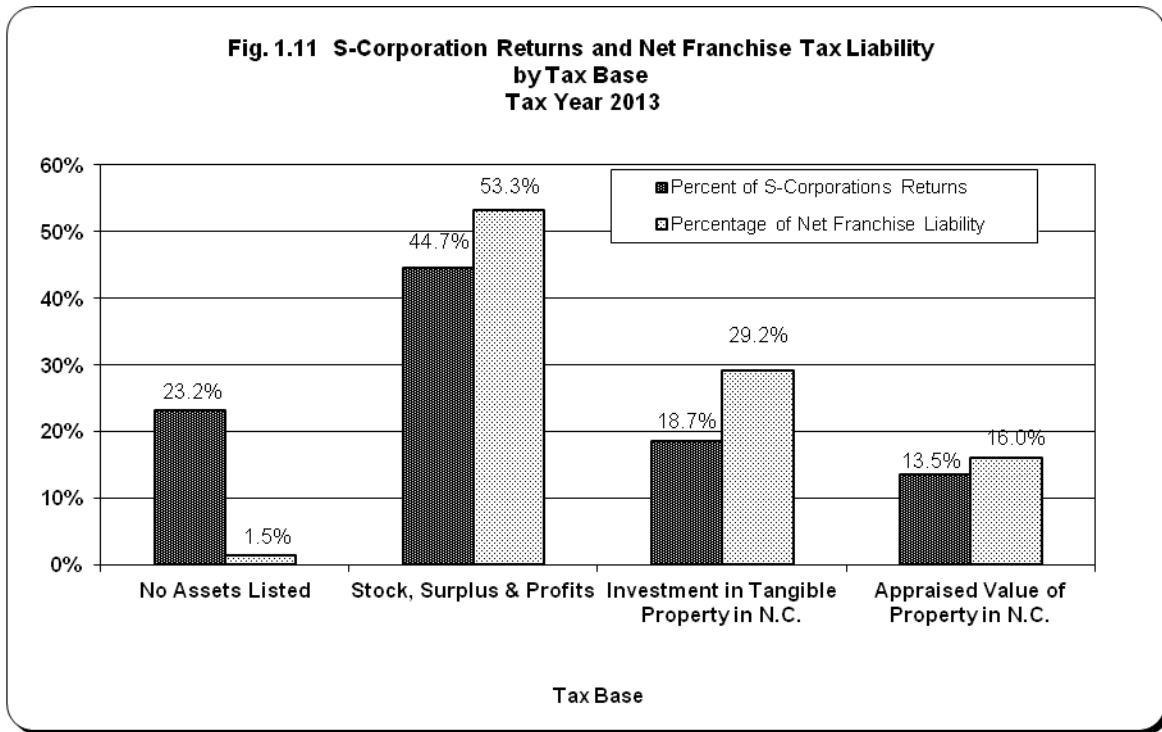


Table 1.12 and Figure 1.13 compare the distribution of S corporation returns and net franchise tax liability. The average tax was \$456, although half of taxpayers had a tax liability of \$35 or less. Twenty-six taxpayers had a net tax liability above \$100,000.

**Table 1.12
S Corporation Returns and Net Franchise Tax Liability by Franchise Taxable Amount
Tax Year 2013**

Franchise Taxable Amount	Number of Returns		Net Franchise Tax Liability (\$)	
	Number	Percent	Amount	Percent
\$0-\$23,667	79,066	53.3%	2,493,026	3.8%
\$23,668-\$100,000	31,333	21.1%	2,420,628	3.7%
\$100,001-\$1,000,000	31,131	21.0%	14,275,796	21.9%
\$1,000,001-\$5,000,000	5,558	3.7%	17,217,852	26.5%
\$5,000,001-\$20,000,000	1,156	0.8%	15,181,718	23.3%
\$20,000,001-\$40,000,000	126	0.1%	4,988,546	7.7%
\$40,000,001+	74	0.0%	8,511,414	13.1%
Total	148,444	100.0%	65,088,980	100.0%

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

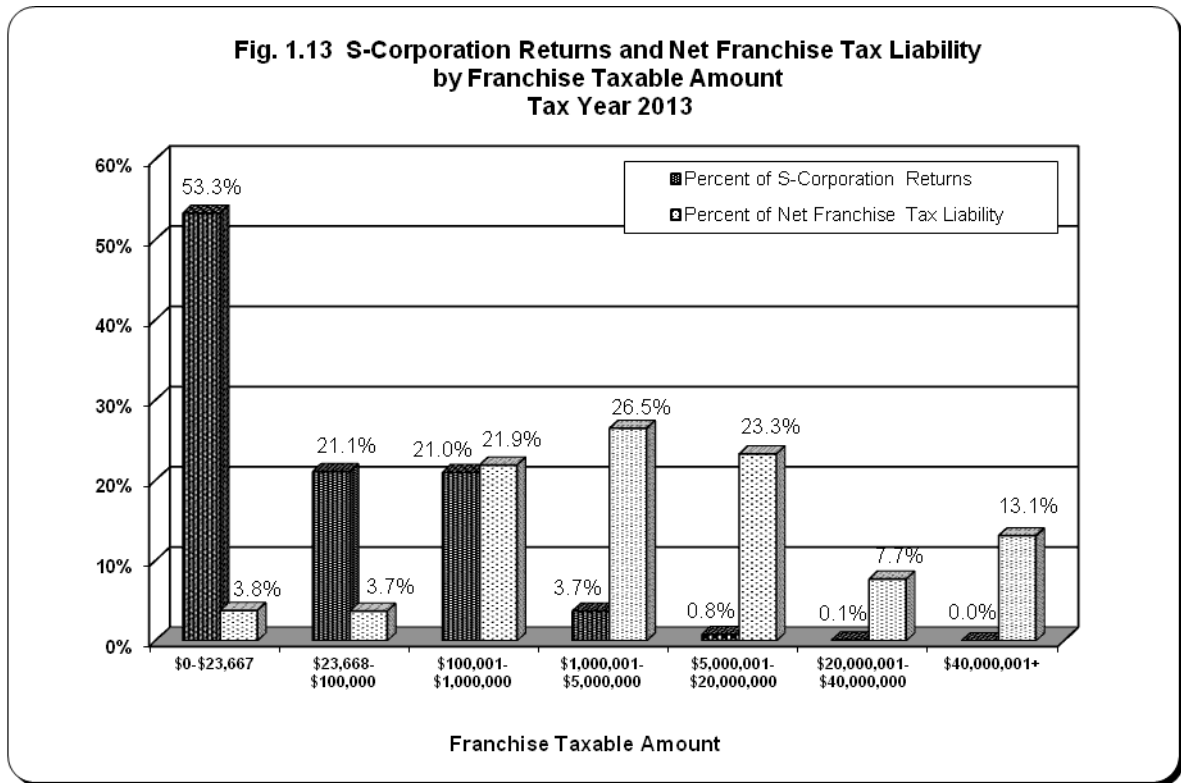


Table 1.14 and Figure 1.15 show the number of returns taking franchise tax credits and amount of credits taken. Returns with a franchise taxable amount greater than \$40 million comprised 0.3% of the returns taking credits and 43.4% of the credits taken.

**Table 1.14
S Corporation Returns Taking Franchise Tax Credits and Amount of Credits Taken
Tax Year 2013**

Franchise Taxable Amount	Number of Returns Taking Credits		Amount of Credits Taken (\$)	
	Number	Percent	Amount	Percent
\$0-\$23,667	1,566	41.6%	70,320	4.0%
\$23,668-\$100,000	922	24.5%	71,895	4.1%
\$100,001-\$1,000,000	968	25.7%	176,878	10.0%
\$1,000,001-\$5,000,000	196	5.2%	137,414	7.8%
\$5,000,001-\$20,000,000	80	2.1%	365,584	20.6%
\$20,000,001-\$40,000,000	17	0.5%	180,114	10.2%
\$40,000,001+	13	0.3%	769,973	43.4%
Total	3,762	100.0%	1,772,178	100.0%

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

**SECTION I
FRANCHISE TAX**

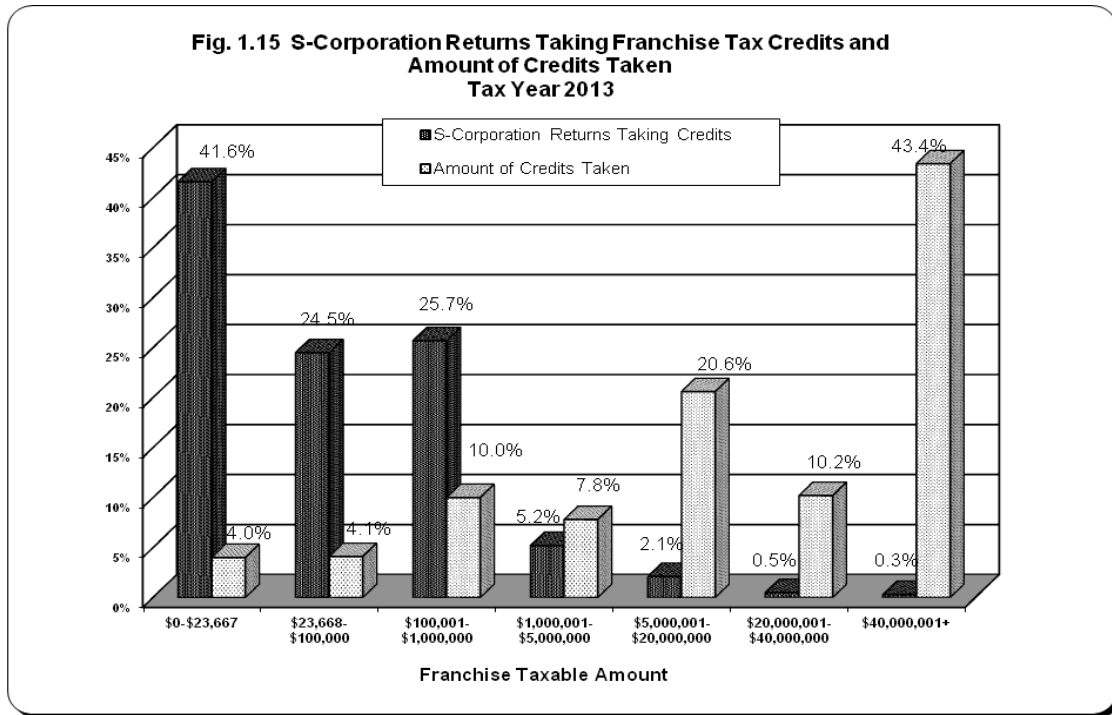


Table 1.16 shows the amount of franchise tax credits by credit type and franchise taxable amount.

**Table 1.16
S Corporation Franchise Tax Credits Taken by Credit Type and Franchise Taxable Amount
Tax Year 2013**

Income Tax Credits	All Returns		Taxable Amount ≤\$5,000,000		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	185	96,608	174	43,506	11	53,102
+ Other Credits Claimed*	3,322	582,358	3,294	577,733	28	4,625
- Other Credits Not Taken **	--	(292,013)	--	(292,013)	--	--
+ Credits Subject to 50% Limit Taken	295	1,385,225	220	127,281	75	1,257,944

* 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 2013 tax year return was a final return; 3) or the taxpayer had no assets.

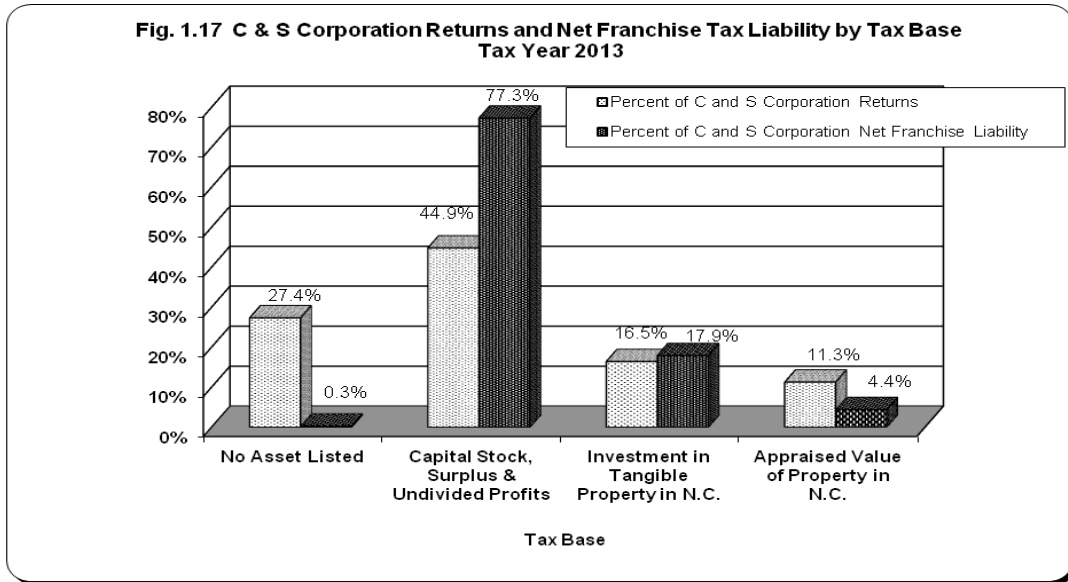


Figure 1.18 shows the number of C and S corporation returns and net franchise tax liability. The top 2.9% of returns, by taxable amount, paid 86.6% of the tax. Taxpayers with franchise taxable amount over \$20 million made up 1.1% of the returns, but paid 75.3% of net franchise tax.

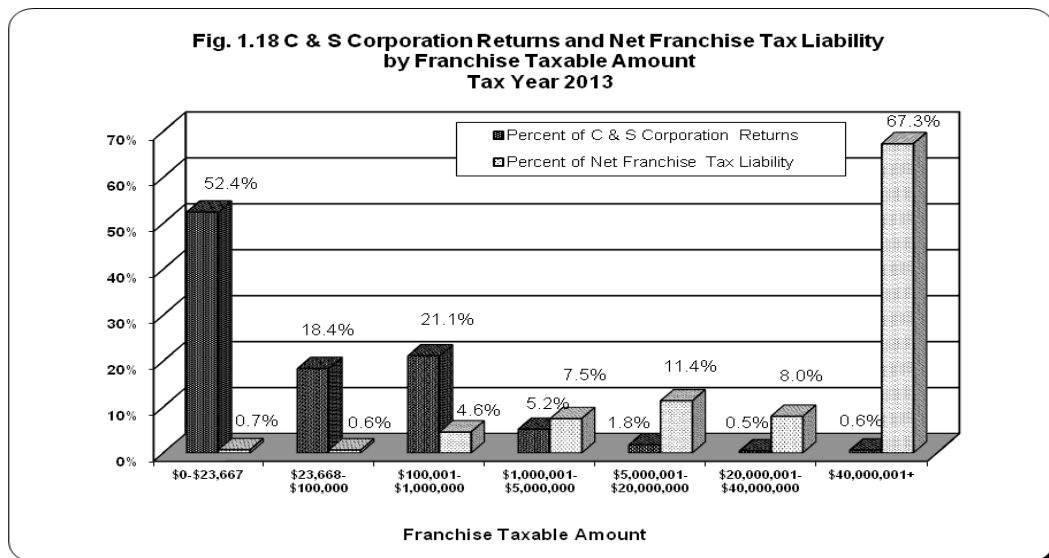
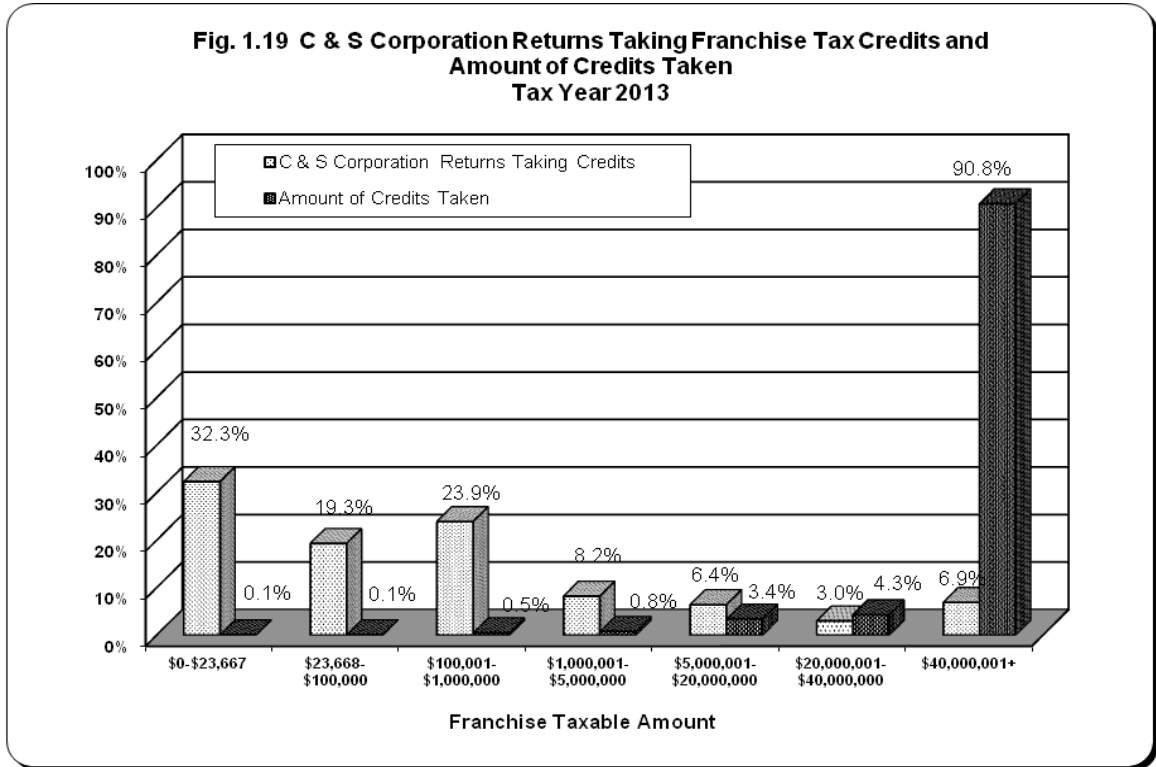


Figure 1.19 shows the distribution of C and S corporation returns that took franchise tax credits and the amount of credits taken. Only 5,394 of the 206,903 taxable corporations took credits in tax year 2013. Corporations with over \$40 million as their franchise tax base took over 90% of all credits.



C CORPORATIONS

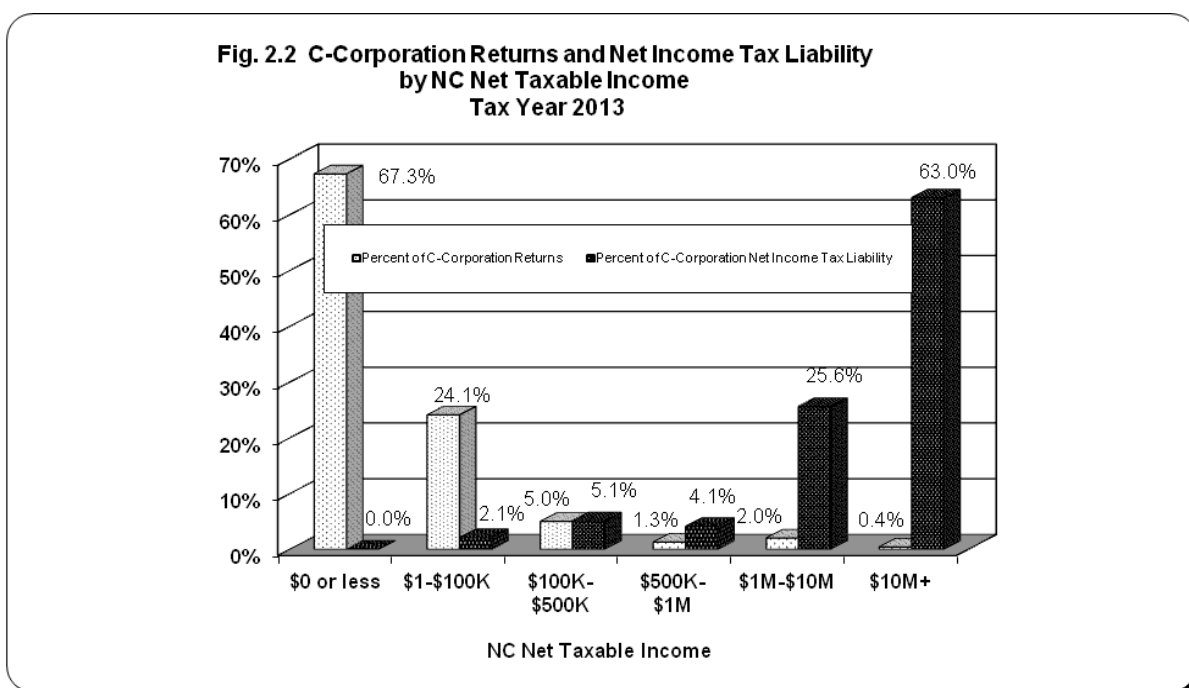
Although 74,465 tax returns were filed for tax year 2013, only 24,180 (32.5%) of them had a net tax liability (i.e., a positive tax liability after credits were applied).

Table 2.1 and Figure 2.2 show the distribution of C corporation returns and net income tax liability by North Carolina 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 2013**

NC Net Taxable Income	Number of Returns	Percent	Cumulative Percent	Net Income Tax Liability [\$]	Percent	Cumulative Percent
\$0 or less	50,101	67.3%	67.3%	0	--	--
\$1-\$15,000	10,971	14.7%	82.0%	3,285,969	0.3%	0.3%
\$15,001-\$30,000	2,673	3.6%	85.6%	3,960,694	0.3%	0.6%
\$30,001-\$50,000	1,975	2.7%	88.3%	5,315,741	0.5%	1.1%
\$50,001-\$100,000	2,317	3.1%	91.4%	11,280,918	1.0%	2.1%
\$100,001-\$500,000	3,706	5.0%	96.4%	58,432,293	5.1%	7.2%
\$500,001-\$1,000,000	984	1.3%	97.7%	46,905,514	4.1%	11.3%
\$1,000,001-\$10,000,000	1,455	2.0%	99.7%	291,915,821	25.6%	36.9%
\$10,000,001+	283	0.4%	100.0%	717,759,993	63.0%	100.0%
Total	74,465	100.0%	--	1,138,856,943	100.0%	--

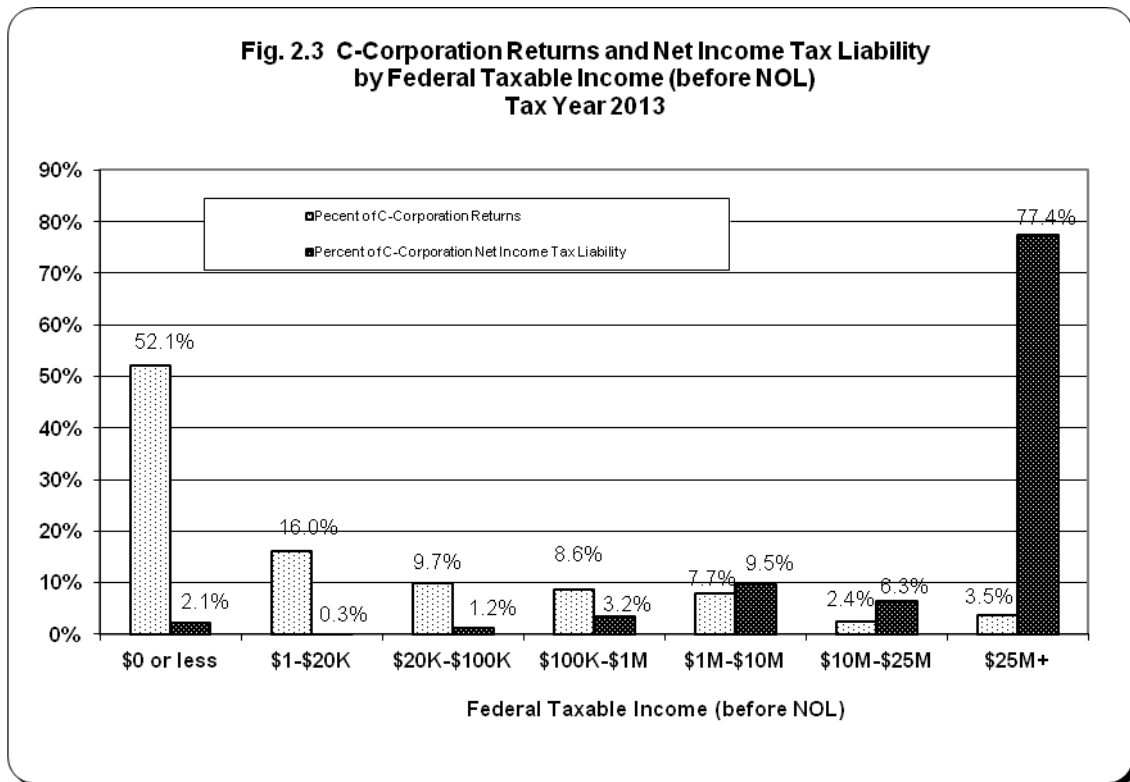
Note: Figures are partially based on unaudited returns. Breakout percentages may not add to totals due to rounding.



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 88.6% of the C corporation income tax liability, but made up 2.4% of the corporations filing returns. Sixty-three percent of the total C corporation net income tax liability was attributable to the 283 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 taxable income.

As shown in Figure 2.3, corporations with federal taxable income (before NOL) over \$25 million paid over 77% 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 2013**

Federal Taxable Income (before NOL)	NC Apportionment Percentage					Total
	<5%	5% - 24%	25% - 49%	50% - 99%	100%	
\$0 or less	11,347	1,573	552	815	24,506	38,793
\$1 - \$20,000	733	199	97	208	10,684	11,921
\$20,001 - \$100,000	1,342	379	157	374	4,956	7,208
\$100,001 - \$ 1,000,000	3,173	673	268	513	1,802	6,429
\$1,000,001 - \$10,000,000	4,358	704	234	230	210	5,736
\$10,000,001-\$25,000,000	1,451	207	57	24	11	1,750
\$25,000,001+	2,296	268	40	18	6	2,628
Total	24,700	4,003	1,405	2,182	42,175	74,465

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 56.6% of the returns filed for tax year 2013. However, these corporations accounted for only 8.1% 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 2013**

Federal Taxable Income (before NOL)	NC Apportionment Percentage					Total [\$]
	<5% [\$]	5% - 24% [\$]	25% - 49% [\$]	50% - 99% [\$]	100% [\$]	
\$0 or less	9,384,399	11,688,182	103,369	1,051,858	1,515,452	23,743,260
\$1 - \$20,000	24,520	28,896	29,150	142,826	3,547,206	3,772,598
\$20,001 - \$100,000	108,879	180,580	171,266	1,017,607	12,062,716	13,541,048
\$100,001 - \$ 1,000,000	1,308,298	1,755,996	2,412,399	7,755,507	23,317,238	36,549,438
\$1,000,001 - \$10,000,000	12,862,707	15,983,971	19,208,069	29,289,714	30,620,977	107,965,438
\$10,000,001-\$25,000,000	18,798,057	19,628,568	16,751,349	8,801,728	8,168,821	72,148,523
\$25,000,001+	407,662,413	338,170,318	100,463,115	21,492,813	13,347,979	881,136,638
Total	450,149,273	387,436,511	139,138,717	69,552,053	92,580,389	1,138,856,943

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-five 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.

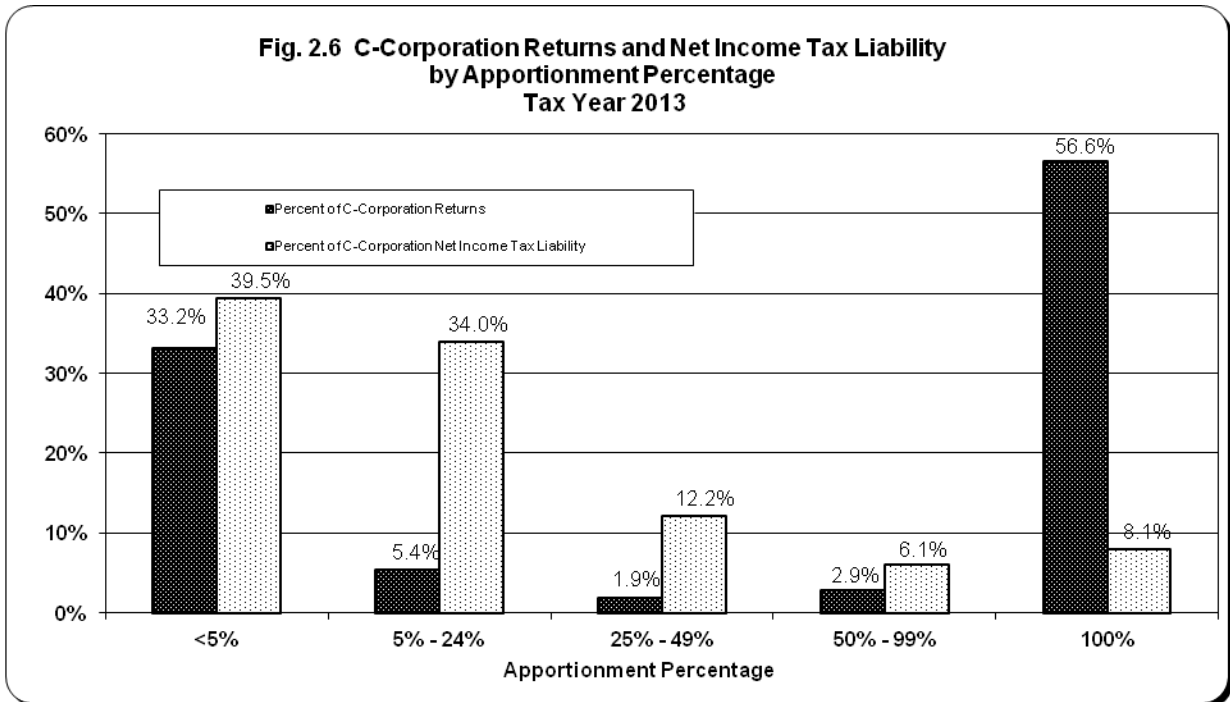


Table 2.7 on the next page shows statistics on the calculation of net tax liability at various steps, starting with federal taxable income. Returns are divided into taxable and nontaxable returns, where taxable returns are defined as those with a positive tax liability before credits are applied. The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

Out of 74,465 returns, 32.5% were taxable returns and 67.5% were nontaxable returns. Taxable returns with a federal taxable income over \$25 million made up 2.7% of the returns but accounted for 77% of the tax liability.

Of the 38,793 returns with federal taxable income of zero or less, 1,128 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 35,672 returns that did show a federal taxable income, 12,618 did not have a 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 \$157.5 billion, there was a reduction of \$21.8 billion due to NC adjustments, a reduction of \$5.7 billion due to nonapportionable income, a reduction of \$126.3 billion due to apportioning income to North Carolina, and a reduction of \$9.3 billion due to Net Economic Loss carryforwards.²

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 2013 was for the bonus depreciation allowances created by the American Taxpayer Relief Act of 2012 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 \$117.4 million.

² Eligible contributions have been deducted by taxpayers in determining their federal taxable income. For the calculation of NC taxable income on form CD-405, these contributions are added back under adjustments to federal income. Then, contributions are deducted on separate lines of the return using the State's rules. A similar procedure is used for depletion adjustments.

**SECTION II
INCOME TAX**

**Table 2.7
C Corporation Income Tax Calculation Detail by Federal Taxable Income (Before NOL)
Tax Year 2013**

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	1,128	(9,859,972,829)	10,959,430,316	11,835,837	46,963,791	695,429,796	345,228,063
\$1-\$20,000	7,176	44,531,519	32,978,912	221,703	261,441	17,114,383	59,912,904
\$20,001-\$100,000	4,629	223,893,468	105,866,652	1,795,634	2,132,418	107,847,472	217,984,596
\$100,001-\$1,000,000	4,001	1,489,640,494	389,454,282	9,703,057	44,081,918	1,244,326,700	580,983,101
\$1,000,001-\$10,000,000	3,932	15,334,496,686	1,949,402,400	70,100,675	182,287,442	15,336,397,821	1,695,113,148
\$10,000,001-\$25,000,000	1,299	21,026,864,438	2,258,038,980	88,653,591	78,726,615	21,962,838,025	1,154,685,187
\$25,000,001+	2,017	548,862,646,431	16,165,039,863	3,896,272,320	2,753,403,956	543,640,066,048	14,737,943,970
Total, Taxable	24,182	577,122,100,207	31,860,211,405	4,078,582,817	3,107,857,581	583,004,020,245	18,791,850,969
<u>Nontaxable Returns</u>							
\$0 or less	37,665	(235,418,601,123)	10,036,895,618	20,729,168	299,417,463	(216,369,082,783)	(9,332,769,353)
More than \$0	12,618	157,503,775,199	(21,837,971,225)	463,870,709	5,705,747,072	126,282,564,089	3,213,622,104
Total, Nontaxable	50,283	(77,914,825,924)	(11,801,075,607)	484,599,877	6,005,164,535	(90,086,518,694)	(6,119,147,249)

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	17,475,584	-	5,580,482	674,639	356,448,526	24,594,952	851,692	23,743,260
\$1-\$20,000	181,725	7,160	4,865,753	356,510	54,865,206	3,785,749	13,151	3,772,598
\$20,001-\$100,000	w	w	19,193,788	1,642,821	197,650,950	13,637,922	96,874	13,541,048
\$100,001-\$1,000,000	w	w	49,213,329	2,933,336	539,192,021	37,204,274	654,836	36,549,438
\$1,000,001-\$10,000,000	16,941,057	296,940	65,186,032	5,595,197	1,640,976,036	113,227,378	5,261,940	107,965,438
\$10,000,001-\$25,000,000	487,106	-	38,809,478	3,853,766	1,112,509,049	76,763,156	4,614,633	72,148,523
\$25,000,001+	8,829,429	20,403,135	382,218,645	38,612,241	14,305,539,378	987,082,216	105,945,578	881,136,638
Total, Taxable	54,918,529	20,852,315	565,067,507	53,668,510	18,207,181,166	1,256,295,647	117,438,704	1,138,856,943
<u>Nontaxable Returns</u>								
\$0 or less	(66,365,355)	299,551	5,131,768,373	4,608,846	(14,179,908,800)	-	-	-
More than \$0	21,627,682	99,484,642	9,310,679,997	30,004,607	(6,204,865,759)	-	-	-
Total, Nontaxable	(44,737,673)	99,784,193	14,442,448,370	34,613,453	(20,384,774,559)	-	-	-

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 98% of the 24,182 returns with positive tax liability before credits did not take any income tax credits. Forty-eight percent of the 558 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 60% of the total credits taken.

**Table 2.8
Number of C Corporation Taxable Returns Taking Credits as a Percentage of Tax Liability
Tax Year 2013**

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	10,754	w	w	w	30	10,789
\$15,001-30,000	2,650	w	w	w	16	2,673
\$30,001-\$50,000	1,955	w	w	w	16	1,975
\$50,001-\$100,000	2,286	w	w	8	16	2,317
\$100,001-\$500,000	3,612	20	14	9	51	3,706
\$500,001-\$1,000,000	940	12	5	5	22	984
\$1,000,001-\$10,000,000	1,256	74	26	27	72	1,455
\$10,000,001+	171	40	14	15	43	283
Total	23,624	158	67	67	266	24,182

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 2013**

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	w	6,203	6,337
\$15,001-30,000	w	w	w	11,517	13,282
\$30,001-\$50,000	w	w	w	22,458	24,329
\$50,001-\$100,000	w	w	10,739	42,218	57,109
\$100,001-\$500,000	20,188	31,810	40,867	491,717	584,582
\$500,001-\$1,000,000	17,853	38,037	82,120	542,709	680,719
\$1,000,001-\$10,000,000	643,507	934,674	2,485,266	8,497,820	12,561,267
\$10,000,001+	5,930,170	16,774,072	20,081,940	60,724,897	103,511,079
Total	6,613,155	17,782,704	22,703,306	70,339,539	117,438,704

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.

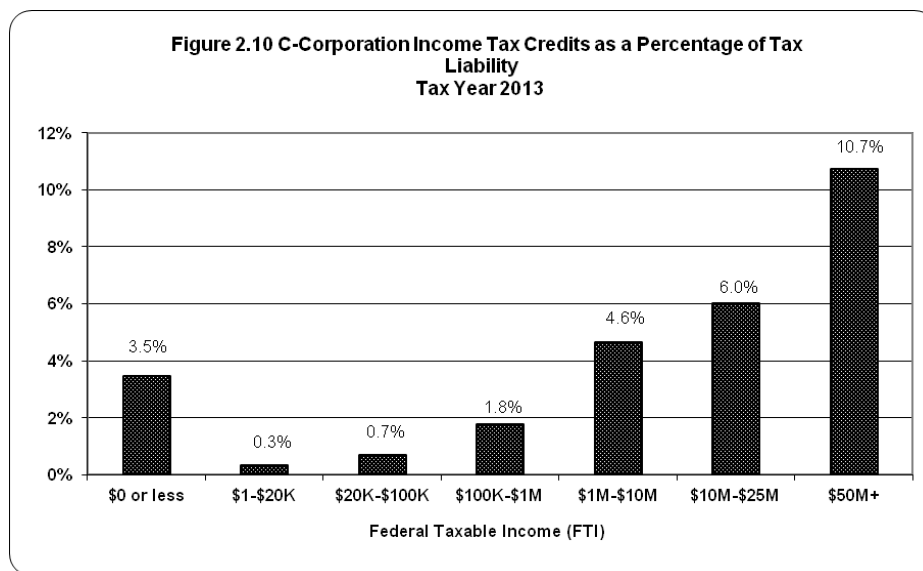


Table 2.11 provides the distribution of income tax credits by credit type and NC net taxable income.

**Table 2.11
C Corporation Income Tax Credits by Credit Type and NC Taxable Income (NCTI)
Tax Year 2013**

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	11	2,965,003	w	w	w	w
Savings and Loan Supervisory Fees	5	146,899	w	w	w	w
Other Non-Limited Credits **	22	1,519,322	15	102,084	7	1,417,238
Credit Carryover from Previous Years (Taken only)	6	8,736,825	w	w	w	w
Tax Credit Subject to 50% of Tax Limit (Taken only)	513	112,073,368	221	1,306,332	292	110,767,036
Credits Claimed	558	125,441,417	249	1,760,676	309	123,680,741
Credits Not Taken ***	--	8,002,713	--	394,318	--	7,608,395
Credits Taken	558	117,438,704	247	1,366,358	311	116,072,346

* 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 62.3% of the tax liability, but only 1.2% of returns.

The total net tax liability of \$71.2 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 2013**

NC Taxable Income*	Number of Returns	Percent	Number With Tax Due for Nonresidents	Net Tax Liability [\$]	Percent
\$0 or less	53,336	35.93%	31	153,076	0.21%
\$1-\$15,000	31,705	21.36%	2,688	771,310	1.08%
\$15,001-30,000	15,537	10.47%	771	920,970	1.29%
\$30,001-\$50,000	12,575	8.47%	544	1,331,173	1.87%
\$50,001-\$100,000	14,669	9.88%	641	2,897,397	4.07%
\$100,001-\$500,000	16,617	11.19%	978	13,393,173	18.80%
\$500,001-\$1,000,000	2,258	1.52%	186	7,399,331	10.39%
\$1,000,001-\$10,000,000	1,691	1.14%	185	25,556,951	35.88%
\$10,000,001+	56	0.04%	13	18,804,330	26.40%
Total	148,444	100.00%	6,037	71,227,711	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.

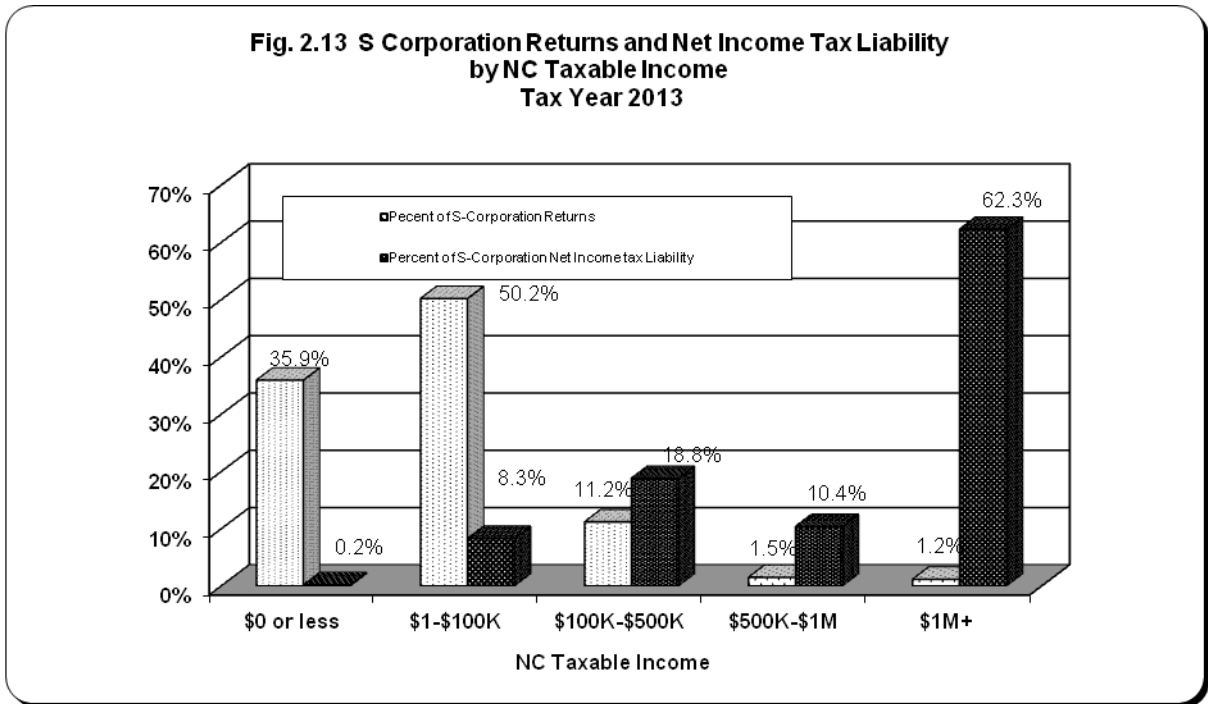
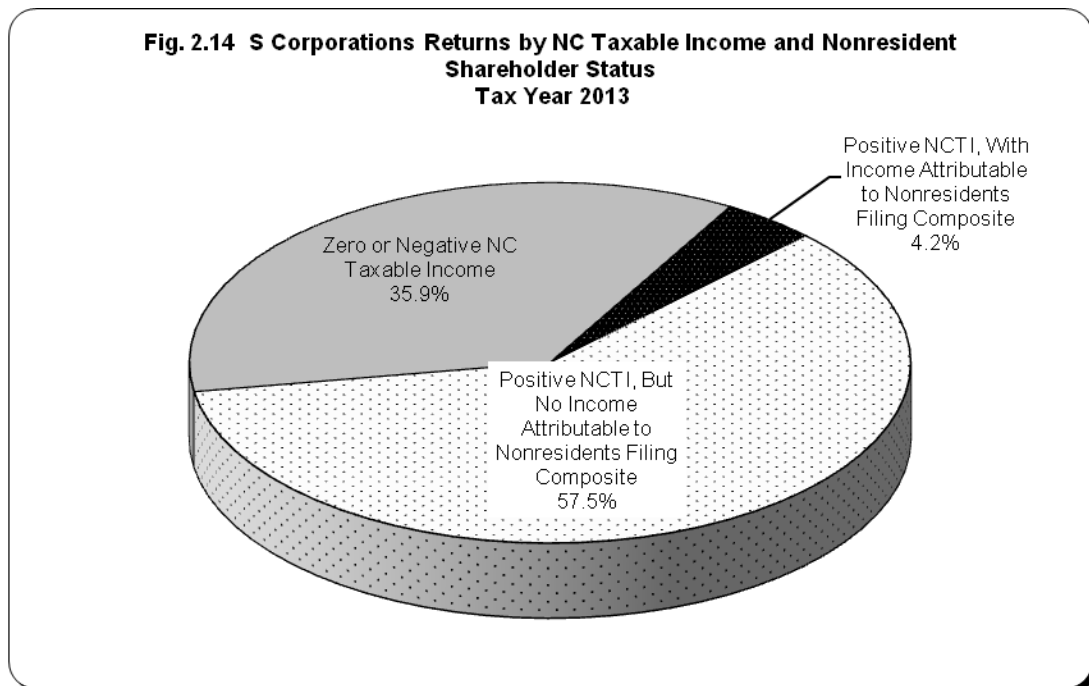


Figure 2.14 illustrates the distribution of returns by North Carolina taxable income and nonresident shareholder filing status. Only 4.2% of S corporation returns had a tax liability attributable to nonresidents who chose to allow the S corporation to file a composite return on their behalf.



**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 2013**

		(+)	(+)	(-)	(-)	(=)	(+)
NC Taxable Income	Number of Returns	Federal Corporation Income [S]	Adjustments to Federal Income [S]	Nonapportionable Income [S]	Reduction Due To Apportionment [S]	Income Apportioned to NC [S]	Nonapportionable Income Allocated to NC [S]
Zero or Negative	53,336	1,340,987,402	(7,616,065,540)	1,085,794,748	(4,663,939,344)	(2,696,933,542)	(31,035,958)
Positive, But No Income Attributable to Nonresidents Filing Composite	88,858	32,579,183,935	1,631,778,423	764,809,379	22,362,579,911	11,083,573,068	81,819,768
Positive, With Income Attributable to Nonresidents Filing Composite	6,250	33,511,178,447	1,156,793,732	886,810,722	32,681,352,317	1,099,809,140	26,235,395
Total	148,444	67,431,349,784	(4,827,493,385)	2,737,414,849	50,379,992,884	9,486,448,666	77,019,205

	(=)	(+)	(=)	Separately Stated Income Attributable to Nonresidents Filing Composite [S]	Computed Income Tax [S]	(-)	(=)
NC Taxable Income	NC Net Taxable Income [S]	Adjustment for Shareholders Paying Tax on Shares [S]	Taxable Income Attributable to Nonresidents Filing Composite [S]			Tax Credits [S]	Net Tax Liability [S]
Zero or Negative	(2,727,969,500)	2,664,490,906	(63,478,594)	(88,608)	153,076	-	153,076
Positive, But No Income Attributable to Nonresidents Filing Composite	11,165,392,836	(11,165,392,836)	-	1,664,300	673,633	23,503	650,130
Positive, With Income Attributable to Nonresidents Filing Composite	1,126,044,521	(171,645,579)	954,398,942	5,962,860	71,705,726	1,281,221	70,424,505
Total	9,563,467,857	(8,672,547,509)	890,920,348	7,538,552	72,532,435	1,304,724	71,227,711

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 91.2% 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 2013**

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	43	1,304,724	30	114,877	13	1,189,847
Credits Not Taken	--	-	--	-	--	-
Credits Taken	43	1,304,724	30	114,877	13	1,189,847

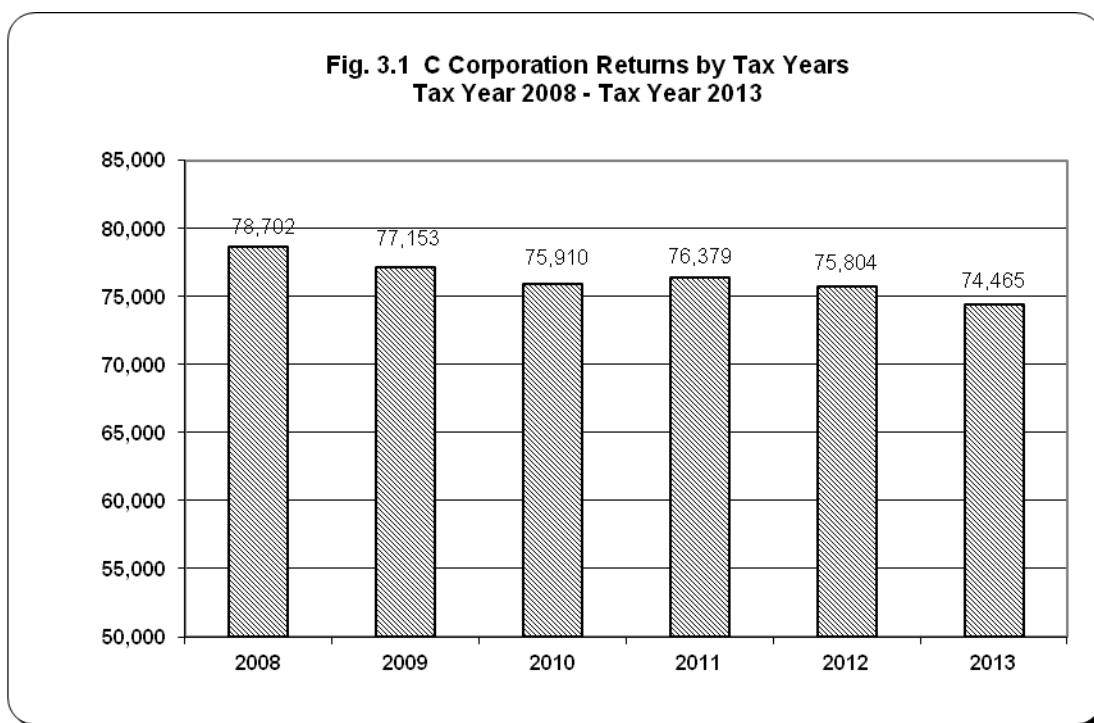
Note: Confidentiality prevents the disclosure of individual credits and credits amounts.

C CORPORATIONS

In this section, data on corporate returns are presented for tax years 2008 through 2013. For years prior to these, see the earlier editions of this publication.

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 between 2008 and 2013. Data from the IRS Statistics of Income Division also shows a decline in the number of Form 1120 filers nationally between 2008 and 2012.³

The number of first-time filers, as reported on the tax form, was 3,904 in 2013. This was lower than the prior two years: 4,270 in 2012 and 4,116 in 2011. The number of new filers was approximately 5,000 annually during the period from 2005 through 2007.



³ Annual statistical reports are available at <https://www.irs.gov/uac/SOI-Tax-Stats-Table-16>Returns-of-Active-Corporations,-Form-1120>

Figure 3.2 shows the net tax liability for both the franchise tax and the corporation income tax from 2008 through 2013. 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).

Since TY11, the income tax liability has grown each year, reaching 8.5% growth between TY12 and TY13. The franchise tax, meanwhile, had only a \$5 million drop off its high between TY08 and TY09. Since then, the franchise tax has grown modestly, with the exemption of a 7.4% growth rate between TY11 and TY12.

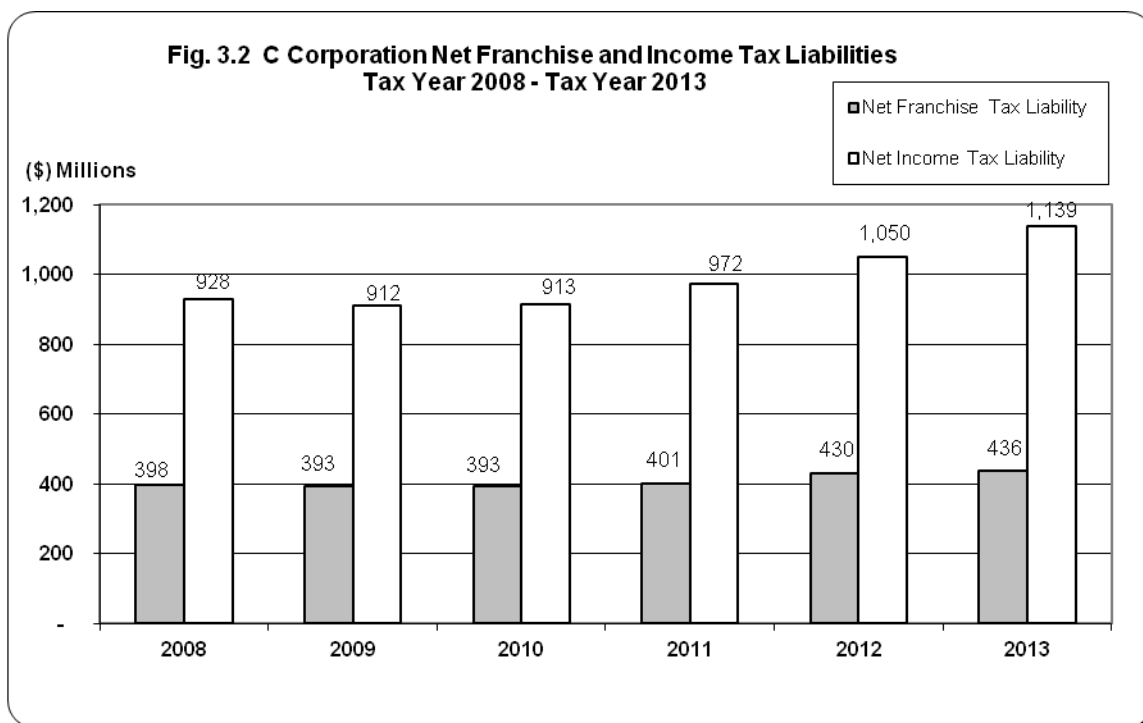
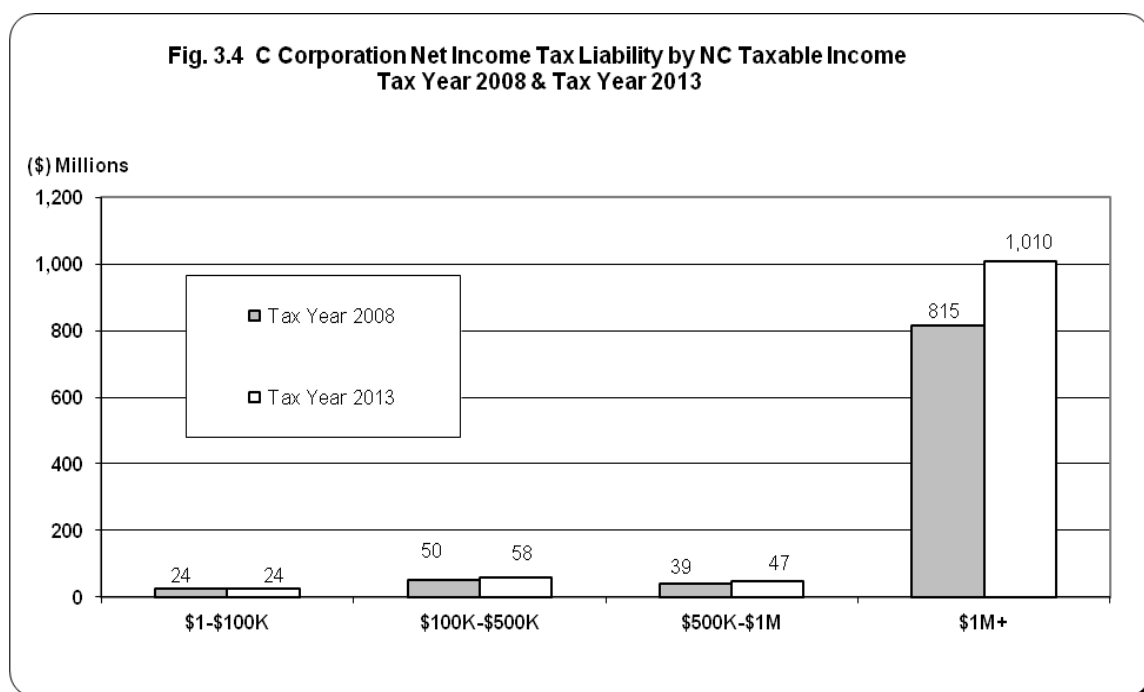


Table 3.3 and Figure 3.4 compare the net income tax liability of C corporations in tax year 2008 and tax year 2013 by NC taxable income brackets. The strongest growth has been for returns with NC taxable income above \$10 million.

**Table 3.3
C Corporation Net Income Tax Liability by NC Taxable Income
Tax Year 2008 & Tax Year 2013**

NC Taxable Income	Net Income Tax Liability TY 2008	Net Income Tax Liability TY 2013	% Difference
\$0 or less	--	--	--
\$1-\$15,000	3,442,853	3,285,969	-4.56%
\$15,001-\$30,000	3,992,158	3,960,694	-0.79%
\$30,001-\$50,000	5,200,957	5,315,741	2.21%
\$50,001-\$100,000	11,171,608	11,280,918	0.98%
\$100,001-\$500,000	49,686,690	58,432,293	17.60%
\$500,001-\$1,000,000	38,719,372	46,905,514	21.14%
\$1,000,001-\$10,000,000	254,056,202	291,915,821	14.90%
\$10,000,001+	561,232,154	717,759,993	27.89%
Total	927,501,994	1,138,856,943	22.79%

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



S CORPORATIONS

Table 3.5 compares the number of S corporation returns by tax years 2008 through 2013. Over the long term, the number of returns has grown. 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. However, the number of returns in TY13 has reached its highest level.

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 2013, there were 7,613 new S corporation filers. However, this is below the average of over 11,000 new filers for the period from 2005 through 2008.

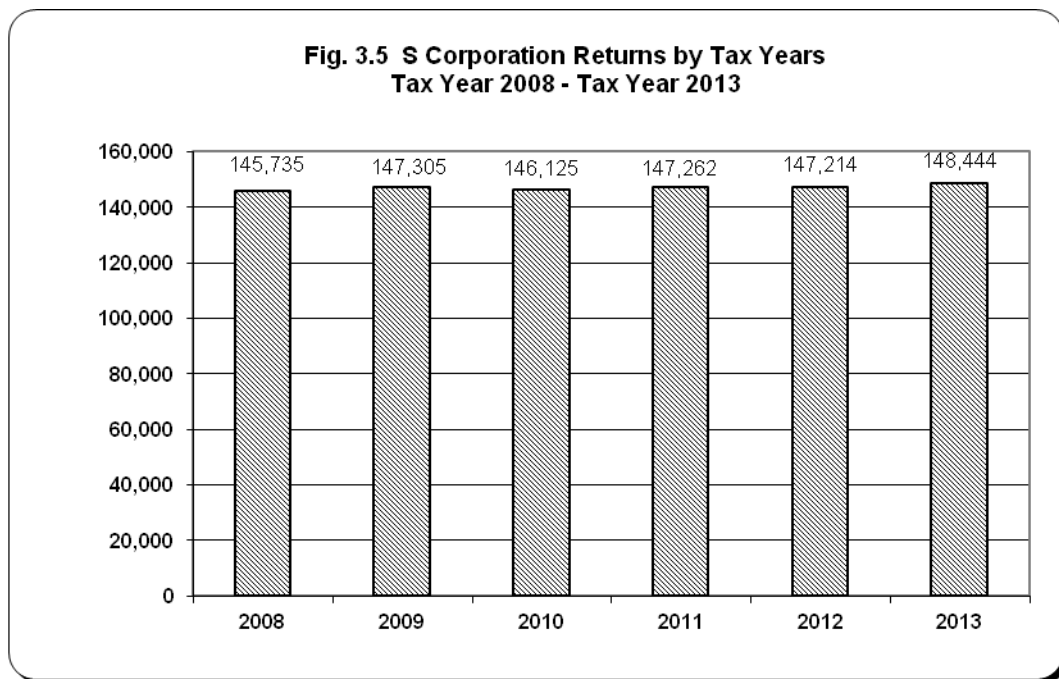


Figure 3.6 illustrates the relative amounts of net tax liabilities for 2008 through 2013 for S corporations. As discussed in Section II, the income tax liability for S corporations only includes taxes paid for nonresident shareholders filing a composite return. Therefore, comparisons across time may be misleading if certain larger taxpayers alter their behavior in this regard.

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, and it increased an additional 3.3% in 2013.

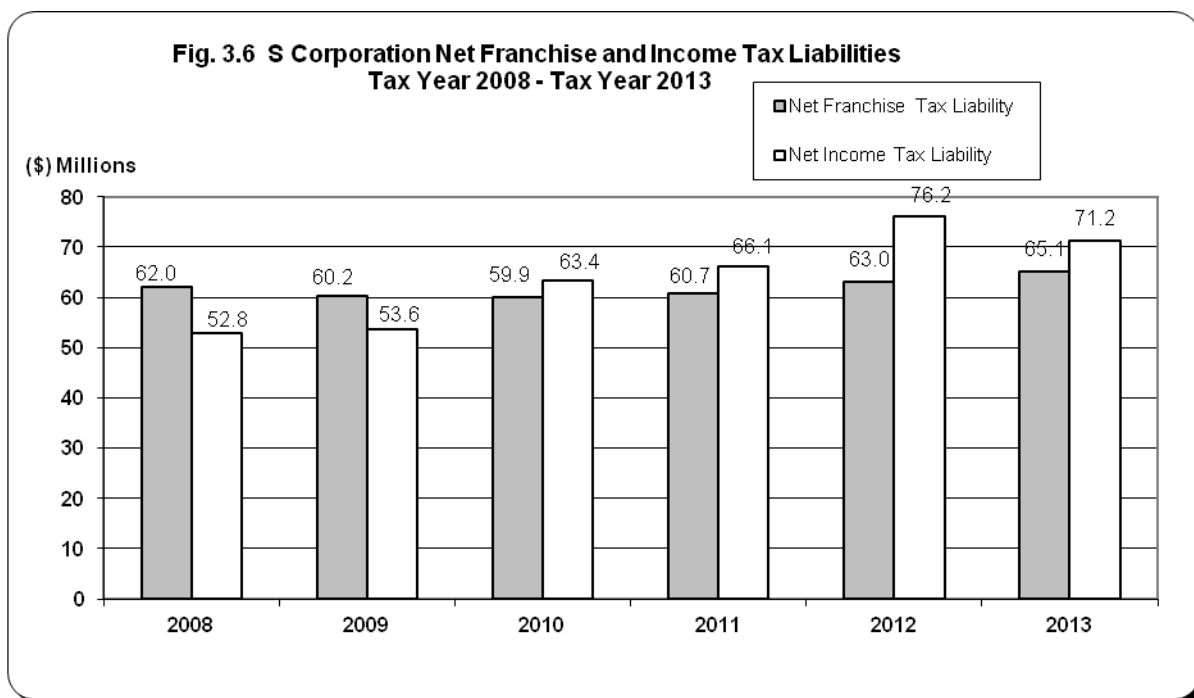
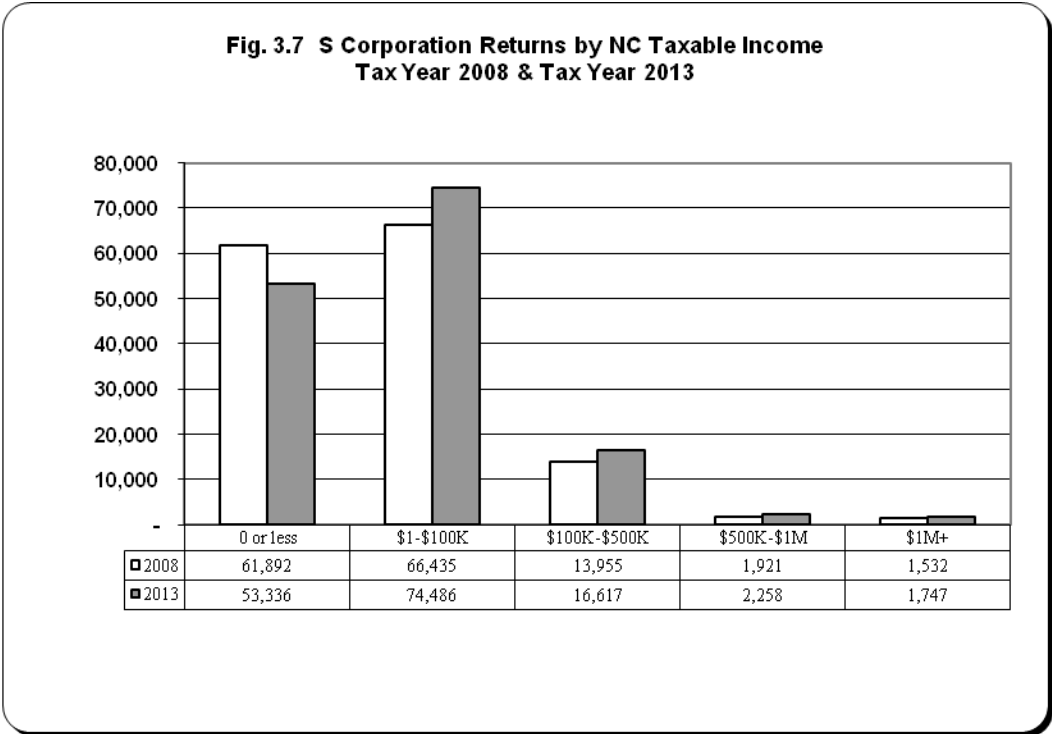


Figure 3.7 compares the number of S corporation returns in tax years 2008 and 2013 by NC taxable income brackets. Although the number of returns had grown, a larger proportion of taxpayers were in the smaller taxable income categories.



**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 returns comprised 86.2% of all returns. Their net franchise tax liability was 75.6% of the total, and their net income tax liability made up 71.5% of the total.

**Table 4.1
All Corporation Statistics by Fiscal Year Start Month
Tax Year 2013**

Tax Year Start Month	All Returns	Franchise Tax		Income Tax	
	Number of returns	Number	Amount (\$)	Number	Amount (\$)
January	192,252	176,615	378,966,690	22,356	864,877,289
February	1,076	1,043	16,773,664	397	83,872,194
March	706	670	2,039,528	257	4,921,414
April	3,228	3,126	22,075,355	1,250	61,027,674
May	1,033	973	2,385,340	386	9,417,946
June	1,084	1,005	3,144,229	377	21,349,832
July	4,258	3,777	15,938,706	1,494	37,692,162
August	950	905	6,363,533	363	16,804,036
September	953	897	3,449,335	347	11,136,779
October	4,339	4,087	20,790,546	1,351	40,392,157
November	1,527	1,466	3,913,303	476	13,787,266
December	723	691	1,225,628	224	1,837,374
Short-period returns	10,780	9,192	24,056,279	1,212	42,968,531
Total	222,909	204,447	501,122,136	30,490	1,210,084,654

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 2013**

Industry Sector	All Returns	Franchise Tax		Income Tax	
	Number of returns	Number	Amount (\$)	Number	Amount (\$)
Agriculture, Forestry, Fishing and Hunting	1,108	1,089	2,253,875	466	6,998,866
Mining	143	140	3,580,302	50	2,868,323
Utilities	209	180	4,710,607	60	13,357,931
Construction	6,052	5,860	6,864,775	1,794	16,748,018
Manufacturing	7,436	7,228	149,837,686	3,021	375,743,611
Wholesale	5,044	4,896	28,618,174	2,274	86,667,844
Retail	5,513	5,331	31,250,374	1,991	128,764,169
Transportation	1,882	1,813	5,889,404	751	25,104,785
Couriers and Warehousing	164	160	692,676	73	1,560,946
Information	2,125	2,023	36,380,492	658	102,898,977
Finance and Insurance	5,961	5,594	73,871,572	1,882	173,111,043
Real Estate and Rental & Leasing	10,995	6,487	27,378,059	2,352	38,593,150
Professional, Scientific and Technical Services	8,980	8,561	23,395,425	3,243	91,051,126
Management of Companies / see note	1,841	1,747	19,797,632	585	26,751,715
Administration & Support and Waste Management & Remediation Services	2,759	2,307	7,293,722	932	13,159,067
Educational Services	370	337	858,497	121	3,527,426
Health Care and Social Assistance	3,097	2,931	4,883,430	980	13,096,929
Arts, Entertainment and Recreation	922	815	1,187,406	288	770,159
Accommodations and Food Services	1,891	1,801	4,376,835	753	11,092,988
Other Services	3,621	2,813	1,670,951	1,118	5,167,272
Unidentifiable	4,352	2,091	1,241,262	788	1,822,598
Total	74,465	64,204	436,033,156	24,180	1,138,856,943

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 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 Section, 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 2013**

Industry Sector	All Returns	Franchise Tax		Income Tax	
	Number of returns	Number	Amount (\$)	Number	Amount (\$)
Agriculture, Mining & Utilities	3,627	3,507	2,920,982	49	530,752
Construction	22,475	21,300	7,013,402	767	6,022,935
Manufacturing	6,523	6,236	9,155,200	812	15,897,691
Wholesale	6,200	5,896	6,002,628	600	6,694,797
Retail	15,281	14,323	11,015,767	282	3,269,595
Transportation	4,009	3,822	1,247,385	212	2,248,867
Couriers and Warehousing	436	424	205,494	19	115,510
Information	2,281	2,141	849,493	171	678,622
Finance and Insurance	6,009	5,660	2,506,854	376	10,622,154
Real Estate and Rental & Leasing	15,734	14,920	9,069,882	433	2,559,078
Professional, Scientific and Technical Services	23,284	21,851	3,546,109	1,409	6,175,965
Management of Companies	782	736	1,392,242	174	7,267,395
Administration & Support and Waste Management & Remediation Services	6,247	5,823	1,229,960	367	5,007,046
Educational Services	931	864	133,919	35	725,807
Health Care and Social Assistance	9,620	9,217	2,728,217	79	1,147,626
Arts, Entertainment and Recreation	3,513	3,255	993,477	214	448,620
Accommodations and Food Services	7,282	6,823	2,814,507	108	838,073
Other Services	10,758	10,138	1,572,345	130	437,224
Unidentifiable	3,452	3,307	691,117	73	539,954
Total	148,444	140,243	65,088,980	6,310	71,227,711

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 2013 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) construction; and (4) health care and social assistance.

**Table 5.3
S Corporation NC Net Taxable Income by Industry Sector
Tax Year 2013**

Industry Sector	Net Taxable Income		
	Number of returns	Amount (\$)	Share of total amount
Agriculture, Forestry, Fishing and Hunting	3,229	330,222,938	3.2%
Mining	101	9,776,959	0.1%
Utilities	128	2,826,702	0.0%
Construction	20,183	1,248,946,154	12.3%
Manufacturing	5,959	1,294,391,525	12.7%
Wholesale	5,762	866,108,673	8.5%
Retail	14,573	767,890,145	7.5%
Transportation	3,683	218,251,643	2.1%
Couriers and Warehousing	406	23,266,296	0.2%
Information	2,090	117,250,454	1.2%
Finance and Insurance	5,123	595,602,356	5.8%
Real Estate and Rental & Leasing	14,279	665,789,276	6.5%
Professional, Scientific and Technical Services	21,332	1,479,942,785	14.5%
Management of Companies	648	288,228,752	2.8%
Administration & Support and Waste Management & Remediation Services	5,793	320,577,696	3.1%
Educational Services	880	40,485,569	0.4%
Health Care and Social Assistance	9,232	939,793,272	9.2%
Arts, Entertainment and Recreation	3,269	177,322,065	1.7%
Accommodations and Food Services	6,909	390,527,058	3.8%
Other Services	10,268	309,741,159	3.0%
Unidentifiable	2,424	94,464,799	0.9%
Total	136,271	10,181,406,276	

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.