

**North Carolina**

**Corporation Income and Business  
Franchise Taxes**

**Statistics and Trends**

**Tax Year 2014**

**February 2017**



**NCDOR**

**Revenue Research Section  
Financial Services Division**

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# CONTENTS

<b>INTRODUCTION.....</b>	<b>1</b>
<b>OVERVIEW OF TAXES COVERED BY THIS REPORT .....</b>	<b>2</b>
<b><u>SECTION I - FRANCHISE TAX</u></b>	
<b>C Corporation.....</b>	<b>4</b>
Table 1.1: C Corporation Returns by Tax Base Utilized	
Table 1.2: C Corporation Net Franchise Tax Liability by Tax Base Utilized	
Figure 1.3: C Corporation Returns and Net Franchise Tax Liability by Tax Base	
Table 1.4: C Corporation Returns and Net Franchise Tax Liability by Franchise Taxable Amount	
Figure 1.5: C Corporation Returns and Net Franchise Tax Liability by Franchise Taxable Amount	
Table 1.6: C Corporation Returns Claiming Franchise Tax Credits and Amount of Credits Taken	
Figure 1.7: C Corporation Returns Claiming Franchise Tax Credits and Amount of Credits Taken	
Table 1.8: C Corporation Franchise Tax Credits Taken by Credit Type and Franchise Taxable Amount	
<b>S Corporation.....</b>	<b>9</b>
Table 1.9: S Corporation Returns by Tax Base Utilized	
Table 1.10: S Corporation Net Franchise Tax Liability by Tax Base Utilized	
Figure 1.11: S Corporation Returns and Net Franchise Tax Liability by Tax Base	
Table 1.12: S Corporation Returns and Net Franchise Tax Liability by Franchise Taxable Amount	
Figure 1.13: S Corporation Returns and Net Franchise Tax Liability by Franchise Taxable Amount	
Table 1.14: S Corporation Returns Taking Franchise Tax Credits and Amount of Credits Taken	
Figure 1.15: S Corporation Returns Taking Franchise Tax Credits and Amount of Credit Taken	
Table 1.16: S Corporation Franchise Tax Credits Taken by Credit Type and Franchise Taxable Amount	
<b>C and S Corporations Combined .....</b>	<b>13</b>
Figure 1.17: C & S Corporation Returns and Net Franchise Tax Liability by Tax Base	
Figure 1.18: C & S Corporation Returns and Net Franchise Tax Liability by Franchise Taxable Amount	
Figure 1.19: C & S Corporations Returns Claiming Franchise Tax Credits and Amount of Credits Taken	
<b><u>SECTION II - INCOME TAX</u></b>	
<b>C Corporation.....</b>	<b>15</b>
Table 2.1: C Corporation Returns and Net Income Tax Liability by NC Taxable Income	
Figure 2.2: C Corporation Returns and Net Income Tax Liability by NC Taxable Income	
Figure 2.3: C Corporation Returns and Net Income Tax Liability by Federal Taxable Income (Before NOL)	
Table 2.4: C Corporation Returns by Federal Taxable Income (Before NOL) and Apportionment Percentage	
Table 2.5: C Corporation Net Income Tax Liability by Federal Taxable Income (Before NOL) and Apportionment Percentage	
Figure 2.6: C Corporation Returns and Net Income Tax Liability by Apportionment Percentage	
Table 2.7: C Corporation Income Tax Calculation Detail by Federal Taxable Income (Before NOL)	
Table 2.8: Number of C Corporation Returns Taking Credits as a Percentage of Tax Liability	
Table 2.9: Amount of C Corporation Tax Credits Taken as a Percentage of Tax Liability	
Figure 2.10: C Corporation Income Tax Credits as a Percentage of Tax Liability	
Table 2.11: C Corporation Income Tax Credits by Credit Type and NC Taxable Income	
<b>S Corporation.....</b>	<b>23</b>
Table 2.12: S Corporation Returns and Net Income Tax Liability by NC Taxable Income	
Figure 2.13: S Corporation Returns and Net Income Tax Liability by NC Taxable Income	
Figure 2.14: S Corporation Returns by NC Taxable Income and Nonresident Shareholder Status	
Table 2.15: S Corporation Income Tax Calculation Detail	
Table 2.16: S Corporation Income Tax Credits by Credit Type and NC Taxable Income	

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**SECTION III – TRENDS**

**C Corporation .....27**

Figure 3.1: C Corporation Returns by Tax Year

Figure 3.2: C Corporation Net Franchise and Income Tax Liabilities by Tax Year

Table 3.3: C Corporation Net Income Tax Liability by NC Taxable Income – Tax Years 2008 & 2014

Figure 3.4: C Corporation Net Income Tax Liability by NC Taxable Income – Tax Years 2008 & 2014

**S Corporation .....30**

Figure 3.5: S Corporation Returns by Tax Years

Figure 3.6: S Corporation Net Franchise and Income Tax Liabilities by Tax Year

Figure 3.7: S Corporation Returns by NC Taxable Income – Tax Years 2008 & 2014

**SECTION IV – FISCAL YEAR STATISTICS**

**C and S Corporations Combined .....33**

Table 4.1: All Corporation Statistics by Fiscal Year Start Month

**SECTION V – INDUSTRY SECTORS**

**C Corporation .....34**

Table 5.1: C Corporation Franchise Tax and Income Tax Liability by Industry Sector

**S Corporation .....35**

Table 5.2: S Corporation Franchise Tax and Income Tax Liability by Industry Sector

Table 5.3: S Corporation NC Net Taxable Income by Industry Sector

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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 these taxpayers contribute to the State's tax revenues. The report includes both historical series of data and detailed reports for tax year 2014 (TY14).

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 15, 2016. 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 2014 or for a tax year beginning sometime in 2014.

The relevant 2014 corporate tax forms and instructions are available for review on the following Department of Revenue website: [www.dornrc.com/downloads/corp\\_archive/14archive/index.html](http://www.dornrc.com/downloads/corp_archive/14archive/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 2014; 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 TY14.

	C-Corps	S-Corps
Number of returns	76,078	151,704
Number of returns with nonzero net franchise tax	65,304	142,892
Amount of net franchise tax	499,951,003	68,170,558
Number of returns with nonzero net income tax	25,489	6,691
Amount of net income tax	1,111,905,302	66,006,953

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.

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## **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 2014. 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; under G.S. 105-114(a4), they 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.<sup>1</sup>

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

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

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 6.0%.

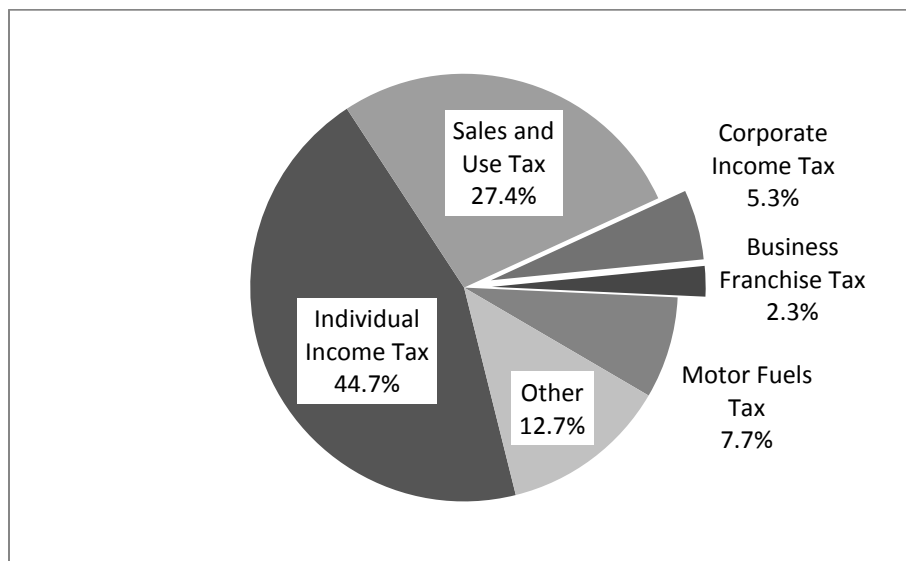
A taxpayer must add back 85% of the amount of bonus depreciation taken for federal income tax purposes during the tax year. This amount can then be deducted in equal installments over the next 5 tax years. Similar provisions existed for tax years 2008 through 2013. The State also adopted lower limits on Section 179 expensing for TY14, 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 2014-15 were \$25.1 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 (7.6%) of the total.

The corporation taxes included in this report comprise 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 14-15**



Note: The "other" category includes the highway use tax (2.6% of total), motor vehicle licenses (2.4%), insurance premiums tax (2.1%), alcoholic beverage tax (1.4%), and tobacco products tax (1.1%), 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 \$500.0 million. (Net tax liability is the amount of tax liability after deducting tax credits.) After excluding filers that were not liable for franchise tax (10,670 returns), the average amount due from the remaining 65,408 returns was \$7,644. Half of these taxpayers owed \$76 or less; and 99% of taxpayers owed less than \$117,823 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 46.1% of the 2014 tax year returns, followed by investment in tangible property base (11.7%), and appraised values in property base (6.3%). Thirty-six percent of the returns listed no assets because: 1) the taxpayer was exempt from franchise tax (mainly non-profit entities); 2) the 2014 tax year return was a final return; or 3) the taxpayer had no assets.<sup>2</sup>

**Table 1.1  
C Corporation Returns by Tax Base Utilized  
Tax Year 2014**

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.	
<b>\$0-\$23,667</b>	27,337	7,888	1,892	1,395	38,512
<b>\$23,668-\$100,000</b>	-	6,582	1,912	1,171	9,665
<b>\$100,001-\$1,000,000</b>	-	11,776	2,900	1,607	16,283
<b>\$1,000,001-\$5,000,000</b>	-	4,802	1,083	410	6,295
<b>\$5,000,001-\$20,000,000</b>	-	2,253	601	109	2,963
<b>\$20,000,001-\$40,000,000</b>	-	687	211	48	946
<b>\$40,000,001+</b>	-	1,096	282	36	1,414
<b>Total</b>	27,337	35,084	8,881	4,776	76,078

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.

<sup>2</sup> There were 8,340 returns reporting that they were tax-exempt; of these, 8,154 reported no assets. There were 2,850 returns with a final return indicator, of which 2,344 reported no assets.

**SECTION I  
FRANCHISE TAX**

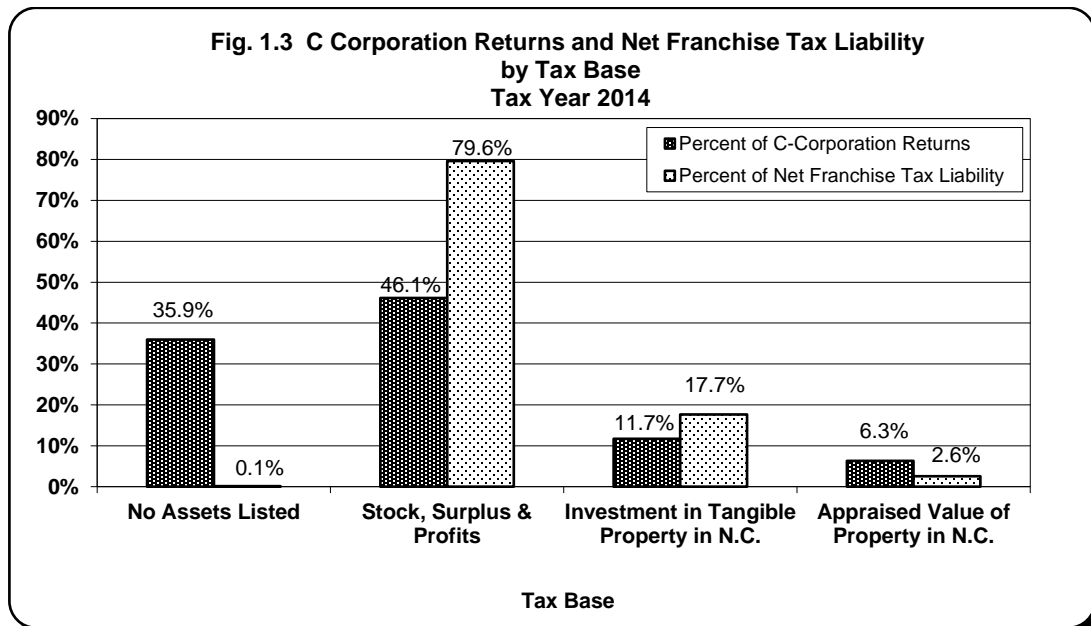
Table 1.2 compares the net franchise tax liability by tax base utilized. The greatest share of tax paid (79.6%) was under the capital stock, surplus and undivided profits base. Taxpayers using the investment in tangible property base paid 17.7% of the franchise tax, while the appraised value in property 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 2014**

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	629,417	270,568	64,363	47,665	1,012,013
\$23,668-\$100,000	-	543,571	155,657	92,162	791,390
\$100,001-\$1,000,000	-	6,364,543	1,523,333	818,067	8,705,943
\$1,000,001-\$5,000,000	-	16,383,001	3,753,819	1,221,077	21,357,897
\$5,000,001-\$20,000,000	-	33,384,181	8,566,220	1,577,087	43,527,488
\$20,000,001-\$40,000,000	-	27,585,612	7,822,278	1,824,652	37,232,542
\$40,000,001+	-	313,670,365	66,420,655	7,232,710	387,323,730
<b>Total</b>	629,417	398,201,841	88,306,325	12,813,420	499,951,003

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**

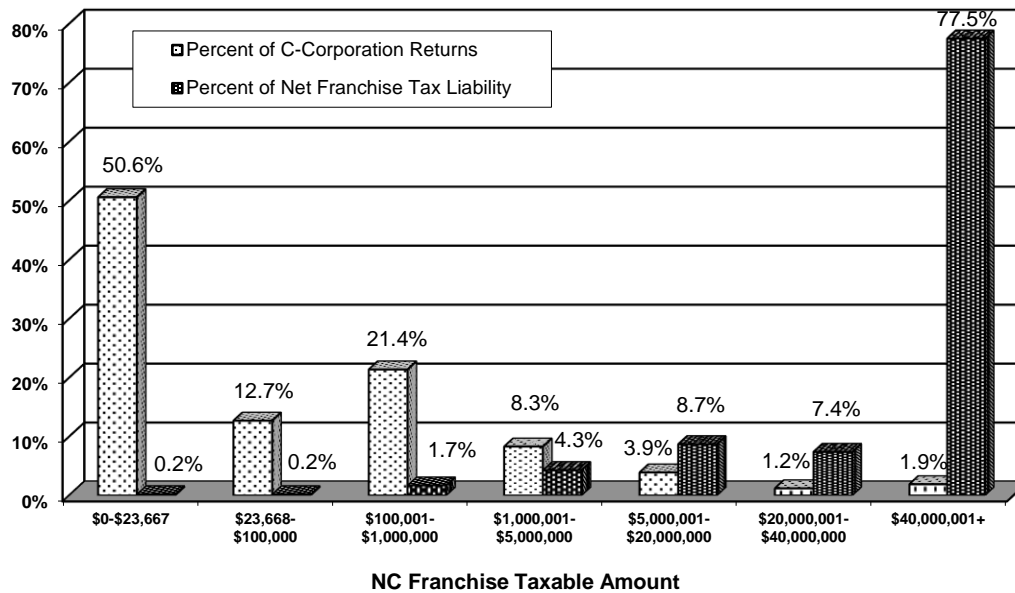
Table 1.4 and Figure 1.5 provide the distribution of C corporation returns and net franchise tax liability by taxable amount. Taxpayers with franchise taxable amount of at least \$40 million made up only 1.9% of the returns, but paid 77.5% of net franchise tax.

**Table 1.4  
C Corporation Returns and Net Franchise Tax Liability by Franchise Taxable Amount  
Tax Year 2014**

Franchise Taxable Amount	Number of Returns		Net Franchise Tax Liability (\$)	
	Number of Returns	Percent	Net Franchise Tax Liability (\$)	Percent
\$0-\$23,667	38,512	50.6%	1,012,013	0.2%
\$23,668-\$100,000	9,665	12.7%	791,390	0.2%
\$100,001-\$1,000,000	16,283	21.4%	8,705,943	1.7%
\$1,000,001-\$5,000,000	6,295	8.3%	21,357,897	4.3%
\$5,000,001-\$20,000,000	2,963	3.9%	43,527,488	8.7%
\$20,000,001-\$40,000,000	946	1.2%	37,232,542	7.4%
\$40,000,001+	1,414	1.9%	387,323,730	77.5%
<b>Total</b>	76,078	100.0%	499,951,003	100.0%

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

**Fig. 1.5 C Corporation Returns and Net Franchise Tax Liability  
by Franchise Taxable Amount  
Tax Year 2014**



**SECTION I  
FRANCHISE TAX**

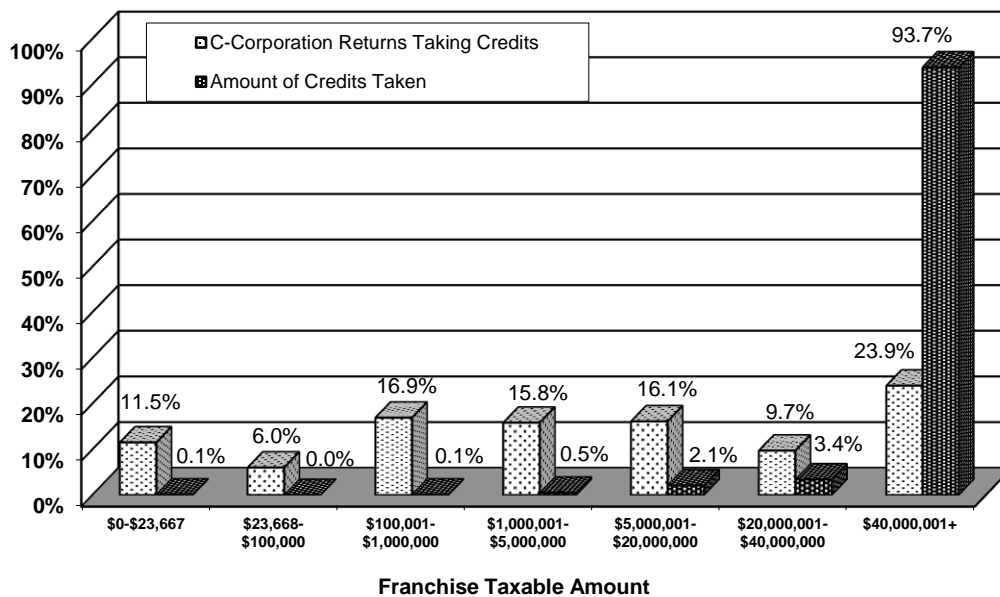
Table 1.6 and Figure 1.7 compare the number of C corporation returns taking franchise tax credits and amount of credits taken by taxable amount brackets. Only 1,493 (2.3%) of the taxable returns took credits. Returns with franchise taxable amount greater than \$40 million comprised only 23.9% of the returns taking credits, but 93.7% of the credits taken.

**Table 1.6  
C Corporation Returns Taking Franchise Tax Credits and Amount of Credits Taken  
Tax Year 2014**

Franchise Taxable Amount	Number of Returns Taking Credits		Amount of Credits Taken (\$)	
		Percent		Percent
\$0-\$23,667	172	11.5%	115,189	0.1%
\$23,668-\$100,000	90	6.0%	6,027	0.0%
\$100,001-\$1,000,000	253	16.9%	92,329	0.1%
\$1,000,001-\$5,000,000	236	15.8%	384,750	0.5%
\$5,000,001-\$20,000,000	240	16.1%	1,772,676	2.1%
\$20,000,001-\$40,000,000	145	9.7%	2,856,132	3.4%
\$40,000,001+	357	23.9%	78,178,955	93.7%
<b>Total</b>	<b>1,493</b>	<b>100.0%</b>	<b>83,406,058</b>	<b>100.0%</b>

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

**Fig. 1.7 C Corporation Returns Taking Franchise Tax Credits and Amount of Credits Taken  
Tax Year 2014**



**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 15.0% of tax liability for taxpayers whose taxable amount was above \$5 million and 1.8% for those with lower taxable amounts.

**Table 1.8  
C Corporation Franchise Tax Credits Taken by Credit Type and Franchise Taxable Amount  
Tax Year 2014**

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 (\$)
<b>Short Period Credit for Change in Income Year</b>	377	8,143,472	221	325,597	156	7,817,875
+ <b>Other Credits Claimed*</b>	234	9,711,870	212	51,704	22	9,660,166
- <b>Other Credits Not Taken **</b>	--	(6,795,601)	--	(23,508)	--	(6,772,093)
+ <b>Credits Subject to 50% Limit Taken</b>	925	72,346,317	327	244,502	598	72,101,815
<b>= Credits Taken</b>	1,493	83,406,058	751	598,295	742	82,807,763

\* 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.

Note: Confidentiality prevents the disclosure of the individual credits and credit amounts. Figures are based on both audited and unaudited returns.

**SECTION I  
FRANCHISE TAX**

**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 46.1% of 2014 tax year returns, followed by investment in tangible property base (18.4%), and appraised values in property (12.5%). Twenty-three percent of the returns listed no assets because: 1) the taxpayer was exempt from franchise tax; 2) the 2014 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 2014**

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	34,876	28,980	8,596	7,548	80,000
\$23,668-\$100,000	-	18,881	8,658	4,726	32,265
\$100,001-\$1,000,000	-	18,109	8,765	5,404	32,278
\$1,000,001-\$5,000,000	-	3,187	1,459	1,105	5,751
\$5,000,001-\$20,000,000	-	631	397	159	1,187
\$20,000,001-\$40,000,000	-	74	55	12	141
\$40,000,001+	-	39	32	11	82
<b>Total</b>	34,876	69,901	27,962	18,965	151,704

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 (53.0%) 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 2014**

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	1,004,369	978,889	288,574	251,765	2,523,597
\$23,668-\$100,000	-	1,447,195	676,028	361,345	2,484,568
\$100,001-\$1,000,000	-	8,267,314	3,894,806	2,587,865	14,749,985
\$1,000,001-\$5,000,000	-	9,889,680	4,671,214	3,338,796	17,899,690
\$5,000,001-\$20,000,000	-	8,377,204	5,490,025	2,080,341	15,947,570
\$20,000,001-\$40,000,000	-	2,993,634	2,079,472	490,861	5,563,967
\$40,000,001+	-	4,149,296	3,756,743	1,095,142	9,001,181
<b>Total</b>	1,004,369	36,103,212	20,856,862	10,206,115	68,170,558

Note: Figures are based partially on unaudited returns.

**SECTION I  
FRANCHISE TAX**

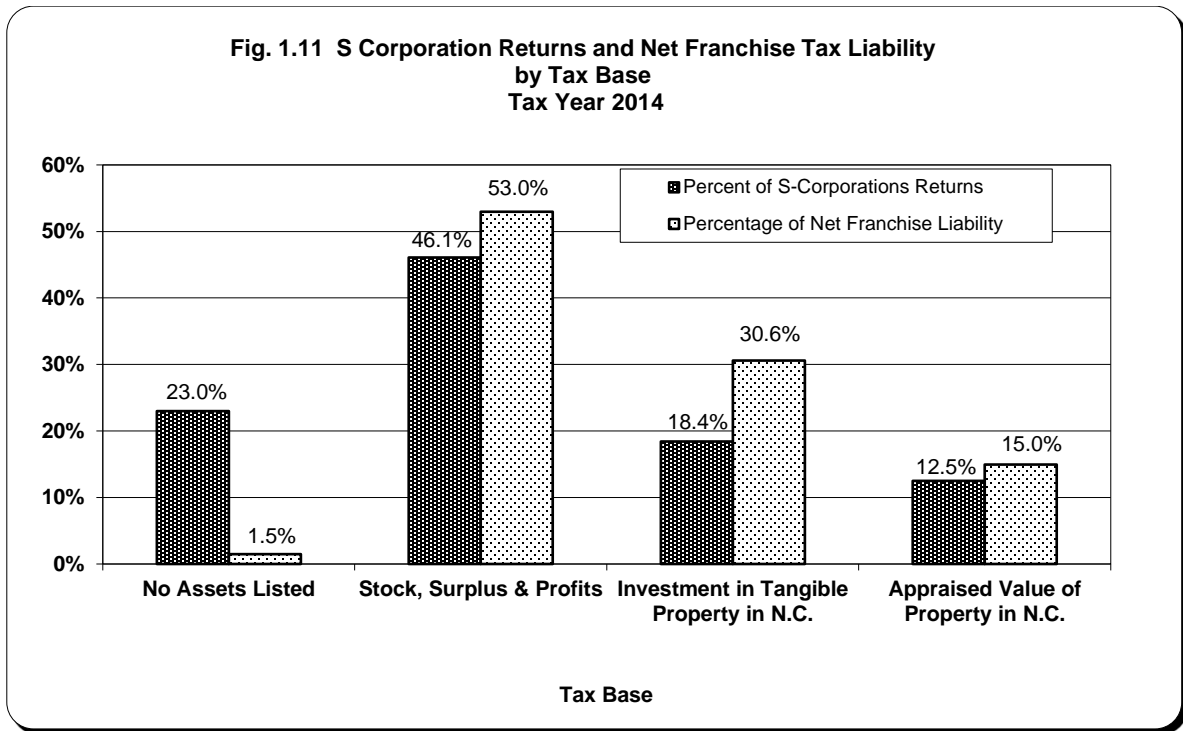


Table 1.12 and Figure 1.13 compare the distribution of S corporation returns and net franchise tax liability. The average tax was \$456, although half of taxpayers had a tax liability of \$35 or less. Twenty-six taxpayers had a net tax liability above \$100,000.

**Table 1.12  
S Corporation Returns and Net Franchise Tax Liability by Franchise Taxable Amount  
Tax Year 2014**

Franchise Taxable Amount	Number of Returns		Net Franchise Tax Liability (\$)	
	Number	Percent	Amount	Percent
\$0-\$23,667	80,000	52.7%	2,523,597	3.7%
\$23,668-\$100,000	32,265	21.3%	2,484,568	3.6%
\$100,001-\$1,000,000	32,278	21.3%	14,749,985	21.6%
\$1,000,001-\$5,000,000	5,751	3.8%	17,899,690	26.3%
\$5,000,001-\$20,000,000	1,187	0.8%	15,947,570	23.4%
\$20,000,001-\$40,000,000	141	0.1%	5,563,967	8.2%
\$40,000,001+	82	0.1%	9,001,181	13.2%
<b>Total</b>	<b>151,704</b>	<b>100.0%</b>	<b>68,170,558</b>	<b>100.0%</b>

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

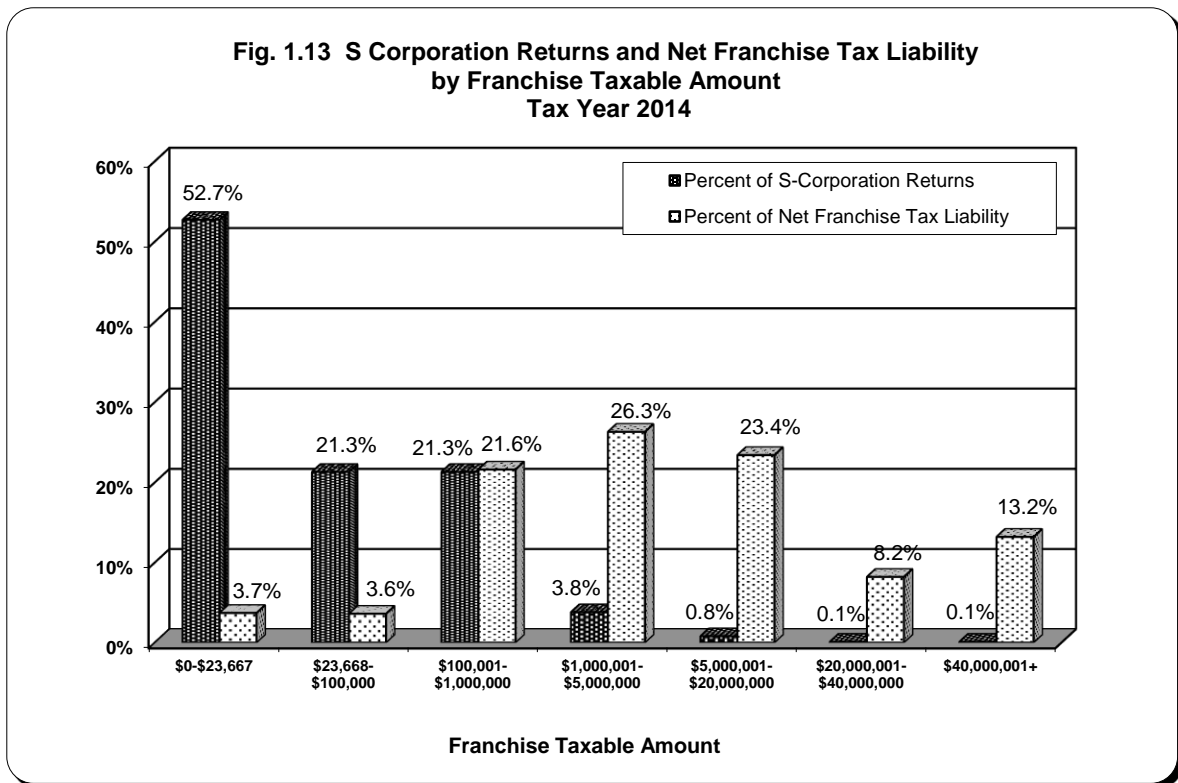


Table 1.14 and Figure 1.15 show the number of returns taking franchise tax credits and amount of credits taken. Returns with a franchise taxable amount greater than \$40 million comprised 0.3% of the returns taking credits and 43.7% of the credits taken.

**Table 1.14  
S Corporation Returns Taking Franchise Tax Credits and Amount of Credits Taken  
Tax Year 2014**

Franchise Taxable Amount	Number of Returns		Amount of Credits	
	Taking Credits	Percent	Taken (\$)	Percent
<b>\$0-\$23,667</b>	1,932	41.9%	73,692	4.2%
<b>\$23,668-\$100,000</b>	1,177	25.5%	90,543	5.1%
<b>\$100,001-\$1,000,000</b>	1,197	25.9%	216,451	12.3%
<b>\$1,000,001-\$5,000,000</b>	208	4.5%	149,387	8.5%
<b>\$5,000,001-\$20,000,000</b>	72	1.6%	288,271	16.4%
<b>\$20,000,001-\$40,000,000</b>	15	0.3%	172,616	9.8%
<b>\$40,000,001+</b>	14	0.3%	769,897	43.7%
<b>Total</b>	<b>4,615</b>	<b>100.0%</b>	<b>1,760,857</b>	<b>100.0%</b>

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

**SECTION I  
FRANCHISE TAX**

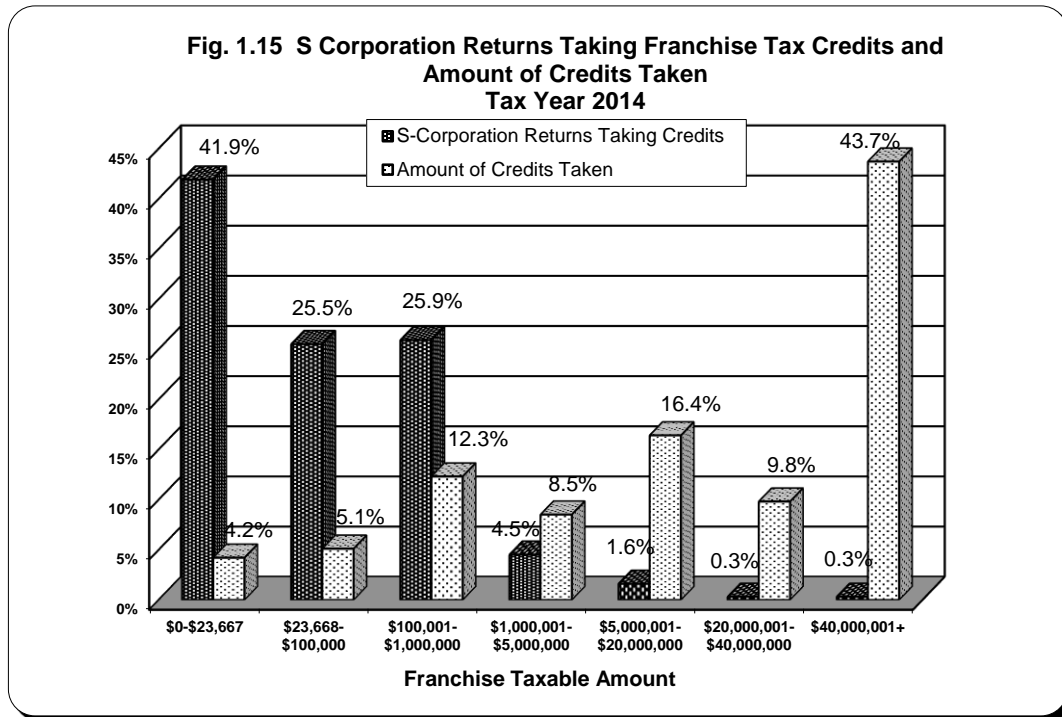


Table 1.16 shows the amount of franchise tax credits by credit type and franchise taxable amount.

**Table 1.16  
S Corporation Franchise Tax Credits Taken by Credit Type and Franchise Taxable Amount  
Tax Year 2014**

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	187	55,068	183	46,988	4	8,080
+ Other Credits Claimed*	4,250	753,046	4,223	748,446	27	4,600
- Other Credits Not Taken **	--	(377,581)	--	(377,581)	--	--
+ Credits Subject to 50% Limit Taken	230	1,330,324	158	112,220	72	1,218,104
= Credits Taken	4,615	1,760,857	4,514	530,073	101	1,230,784

\* This category includes 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 2014 tax year return was a final return; 3) or the taxpayer had no assets.

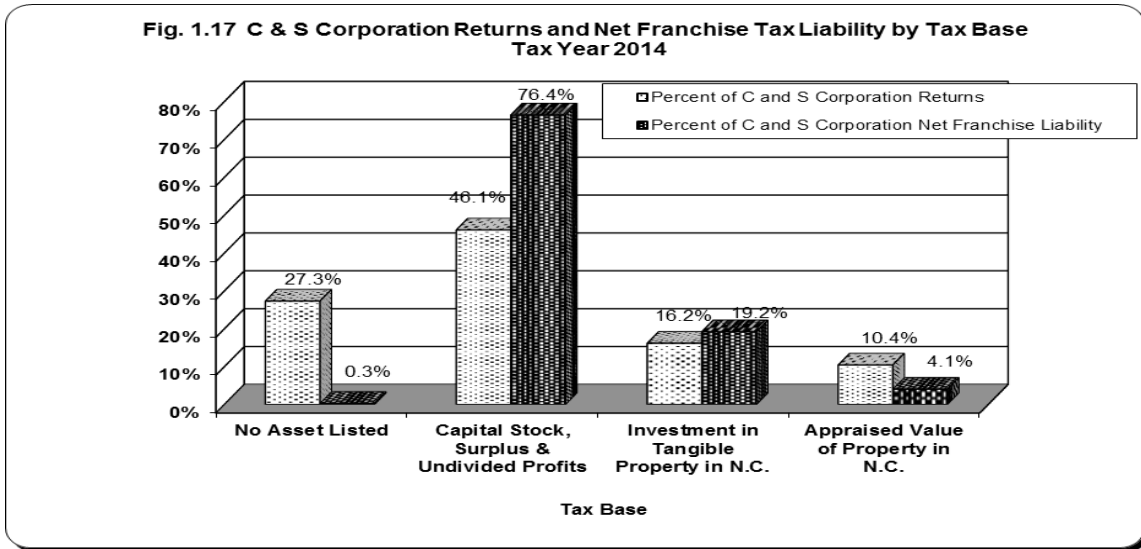
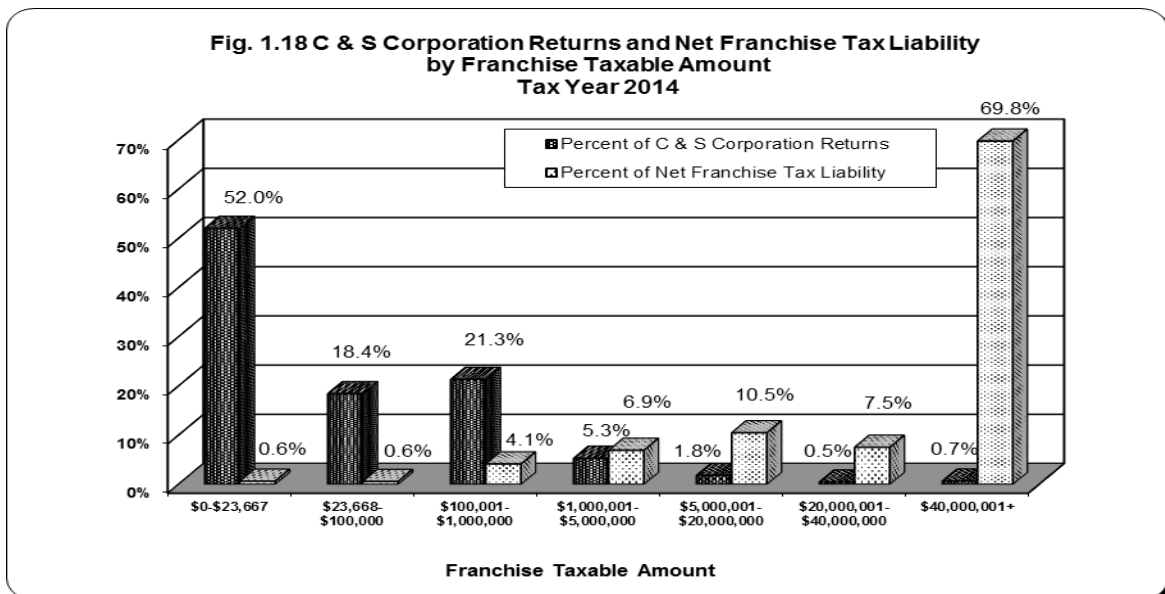


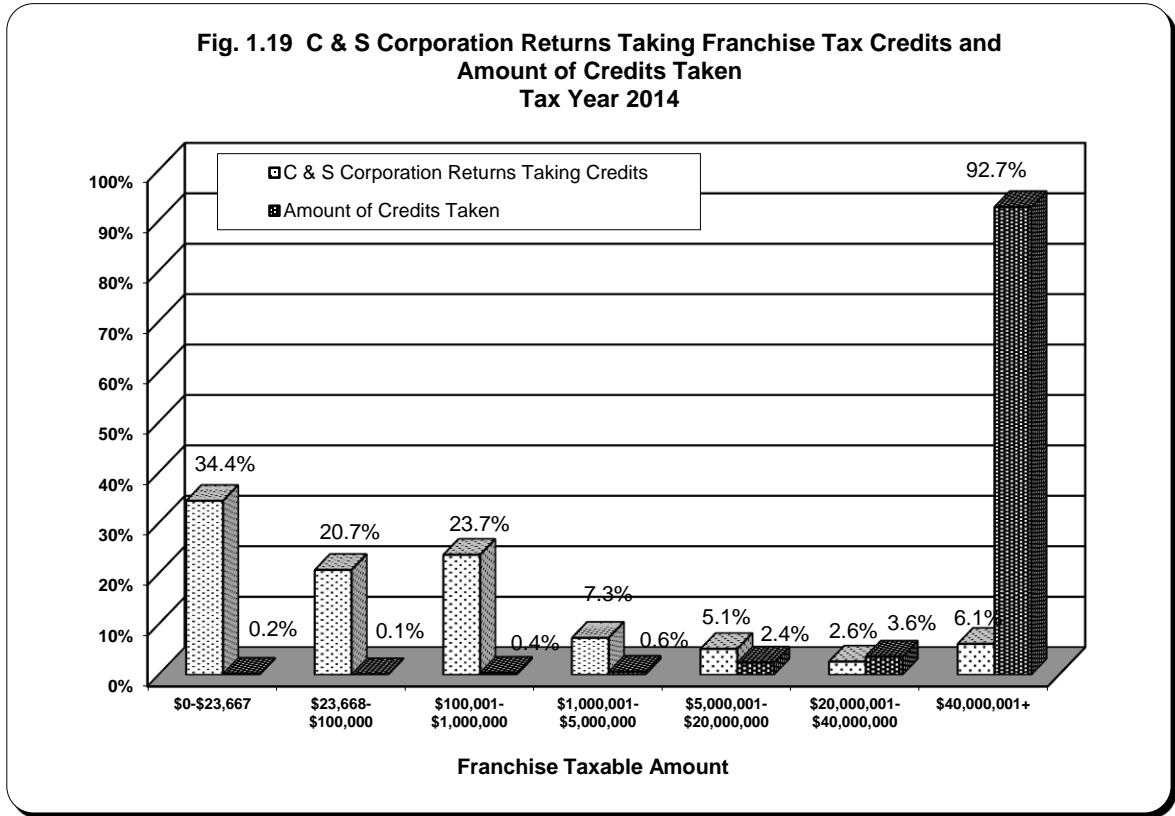
Figure 1.18 shows the number of C and S corporation returns and net franchise tax liability. The top 3% of returns, by taxable amount, paid 87.8% of the tax. Taxpayers with franchise taxable amount over \$20 million made up 1.1% of the returns, but paid 77.3% of net franchise tax.





**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 6,108 of the 211,343 taxable corporations took credits in tax year 2014. Corporations with over \$40 million as their franchise tax base took nearly 93% of all credits.



**C CORPORATIONS**

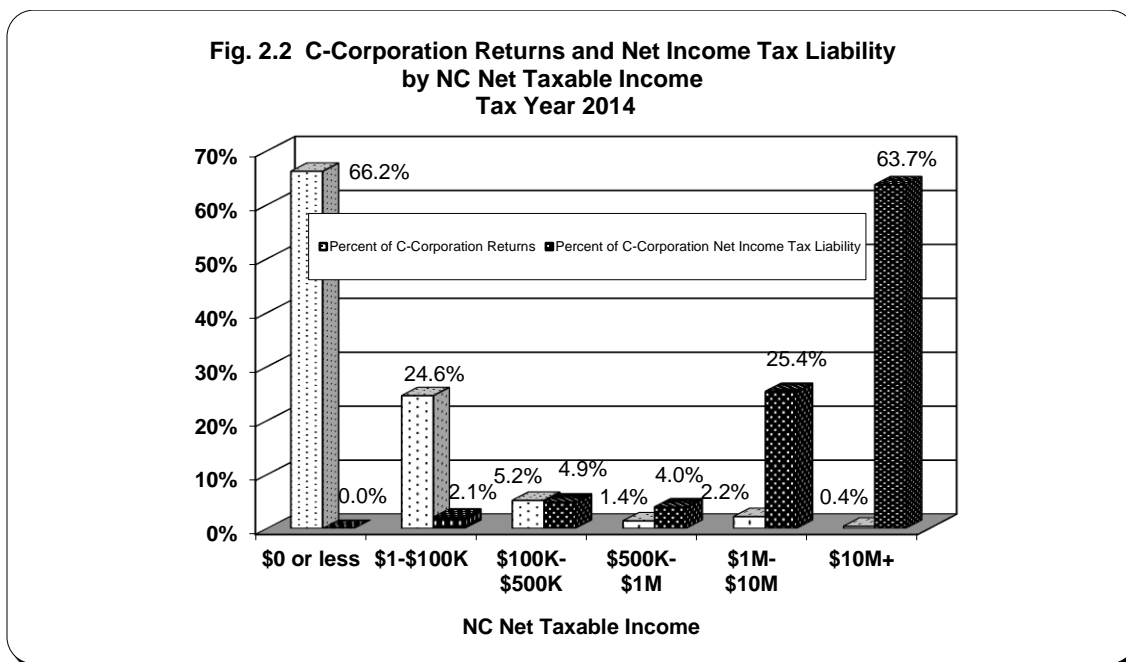
Of the 76,078 tax returns that were filed for tax year 2014, only 25,489 (33.5%) of them had a net tax liability (i.e., a positive tax liability after credits were applied).

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 2014**

NC Net Taxable Income	Number of Returns	Percent	Cumulative Percent	Net Income Tax Liability [\$]	Percent	Cumulative Percent
\$0 or less	50,383	66.2%	66.2%	0	--	--
\$1-\$15,000	11,128	14.6%	80.8%	2,942,680	0.3%	0.3%
\$15,001-\$30,000	2,890	3.8%	84.6%	3,754,005	0.3%	0.6%
\$30,001-\$50,000	2,175	2.9%	87.5%	5,125,867	0.5%	1.1%
\$50,001-\$100,000	2,514	3.3%	90.8%	10,724,800	1.0%	2.1%
\$100,001-\$500,000	3,942	5.2%	96.0%	54,635,200	4.9%	7.0%
\$500,001-\$1,000,000	1,073	1.4%	97.4%	44,779,705	4.0%	11.0%
\$1,000,001-\$10,000,000	1,672	2.2%	99.6%	281,937,129	25.4%	36.4%
\$10,000,001+	301	0.4%	100.0%	708,005,916	63.7%	100.0%
<b>Total</b>	<b>76,078</b>	<b>100.0%</b>	<b>--</b>	<b>1,111,905,302</b>	<b>100.0%</b>	<b>--</b>

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

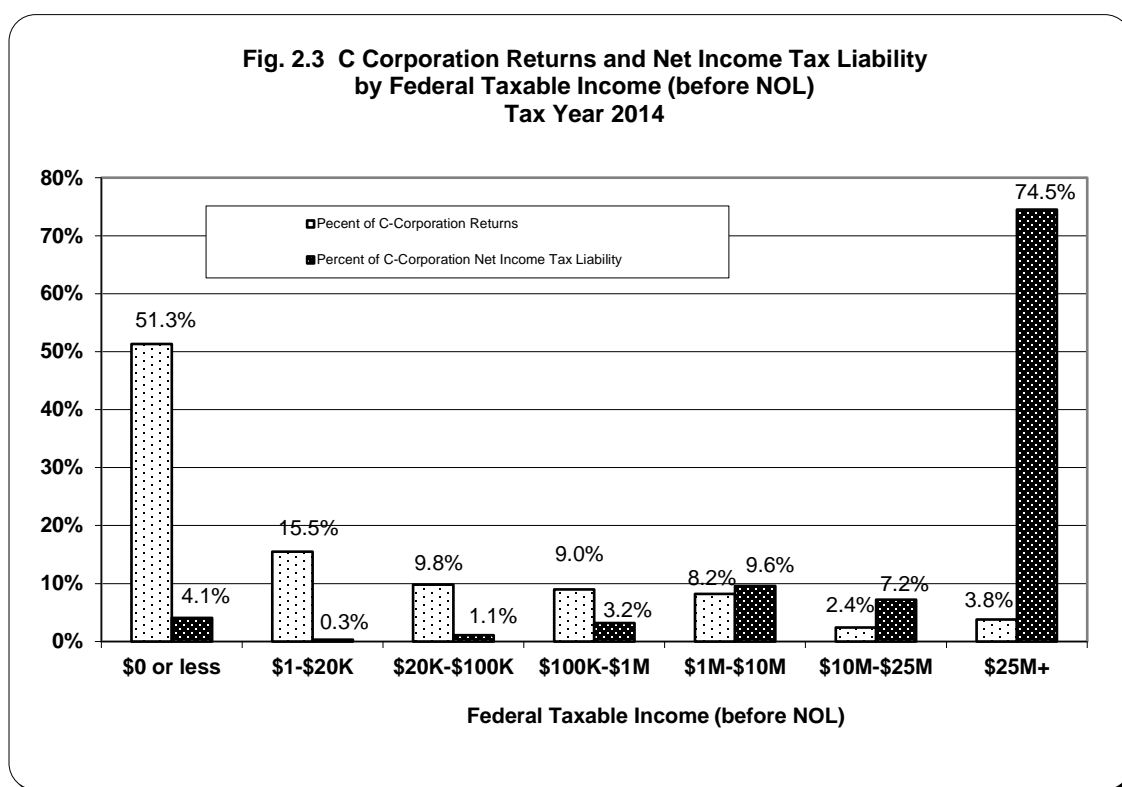


## SECTION II INCOME TAX

As shown in Table 2.1 and Figure 2.2 on the previous page, C corporations with a North Carolina Taxable Income of over \$1 million were liable for 89.1% of the C corporation income tax liability, but made up 2.6% of the corporations filing returns. Approximately 64% of the total C corporation net income tax liability was attributable to the 301 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 nearly three-quarters of North Carolina 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 2014**

Federal Taxable Income (before NOL)	NC Apportionment Percentage					Total
	<5%	5% - 24%	25% - 49%	50% - 99%	100%	
\$0 or less	11,443	1,696	547	797	24,515	38,998
\$1 - \$20,000	793	236	107	226	10,423	11,785
\$20,001- \$100,000	1,335	385	149	361	5,259	7,489
\$100,001 - \$ 1,000,000	3,459	725	276	530	1,881	6,871
\$1,000,001 - \$10,000,000	4,676	756	291	259	253	6,235
\$10,000,001-\$25,000,000	1,477	251	63	39	12	1,842
\$25,000,001+	2,495	294	46	16	7	2,858
<b>Total</b>	25,678	4,343	1,479	2,228	42,350	76,078

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 55.7% of the returns filed for tax year 2014. However, these corporations accounted for only 8.0% 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 2014**

Federal Taxable Income (before NOL)	NC Apportionment Percentage					Total
	<5% [\$]	5% - 24% [\$]	25% - 49% [\$]	50% - 99% [\$]	100% [\$]	
\$0 or less	9,777,792	28,283,182	186,120	3,397,259	3,958,911	45,603,264
\$1 - \$20,000	16,883	19,302	19,511	205,890	3,044,340	3,305,926
\$20,001- \$100,000	101,668	156,488	138,662	982,021	11,250,598	12,629,437
\$100,001 - \$ 1,000,000	1,664,249	1,748,688	1,913,771	6,633,904	23,127,308	35,087,920
\$1,000,001 - \$10,000,000	12,754,943	15,449,306	18,476,928	26,763,165	33,358,848	106,803,190
\$10,000,001-\$25,000,000	15,369,881	22,331,973	17,261,991	16,800,173	8,160,720	79,924,738
\$25,000,001+	410,008,178	278,621,207	109,287,490	24,734,902	5,899,050	828,550,827
<b>Total</b>	449,693,594	346,610,146	147,284,473	79,517,314	88,799,775	1,111,905,302

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. Nearly sixty-two 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.

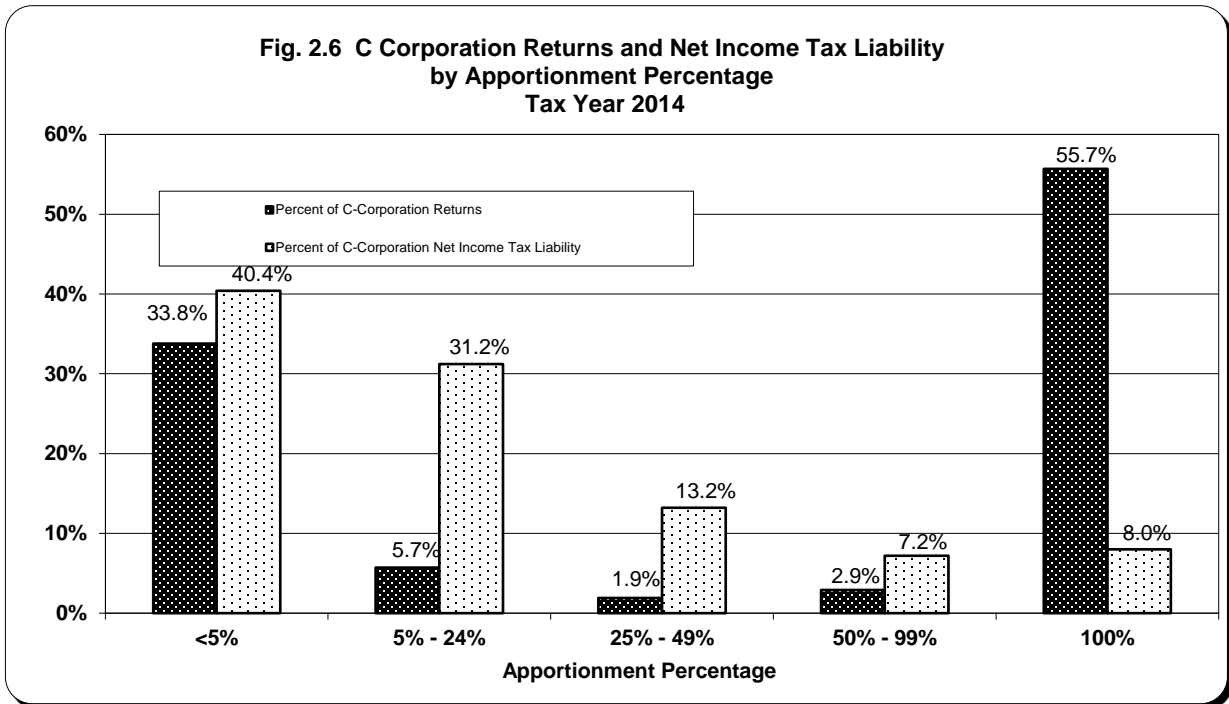


Table 2.7 on the next page shows statistics on the calculation of net tax liability at various steps, starting with federal taxable income. Returns are divided into taxable and nontaxable returns, where taxable returns are defined as those with a positive tax liability before credits are applied. The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

Out of 76,078 returns, 33.5% were taxable returns and 66.5% were nontaxable returns. Taxable returns with a federal taxable income over \$25 million made up 2.9% of the returns but accounted for 74.5% of the tax liability.

Of the 38,998 returns with federal taxable income of zero or less, 1,176 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 37,080 returns that did show a federal taxable income, 12,766 did not have a North Carolina liability. One can trace through the calculations in Table 2.7 to see what factors contributed to the elimination of tax liability for these companies. From federal taxable income of \$164.5 billion, there was a reduction of \$29.5 billion due to NC adjustments, a reduction of \$5.0 billion due to nonapportionable income, a reduction of \$127.9 billion due to apportioning income to North Carolina, and a reduction of \$8.8 billion due to Net Economic Loss carryforwards.<sup>3</sup>

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 2014 was for the bonus depreciation allowances created by the Tax Increase Prevention Act of 2014 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 \$146.1 million.

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<sup>3</sup> 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 2014**

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 [\$]
<b><u>Taxable Returns</u></b>							
\$0 or less	1,176	(8,298,342,743)	18,146,422,321	44,298,100	(56,767,917)	9,077,601,192	782,948,203
\$1-\$20,000	7,122	45,663,297	26,670,983	152,499	(250,510)	12,898,491	59,533,800
\$20,001-\$100,000	4,941	240,555,603	74,219,624	1,029,916	1,751,701	81,077,264	230,916,346
\$100,001-\$1,000,000	4,384	1,652,922,974	379,466,241	8,790,864	62,317,942	1,335,760,884	625,519,525
\$1,000,001-\$10,000,000	4,319	16,213,241,106	2,388,589,189	67,250,980	393,505,191	16,233,211,245	1,907,862,879
\$10,000,001-\$25,000,000	1,356	21,650,245,666	2,882,292,644	144,210,584	288,650,267	22,572,768,164	1,526,909,295
\$25,000,001+	2,192	647,378,747,797	11,778,517,018	5,229,521,643	2,826,861,922	633,889,944,505	17,210,936,745
<b>Total, Taxable</b>	25,490	678,883,033,700	35,676,178,020	5,495,254,586	3,516,068,596	683,203,261,745	22,344,626,793
<b><u>Nontaxable Returns</u></b>							
\$0 or less	37,822	(244,063,383,772)	(1,824,567,163)	51,044,768	102,379,446	(237,040,866,417)	(9,000,508,732)
More than \$0	12,766	164,454,075,357	(27,677,599,443)	755,779,506	4,983,874,895	127,860,145,055	3,176,676,458
<b>Total, Nontaxable</b>	50,588	(79,609,308,415)	(29,502,166,606)	806,824,274	5,086,254,341	(109,180,721,362)	(5,823,832,274)

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 [\$]
<b><u>Taxable Returns</u></b>								
\$0 or less	w	w	25,927,699	1,035,639	788,730,715	47,323,881	1,720,617	45,603,264
\$1-\$20,000	375,428	13,183	4,212,565	335,236	55,348,244	3,320,952	15,026	3,305,926
\$20,001-\$100,000	1,398,603	-	19,766,348	1,521,715	211,026,886	12,661,691	32,254	12,629,437
\$100,001-\$1,000,000	w	w	50,330,978	3,687,383	592,690,800	35,561,486	473,566	35,087,920
\$1,000,001-\$10,000,000	w	w	97,871,744	7,361,970	1,847,634,273	110,858,088	4,054,898	106,803,190
\$10,000,001-\$25,000,000	w	w	66,627,855	6,772,008	1,472,350,866	88,341,061	8,416,323	79,924,738
\$25,000,001+	7,860,178	22,715,228	1,120,381,361	76,047,512	15,999,652,822	959,979,191	131,428,364	828,550,827
<b>Total, Taxable</b>	128,228,432	23,540,606	1,385,118,550	96,761,463	20,967,434,606	1,258,046,350	146,141,048	1,111,905,302
<b><u>Nontaxable Returns</u></b>								
\$0 or less	(21,297,975)	82,477	5,730,160,023	2,105,305	(14,754,154,512)	-	-	-
More than \$0	9,612,420	86,258,474	8,779,597,647	28,965,355	(5,708,532,598)	-	-	-
<b>Total, Nontaxable</b>	(11,685,555)	86,340,951	14,509,757,670	31,070,660	(20,462,687,110)	-	-	-

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:** Table 2.8 shows the number of taxpayers taking income tax credits, broken out by the percentage of income tax offset by the credits. Nearly 98% of the 25,490 returns with positive tax liability before credits did not take any income tax credits. Fifty-one percent of the 524 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 72.5% of the total credits taken.

**Table 2.8  
Number of C Corporation Taxable Returns Taking Credits as a Percentage of Tax Liability  
Tax Year 2014**

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	10,892	w	w	w	22	10,923
\$15,001-30,000	2,876	w	w	w	11	2,890
\$30,001-\$50,000	2,150	w	w	w	16	2,175
\$50,001-\$100,000	2,495	w	w	w	15	2,514
\$100,001-\$500,000	3,862	19	14	7	40	3,942
\$500,001-\$1,000,000	1,019	w	w	7	37	1,073
\$1,000,001-\$10,000,000	1,485	60	19	27	81	1,672
\$10,000,001+	187	34	20	14	46	301
<b>Total</b>	24,966	128	61	67	268	25,490

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 2014**

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	3,661	4,269
\$15,001-30,000	w	w	w	6,380	7,488
\$30,001-\$50,000	w	w	w	18,118	22,345
\$50,001-\$100,000	w	w	w	30,812	34,410
\$100,001-\$500,000	10,989	31,892	36,810	308,018	387,709
\$500,001-\$1,000,000	w	w	104,455	739,628	862,883
\$1,000,001-\$10,000,000	593,280	519,965	1,825,302	8,146,684	11,085,231
\$10,000,001+	6,047,600	16,255,931	14,697,761	96,735,421	133,736,713
<b>Total</b>	6,666,335	16,815,817	16,670,174	105,988,722	146,141,048

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.

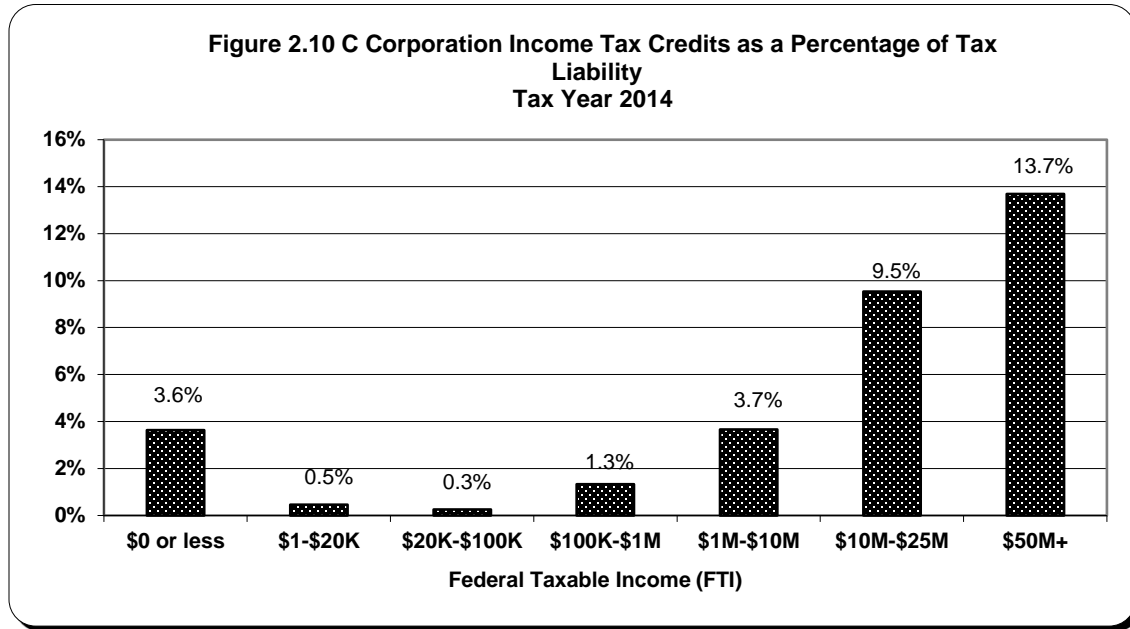


Table 2.11 provides the distribution of income tax credits by credit type and NC net taxable income.

**Table 2.11  
C Corporation Income Tax Credits by Credit Type and NC Taxable Income (NCTI)  
Tax Year 2014**

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	10	1,746,844	w	w	w	w
Other Non-Limited Credits **	13	24,180,851	5	37,217	8	24,143,634
Credit Carryover from Previous Years (Taken only)	6	18,616,203	w	w	w	w
Tax Credit Subject to 50% of Tax Limit (Taken only)	503	132,912,053	215	1,349,237	288	131,562,816
<b>Credits Claimed</b>	<b>527</b>	<b>177,455,951</b>	<b>249</b>	<b>1,760,676</b>	<b>309</b>	<b>175,695,275</b>
<b>Credits Not Taken ***</b>	<b>--</b>	<b>31,314,903</b>	<b>--</b>	<b>441,572</b>	<b>--</b>	<b>30,873,331</b>
<b>Credits Taken</b>	<b>524</b>	<b>146,141,048</b>	<b>223</b>	<b>1,319,104</b>	<b>301</b>	<b>144,821,944</b>

\* 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% 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 have agreed 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 61.3% of the tax liability, but only 1.4% of returns.

The total net tax liability of \$66.0 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 2014**

<b>NC Taxable Income*</b>	<b>Number of Returns</b>	<b>Percent</b>	<b>Number With Tax Due for Nonresidents</b>	<b>Net Tax Liability [\$]</b>	<b>Percent</b>
<b>\$0 or less</b>	53,042	34.96%	0	0	0.00%
<b>\$1-\$15,000</b>	32,205	21.23%	3,067	809,416	1.23%
<b>\$15,001-30,000</b>	15,716	10.36%	799	947,396	1.44%
<b>\$30,001-\$50,000</b>	12,971	8.55%	579	1,232,173	1.87%
<b>\$50,001-\$100,000</b>	15,469	10.20%	748	2,806,918	4.25%
<b>\$100,001-\$500,000</b>	17,832	11.75%	1,055	12,246,069	18.55%
<b>\$500,001-\$1,000,000</b>	2,404	1.58%	216	7,502,765	11.37%
<b>\$1,000,001-\$10,000,000</b>	1,979	1.30%	215	25,386,379	38.46%
<b>\$10,000,001+</b>	86	0.06%	12	15,075,837	22.84%
<b>Total</b>	151,704	100.00%	6,691	66,006,953	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 a composite return

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

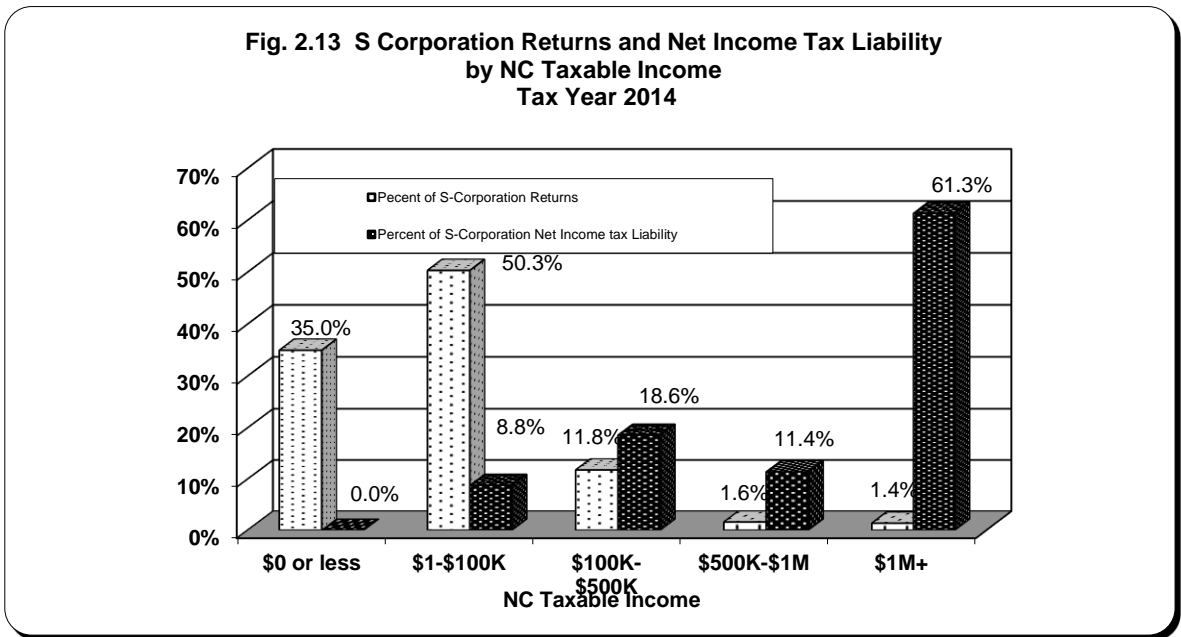
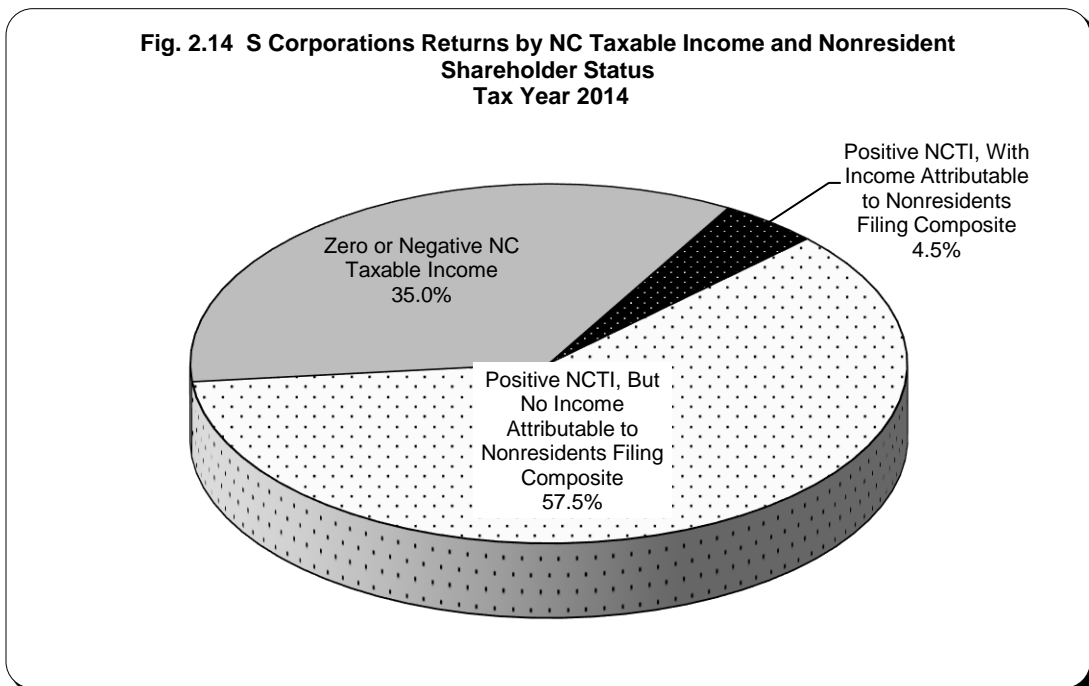


Figure 2.14 illustrates the distribution of returns by North Carolina taxable income and nonresident shareholder filing status. Only 4.5% of S corporation returns had a tax liability attributable to nonresidents who chose to allow the S corporation to file a composite return on their behalf.



**SECTION II  
INCOME TAX**

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

**Table 2.15  
S Corporation Income Tax Calculation Detail  
Tax Year 2014**

		(+)	(+)	(-)	(-)	(=)	(+)
<b>NC Taxable Income</b>	<b>Number of Returns</b>	<b>Federal Corporation Income</b>	<b>Adjustments to Federal Income</b>	<b>Nonapportionable Income</b>	<b>Reduction Due To Apportionment</b>	<b>Income Apportioned to NC</b>	<b>Nonapportionable Income Allocated to NC</b>
		[\$]	[\$]	[\$]	[\$]	[\$]	[\$]
<b>Zero or Negative</b>	53,042	5,303,225,377	(4,136,896,338)	2,538,013,020	345,300,550	(1,716,984,531)	(8,757,331)
<b>Positive, But No Income Attributable to Nonresidents Filing Composite</b>	91,897	37,315,855,017	1,787,227,550	588,206,779	25,895,136,500	12,619,739,288	209,418,499
<b>Positive, With Income Attributable to Nonresidents Filing Composite</b>	6,765	42,903,938,518	1,478,323,643	1,371,763,937	41,633,704,266	1,376,793,958	28,935,387
<b>Total</b>	151,704	85,523,018,912	(871,345,145)	4,497,983,736	67,874,141,316	12,279,548,715	229,596,555

	(=)	(+)	(=)		(-)	(=)	
<b>NC Taxable Income</b>	<b>NC Net Taxable Income</b>	<b>Adjustment for Shareholders Paying Tax on Shares</b>	<b>Taxable Income Attributable to Nonresidents Filing Composite</b>	<b>Separately Stated Income Attributable to Nonresidents Filing Composite</b>	<b>Computed Income Tax</b>	<b>Tax Credits</b>	<b>Net Tax Liability</b>
	[\$]	[\$]	[\$]	[\$]	[\$]	[\$]	[\$]
<b>Zero or Negative</b>	(1,725,741,862)	1,630,758,416	(94,983,446)	22,823	-	-	-
<b>Positive, But No Income Attributable to Nonresidents Filing Composite</b>	12,829,157,787	(12,829,157,787)	-	831,277	47,253	-	47,253
<b>Positive, With Income Attributable to Nonresidents Filing Composite</b>	1,405,729,345	(238,843,921)	1,166,885,424	3,484,312	67,788,730	1,829,030	65,959,700
<b>Total</b>	12,509,145,270	(11,437,243,292)	1,071,901,978	4,338,412	67,835,983	1,829,030	66,006,953

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 million took 91.8% 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 2014**

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 (\$)
<b>Credits Claimed</b>	55	1,829,030	37	150,246	18	1,678,784
<b>Credits Not Taken</b>	--	-	--	-	--	-
<b>Credits Taken</b>	55	1,829,030	37	150,246	18	1,678,784

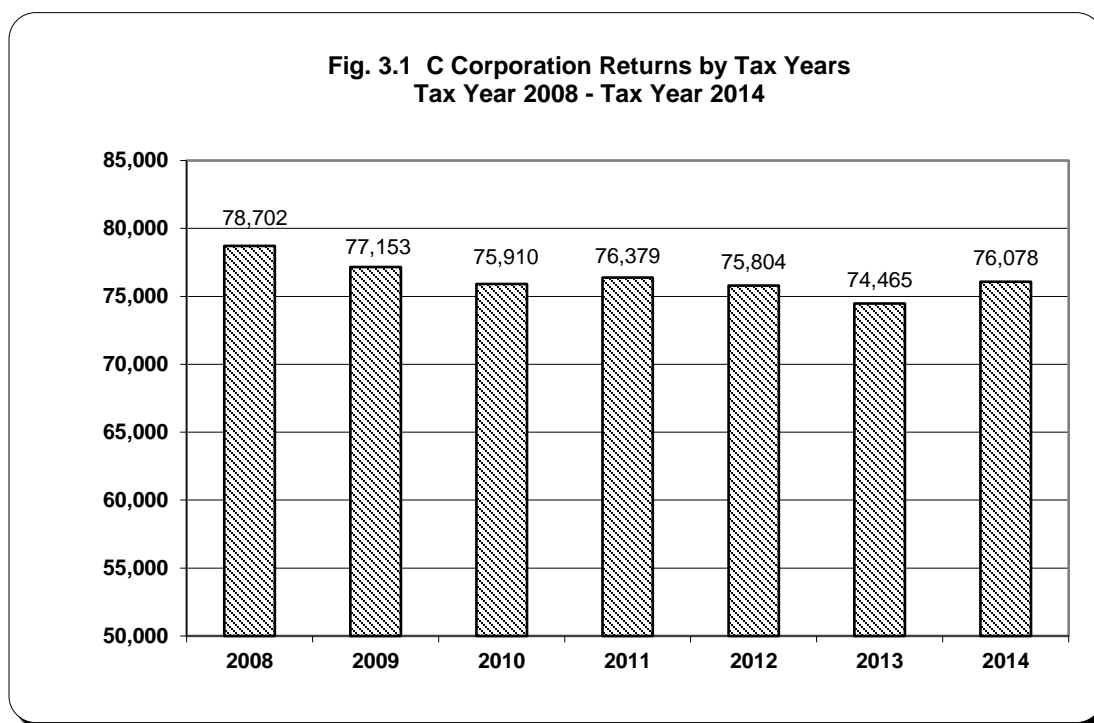
Note: Confidentiality prevents the disclosure of individual credits and credits amounts.

**C CORPORATIONS**

In this section, data on corporate returns are presented for tax years 2008 through 2014. 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, and a rebound in 2014. Data from the IRS Statistics of Income Division also shows a decline in the number of Form 1120 filers nationally between 2008 and 2013.<sup>4</sup>

The number of first-time filers, as reported on the tax form, was 4,560 in 2014. This was higher than the prior two years: 3,904 in 2013 and 4,270 in 2012. The number of new filers was approximately 5,000 annually during the period from 2005 through 2007.



<sup>4</sup> 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 2014. 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).

Between TY09 and TY13, the income tax liability has grown each year, reaching 8.5% growth between TY12 and TY13. The reduction in tax liability in TY14 was due to the reduction in the tax rate from 6% to 6.9%. 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 and a 14.7% increase in TY14.

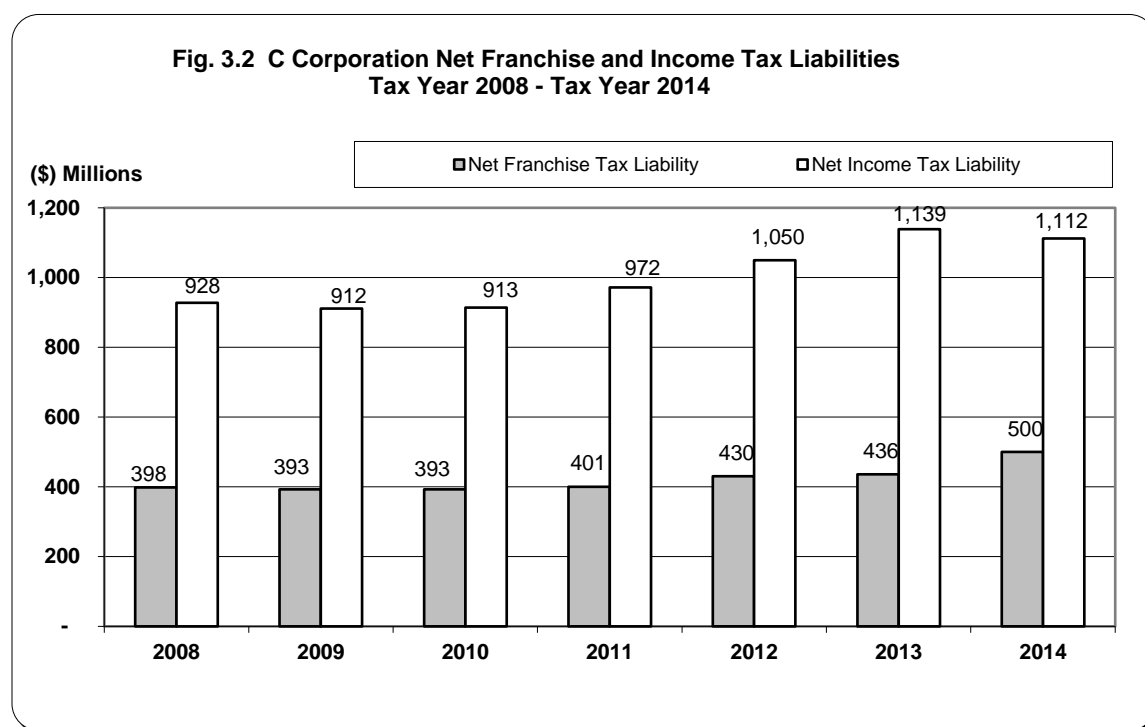


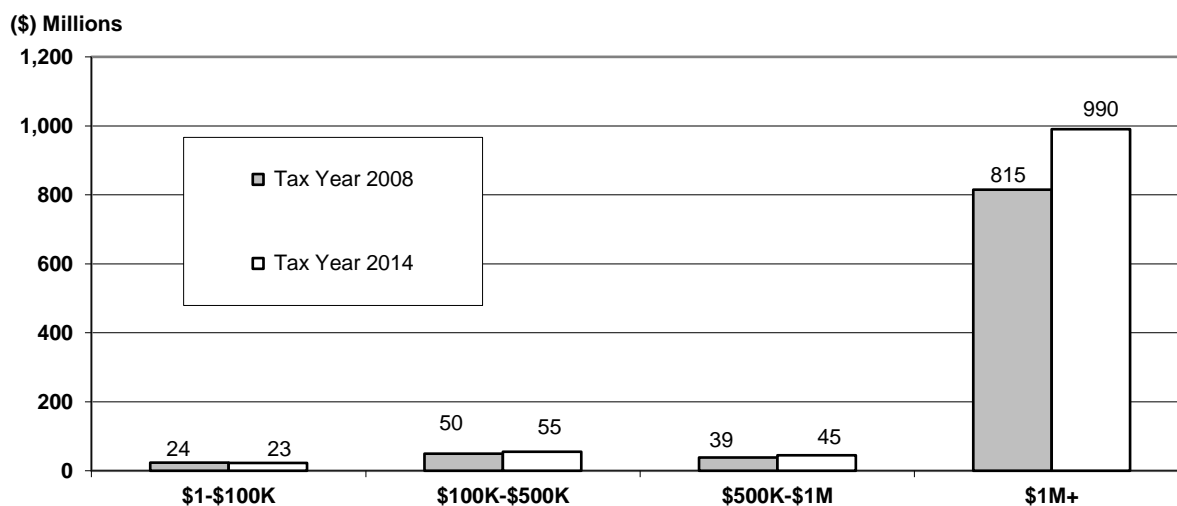
Table 3.3 and Figure 3.4 compare the net income tax liability of C corporations in tax year 2008 and tax year 2014 by NC taxable income brackets. The strongest growth has been for returns with NC taxable income above \$10 million.

**Table 3.3  
C Corporation Net Income Tax Liability by NC Taxable Income  
Tax Year 2008 & Tax Year 2014**

NC Taxable Income	Net Income Tax Liability TY 2008	Net Income Tax Liability TY 2014	% Difference
\$0 or less	--	--	--
\$1-\$15,000	3,442,853	2,942,680	-14.53%
\$15,001-\$30,000	3,992,158	3,754,005	-5.97%
\$30,001-\$50,000	5,200,957	5,125,867	-1.44%
\$50,001-\$100,000	11,171,608	10,724,800	-4.00%
\$100,001-\$500,000	49,686,690	54,635,200	9.96%
\$500,001-\$1,000,000	38,719,372	44,779,705	15.65%
\$1,000,001-\$10,000,000	254,056,202	281,937,129	10.97%
\$10,000,001+	561,232,154	708,005,916	26.15%
<b>Total</b>	<b>927,501,994</b>	<b>1,111,905,302</b>	<b>19.88%</b>

Note: The tax rate in 2008 was 6.9% and the tax rate in 2014 was 6.0%.

**Fig. 3.4 C Corporation Net Income Tax Liability by NC Taxable Income  
Tax Year 2008 & Tax Year 2014**





**S CORPORATIONS**

Table 3.5 compares the number of S corporation returns by tax years 2008 through 2014. 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 TY14 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 2014, there were 8,527 new S corporation filers. However, this is below the average of over 11,000 new filers for the period from 2005 through 2008.

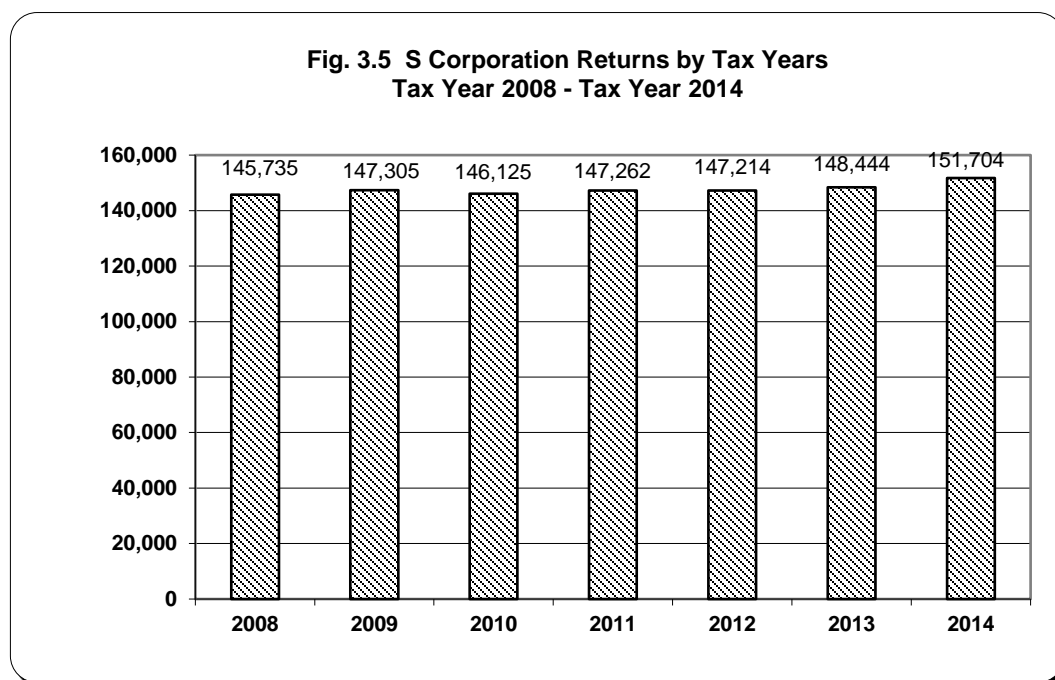


Figure 3.6 illustrates the relative amounts of net tax liabilities for 2008 through 2014 for S corporations. As discussed in Section II, the income tax liability for S corporations only includes taxes paid for nonresident shareholders filing a composite return. Therefore, comparisons across time may be misleading if certain larger taxpayers alter their behavior in this regard.

For 2014, the income tax rate for individuals was changed from a graduated rate structure with tax rates from 6% to 7.75% to a flat tax with a 5.8% rate. This has affected the calculation of income tax for S corporations.

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 and by 4.7% in 2014.

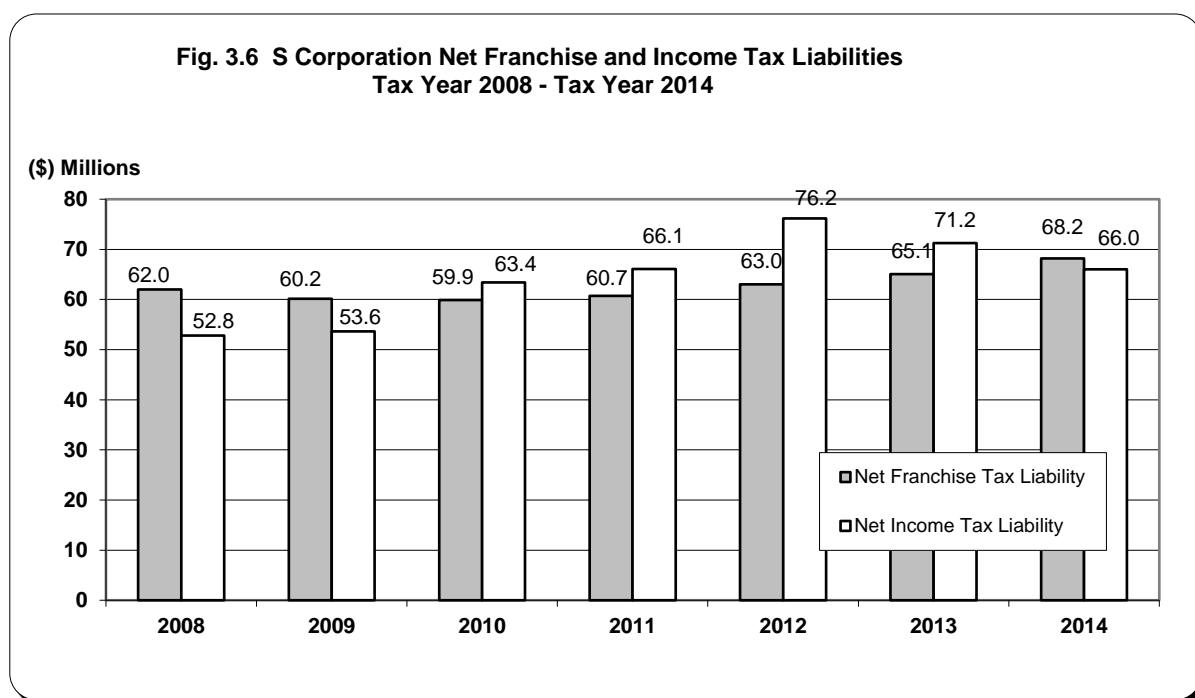
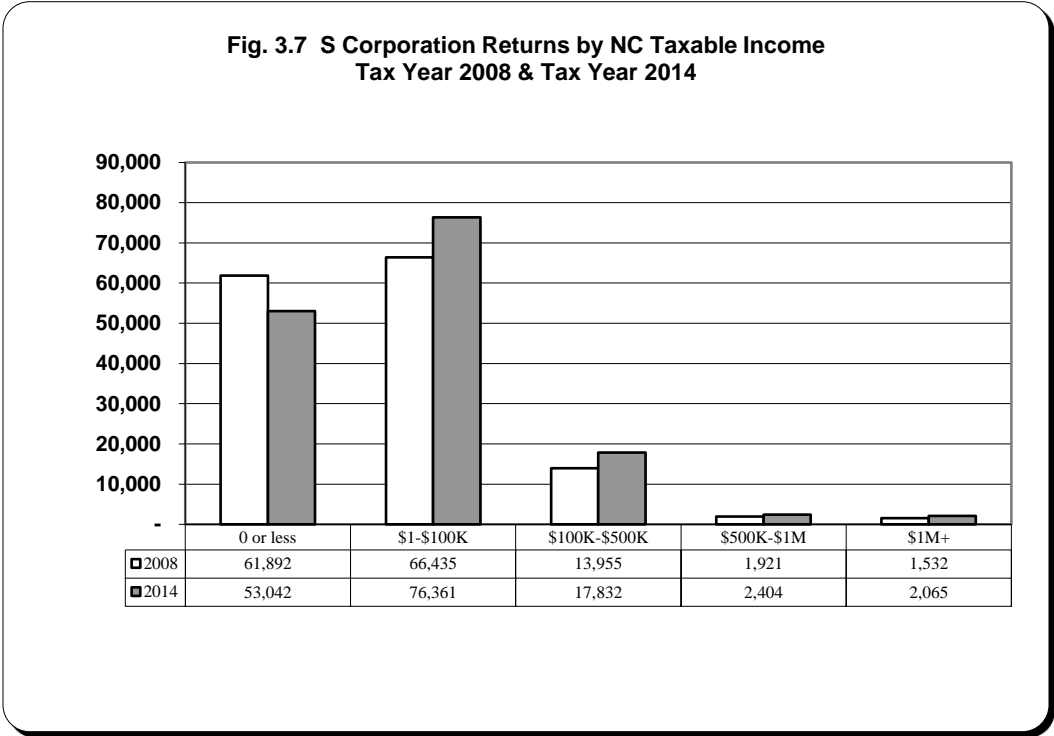


Figure 3.7 compares the number of S corporation returns in tax years 2008 and 2014 by NC taxable income brackets. The total number of returns has grown. The percentage growth has been greatest in the largest NC taxable income bracket. However, the returns are still predominantly those with less than \$100,000 in taxable income.



**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 the distribution of corporate returns by the month in which their fiscal year begins, as well as for short-period returns. Calendar year returns comprised 85.7% of all returns. Their net franchise tax liability was 77.5% of the total, and their net income tax liability made up 73.0% of the total.

**Table 4.1  
All Corporation Statistics by Fiscal Year Start Month  
Tax Year 2014**

Tax Year Start Month	All Returns	Franchise Tax		Income Tax	
	Number of returns	Number	Amount (\$)	Number	Amount (\$)
January	195,119	178,628	440,416,768	23,174	859,467,140
February	1,094	1,063	16,475,592	412	59,929,681
March	707	678	2,148,142	274	4,509,522
April	3,283	3,163	19,898,201	1,328	40,992,953
May	1,013	957	2,257,250	383	8,038,217
June	1,077	1,004	4,214,792	397	20,248,171
July	4,467	3,885	17,068,105	1,655	35,049,621
August	1,005	947	9,079,857	396	15,062,915
September	980	923	3,829,807	396	10,204,538
October	4,449	4,154	18,669,208	1,506	39,806,760
November	1,595	1,540	6,581,857	555	15,402,982
December	841	800	1,758,285	281	3,635,296
Short-period returns	12,152	10,454	25,723,697	1,423	65,564,459
<b>Total</b>	<b>227,782</b>	<b>208,196</b>	<b>568,121,561</b>	<b>32,180</b>	<b>1,177,912,255</b>

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 35% 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 2014**

Industry Sector	All Returns	Franchise Tax		Income Tax	
	Number of returns	Number	Amount (\$)	Number	Amount (\$)
Agriculture, Forestry, Fishing and Hunting	1,104	1,074	2,245,833	450	6,199,998
Mining	143	142	4,574,515	47	3,586,390
Utilities	209	185	46,939,658	57	11,975,616
Construction	6,033	5,848	6,763,168	1,941	16,551,093
Manufacturing	7,597	7,368	155,358,973	3,183	413,062,021
Wholesale	5,249	5,111	31,539,269	2,481	81,404,940
Retail	5,492	5,312	32,421,516	2,027	103,822,581
Transportation	1,966	1,902	6,689,036	785	19,984,374
Couriers and Warehousing	178	172	806,007	68	1,531,500
Information	2,224	2,104	42,227,255	691	81,881,754
Finance and Insurance	6,263	5,764	77,942,176	2,228	180,632,645
Real Estate and Rental & Leasing	11,134	6,576	29,348,523	2,363	37,677,613
Professional, Scientific and Technical Services	9,347	8,923	23,856,100	3,345	89,087,877
Management of Companies / see note	1,932	1,841	15,701,250	612	15,981,640
Administration & Support and Waste Management & Remediation Services	2,829	2,356	8,160,281	951	14,612,831
Educational Services	375	345	546,204	125	1,851,377
Health Care and Social Assistance	3,013	2,846	5,700,900	994	11,563,505
Arts, Entertainment and Recreation	925	787	1,340,340	296	908,929
Accommodations and Food Services	2,021	1,919	4,069,668	861	11,716,759
Other Services	3,571	2,774	2,216,146	1,142	6,180,749
Unidentifiable	4,473	1,955	1,504,185	842	1,691,110
<b>Total</b>	<b>76,078</b>	<b>65,304</b>	<b>499,951,003</b>	<b>25,489</b>	<b>1,111,905,302</b>

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. In addition 61 bank holding companies were reassigned to the Finance & Insurance sector. (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.)

**SECTION V  
INDUSTRY SECTORS**

**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 2014**

Industry Sector	All Returns	Franchise Tax		Income Tax	
	Number of returns	Number	Amount (\$)	Number	Amount (\$)
Agriculture, Mining & Utilities	3,742	3,567	3,226,145	60	538,990
Construction	22,880	21,672	7,391,135	840	4,776,376
Manufacturing	6,676	6,373	10,013,677	842	14,914,919
Wholesale	6,371	6,001	6,396,542	637	6,394,595
Retail	15,395	14,485	11,585,492	289	3,313,967
Transportation	4,186	3,958	1,309,651	211	1,883,163
Couriers and Warehousing	455	442	215,271	19	67,255
Information	2,331	2,141	900,421	194	886,702
Finance and Insurance	6,199	5,835	2,602,629	373	9,603,421
Real Estate and Rental & Leasing	16,123	15,270	9,156,551	465	2,533,574
Professional, Scientific and Technical Services	24,083	22,503	3,776,512	1,544	8,038,200
Management of Companies	865	805	1,771,547	206	4,873,714
Administration & Support and Waste Management & Remediation Services	6,330	5,918	1,256,247	368	4,280,773
Educational Services	943	880	148,287	35	688,203
Health Care and Social Assistance	9,873	9,431	2,402,026	95	1,275,448
Arts, Entertainment and Recreation	3,621	3,341	968,172	201	442,134
Accommodations and Food Services	7,461	6,945	2,932,516	94	692,416
Other Services	11,043	10,349	1,583,785	150	437,516
Unidentifiable	3,127	2,976	533,952	68	365,587
<b>Total</b>	<b>151,704</b>	<b>142,892</b>	<b>68,170,558</b>	<b>6,691</b>	<b>66,006,953</b>

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 2014 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; (4) retail; and (5) health care and social assistance.

**Table 5.3  
S Corporation NC Net Taxable Income by Industry Sector  
Tax Year 2014**

Industry Sector	Net Taxable Income		
	Number of returns	Amount (\$)	Share of total amount
Agriculture, Forestry, Fishing and Hunting	3,323	460,035,944	3.7%
Mining	98	12,203,619	0.1%
Utilities	134	5,753,456	0.0%
Construction	20,634	1,458,717,516	11.7%
Manufacturing	6,111	1,627,273,426	13.0%
Wholesale	5,899	948,704,460	7.6%
Retail	14,671	1,224,597,318	9.8%
Transportation	3,860	199,054,220	1.6%
Couriers and Warehousing	417	33,185,975	0.3%
Information	2,129	163,957,072	1.3%
Finance and Insurance	5,265	791,903,329	6.3%
Real Estate and Rental & Leasing	14,625	774,876,101	6.2%
Professional, Scientific and Technical Services	22,056	1,786,726,718	14.3%
Management of Companies	735	334,327,714	2.7%
Administration & Support and Waste Management & Remediation Services	5,827	325,326,983	2.6%
Educational Services	894	42,819,710	0.3%
Health Care and Social Assistance	9,470	1,110,972,591	8.9%
Arts, Entertainment and Recreation	3,340	211,501,325	1.7%
Accommodations and Food Services	7,122	525,245,678	4.2%
Other Services	10,581	402,915,813	3.2%
Unidentifiable	2,164	69,046,302	0.6%
<b>Total</b>	<b>139,355</b>	<b>12,509,145,270</b>	

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.