

North Carolina

**Corporation Income and Business
Franchise Taxes**

Statistics and Trends

Tax Year 2016

March 2019



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 these taxpayers contribute to the State's tax revenues. The report includes both historical series of data and detailed reports for tax year 2016 (TY16)¹.

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 December 11, 2018. 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 2016 or for a tax year beginning sometime in 2016.

The relevant 2016 corporate tax forms and instructions are available for review on the following Department of Revenue website: www.ncdor.gov/taxes/corporate-income-franchise-tax/corporate-tax-forms-and-instructions

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 2011 through tax year 2016; Section IV compares tax liabilities by the start month of the corporations' tax years; and Section V breaks out key statistics by major industry sectors.

The following table presents key summary statistics for the business franchise and corporation income taxes for TY16.

	C corporations	S corporations
Number of returns	78,723	161,960
Number of returns with nonzero net franchise tax	66,774	153,885
Amount of net franchise tax	\$563,412,448	\$97,228,095
Number of returns with nonzero net income tax	26,971	8,811
Amount of net income tax	\$850,632,100	\$92,434,899

Note: Net tax liability is tax liability minus tax credits. Taxpayers may have negative net franchise 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.

¹ Franchise tax statistics in this report are referred to as tax year 2016 because they are reported on 2016 corporate income tax returns. However, they are technically tax year 2017 liabilities.

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 2016 (2017 for Franchise Tax). 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 corporation's net worth, apportioned to the State (using the apportionment formula for corporation income);² (b) 55% of the appraised value of property in the State subject to local taxation; or (c) the amount of investment in real and tangible personal property in the State, less accumulated depreciation, depletion, and amortization with respect to N.C. tangible property.³ 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).

The minimum franchise tax for companies covered by the tax is \$200.⁴ The tax on holding companies that receive more than 80% of their gross income from subsidiaries is capped at \$150,000 if the company uses the net worth 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.

For 2016, a new statute limited the amount of net interest paid or accrued to a related member to the greater of (1) 15% of the taxpayer's adjusted taxable income and (2) the taxpayer's proportionate share of interest ultimately paid to an unrelated entity. This limitation does not apply if the related member is taxed on the interest income in North Carolina or another jurisdiction or if the related member is a bank.

Also effective for tax years beginning in 2016, the adjustment for expenses related to the dividends-received deduction has been simplified. For all corporate taxpayers, the adjustment for expenses may not exceed an amount equal to 15% of the dividends. In prior years, bank holding companies and electric power holding companies were eligible to receive a credit against the increased tax liability as a result of this adjustment.⁵

² The net worth base replaced the capital stock, surplus, and undivided profits base in this tax year.

³ A prior deduction for the debts existing for the purchase or improvement of N.C. real estate was repealed for this tax year.

⁴ In prior tax years, the minimum tax had been \$35. And the maximum tax on the capital stock base of holding companies had been \$75,000.

⁵ In general, any expenses related to non-taxed income should be added back to N.C. taxable income.

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 2015. The State also adopted lower limits on Section 179 expensing for TY16, requiring an 85% addback of excess federal expensing over State limits.

The portion of 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 triple-weighted in the formula.⁶ For several types of industries (utilities, construction contractors, securities dealers, loan companies, and corporations that receive more than 50% of their ordinary gross income from intangible property), apportionment is based only on the sales factor. Special apportionment rules apply to interstate carriers, railroads, and air and water transportation corporations. The Secretary of Revenue has the authority to approve an alternative method of apportionment if the taxpayer can establish evidence that the statutory formula operates to subject a greater portion of the corporation's income to tax than is attributable to its business in the State. Income not subject to apportionment is allocated to North Carolina if the business activity generating the income is located in North Carolina.

Total income allocated and apportioned to North Carolina may be reduced by the value of their State net loss, percentage depletion over cost depletion, and qualified contributions to North Carolina donees. The net taxable income is taxed at a rate of 4.0%.⁷

The research and development tax credit was repealed for tax years beginning in 2016. The credit was equal to a percentage of a taxpayer's qualified North Carolina research expenses during the year. The credit rate typically ranged from 1.25% to 3.25%. The credit was allowed against either the franchise tax or the income tax.

Several other business incentive tax credits had been repealed in the prior two years. Tax credits remaining include a renewable energy tax credit (with certain delayed sunset conditions), a credit for investing in a major recycling facility, a credit for constructing a cogenerating power plant, a credit for constructing a railroad intermodal facility, cigarette exportation tax credits, and historic rehabilitation tax credits.

Under NCGS 105-130.5(a)(10), if a C corporation takes a tax credit against the income tax, it must add this amount to its taxable income.

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 tax⁸. As a result, information concerning the income and tax liabilities of S-corporations is included in this report.

⁶ In prior tax years, the sales factor had been double-weighted.

⁷ The corporate income tax rate was 5.0% in Tax Year 2015, 6.0% in Tax Year 2014, and 6.9% in prior tax years.

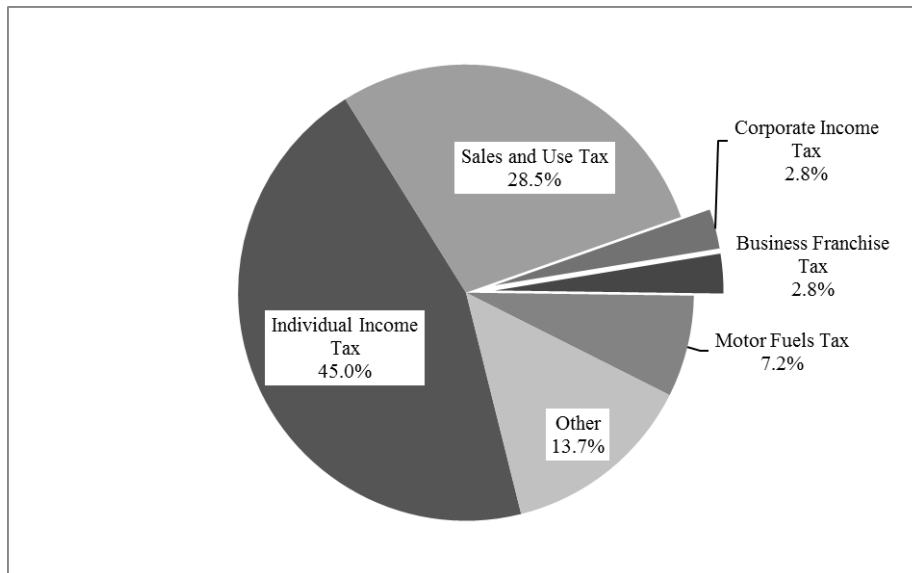
⁸ The tax rate applicable to S corporations is the individual income tax rate, not the corporate income tax rate.

FRANCHISE AND CORPORATE INCOME TAXES AS A SHARE OF TOTAL STATE TAX REVENUES

The following chart illustrates the relative importance of corporation tax revenues to overall State tax collections. State tax revenues in Fiscal Year 2016-17 were \$26.9 billion. (Licenses and fees are included in this amount, but unemployment insurance contributions are not.)⁹ Net collections for the corporation income tax and the business franchise tax accounted for \$1.5 billion (5.6%) 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 16-17



Note: The “other” category includes the highway use tax (2.9% of total), motor vehicle licenses (3.1%), insurance premiums tax (1.9%), alcoholic beverage tax (1.5%), and tobacco products tax (1.1%), among others. Unemployment insurance contributions are not included in this graph.

⁹ Source: U.S. Census Bureau, Annual Survey of State Government Tax Collections

C CORPORATIONS

Overall, the net franchise tax liability for the C corporation returns in this report totaled \$563.4 million. (Net tax liability is the amount of tax liability after deducting tax credits.) After excluding filers that were not liable for franchise tax (11,934 returns), the average amount due from the remaining 66,789 returns was \$8,436. Half of these taxpayers owed \$200 or less; and 99% of taxpayers owed less than \$145,944 each.

In order to provide a distributional analysis for the franchise tax, returns have been broken out into 8 brackets based on their franchise taxable amount. The first two brackets (\$0 to \$23,667; \$34,668 to \$133,667) represent those taxpayers that would have the minimum \$200 amount of tax due before credits or were exempt from the franchise tax. The highest bracket (\$100,000,001+) includes taxpayers whose tax liability before credits would be at least \$150,000.

Table 1.1 shows the distribution of returns based on which tax base was used to calculate the taxable amount. The net worth base was used on 46.9% of the 2016 tax year returns, followed by investment in tangible property base (12.2%), and appraised values in property base (5.0%). Thirty-six percent of the returns listed no assets because: 1) the taxpayer was exempt from franchise tax (mainly non-profit entities); 2) the 2016 tax year return was a final return; or 3) the taxpayer had no assets.¹⁰

**Table 1.1
C Corporation Returns by Tax Base Utilized
Tax Year 2016**

Franchise Taxable Amount	Number of C Corporation Returns				Total
	No Assets Listed	Net Worth	Investment in Tangible Property in N.C.	Appraised Value of Property in N.C.	
\$0-\$23,667	28,290	8,218	1,641	1,134	39,283
\$23,668-\$133,667	-	8,844	2,379	1,255	12,478
\$133,668-\$1,000,000	-	10,533	2,776	1,101	14,410
\$1,000,001-\$5,000,000	-	5,079	1,298	330	6,707
\$5,000,001-\$20,000,000	-	2,408	758	72	3,238
\$20,000,001-\$40,000,000	-	728	287	26	1,041
\$40,000,001-\$100,000,000	-	579	242	20	841
\$100,000,001+	-	502	204	19	725
Total	28,290	36,891	9,585	3,957	78,723

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.

¹⁰ There were 9,123 returns reporting that they were tax-exempt; of these, 7,963 reported no assets. There were 3,194 returns with a final return indicator, of which 2,634 reported no assets. (74 returns had both indicators.)

**SECTION I
FRANCHISE TAX**

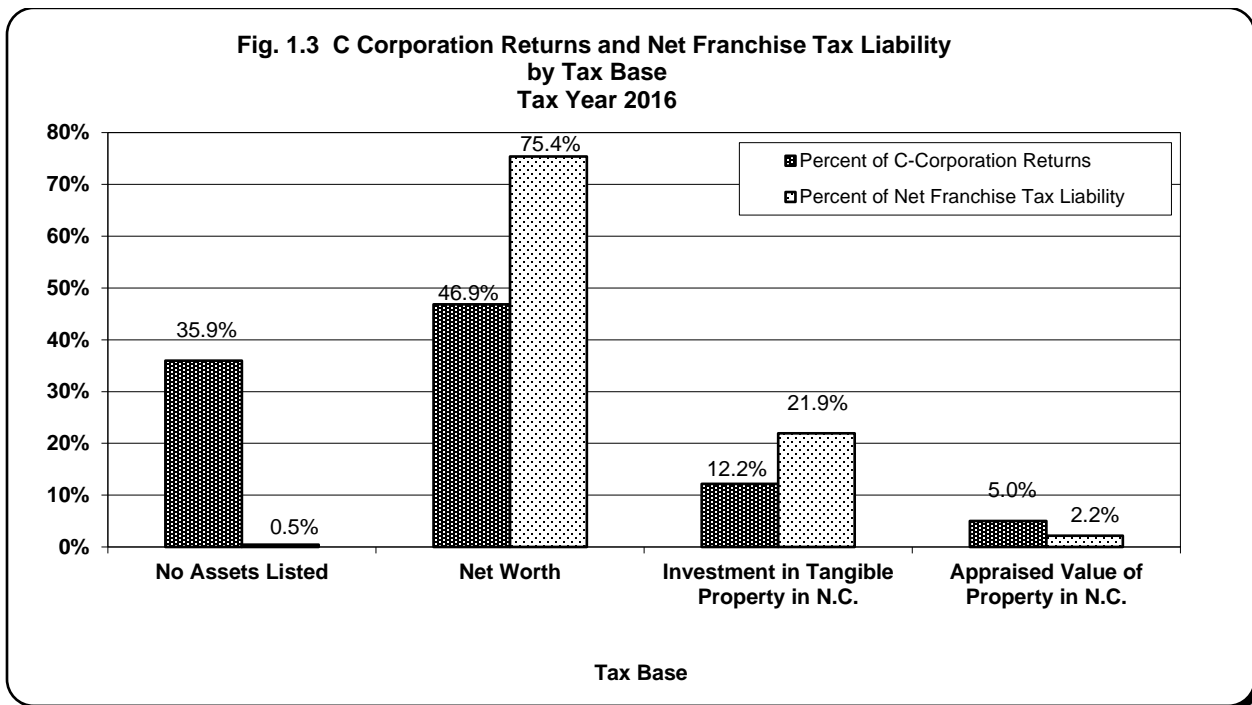
Table 1.2 compares the net franchise tax liability by tax base utilized. The greatest share of tax paid (75.4%) was under the net worth base. Taxpayers using the investment in tangible property base paid 21.9% of the franchise tax, while the appraised value in property base represented only 2.2% of the net tax liability.

**Table 1.2
C Corporation Net Franchise Tax Liability by Tax Base Utilized
Tax Year 2016**

Franchise Taxable Amount	Net Tax Liability (\$)				Total
	No Assets Listed	Net Worth	Investment in Tangible Property in N.C.	Appraised Value of Property in N.C.	
\$0-\$23,667	2,649,283	1,548,914	313,660	221,750	4,733,607
\$23,668-\$133,667	-	1,663,210	457,378	248,825	2,369,413
\$133,668-\$1,000,000	-	6,161,763	1,676,871	610,127	8,448,761
\$1,000,001-\$5,000,000	-	17,310,124	4,469,357	991,052	22,770,533
\$5,000,001-\$20,000,000	-	35,438,472	10,937,437	1,023,551	47,399,460
\$20,000,001-\$40,000,000	-	29,405,345	11,327,754	1,029,376	41,762,475
\$40,000,001-\$100,000,000	-	50,819,831	19,356,026	1,485,088	71,660,945
\$100,000,001+	-	282,405,757	75,128,239	6,733,258	364,267,254
Total	2,649,283	424,753,416	123,666,722	12,343,027	563,412,448

Note: Figures are based partially on unaudited returns.

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



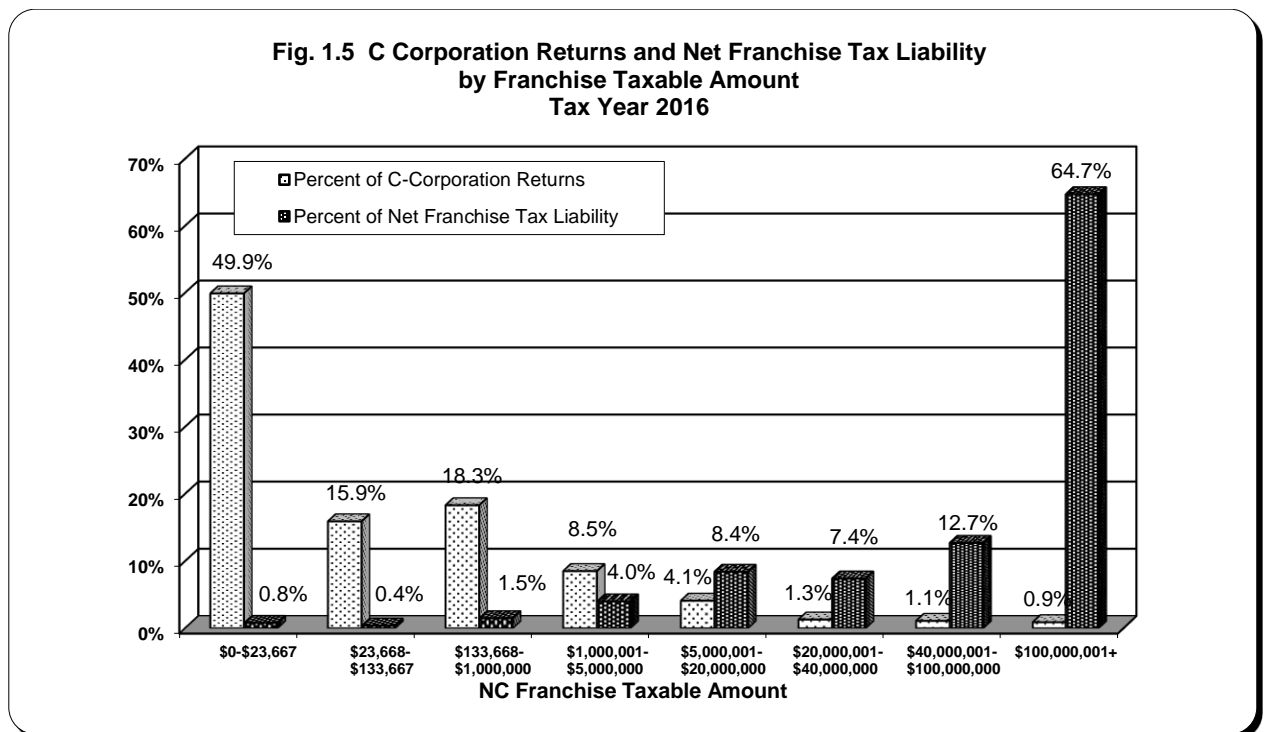
**SECTION I
FRANCHISE TAX**

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 2.0% of the returns, but paid 77.4% of net franchise tax.

**Table 1.4
C Corporation Returns and Net Franchise Tax Liability by Franchise Taxable Amount
Tax Year 2016**

Franchise Taxable Amount	Number of Returns		Net Franchise Tax Liability (\$)	
		Percent		Percent
\$0-\$23,667	39,283	49.9%	4,733,607	0.8%
\$23,668-\$133,667	12,478	15.9%	2,369,413	0.4%
\$133,668-\$1,000,000	14,410	18.3%	8,448,761	1.5%
\$1,000,001-\$5,000,000	6,707	8.5%	22,770,533	4.0%
\$5,000,001-\$20,000,000	3,238	4.1%	47,399,460	8.4%
\$20,000,001-\$40,000,000	1,041	1.3%	41,762,475	7.4%
\$40,000,001-\$100,000,000	841	1.1%	71,660,945	12.7%
\$100,000,001+	725	0.9%	364,267,254	64.7%
Total	78,723	100.0%	563,412,448	100.0%

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



**SECTION I
FRANCHISE TAX**

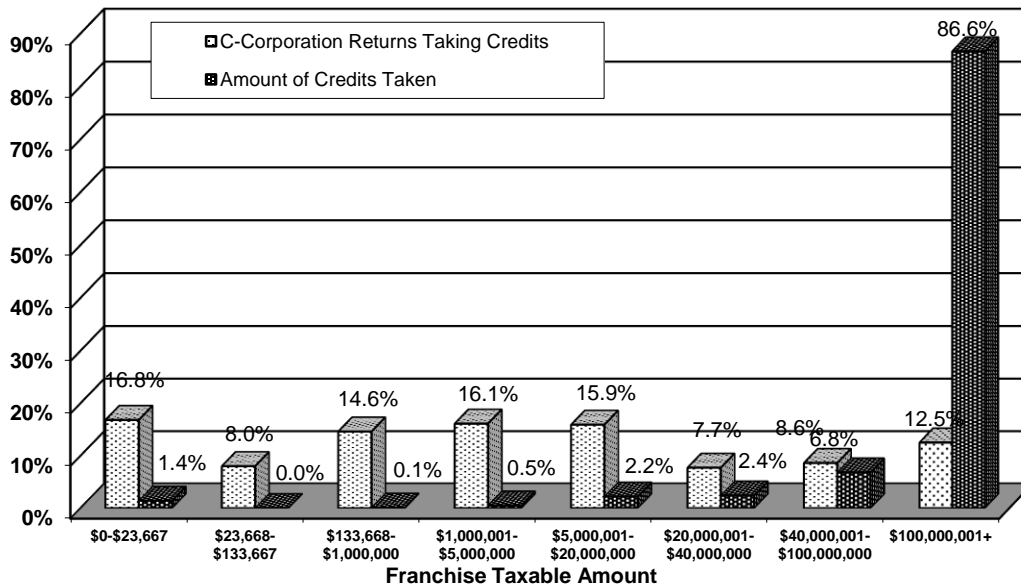
Table 1.6 and Figure 1.7 compare the number of C corporation returns taking franchise tax credits and amount of credits taken by taxable amount brackets. Only 1,408 (2.1%) of the taxable returns took credits. Returns with franchise taxable amount greater than \$100 million comprised only 12.5% of the returns taking credits, but these taxpayers had 86.6% of the credits taken.

**Table 1.6
C Corporation Returns Taking Franchise Tax Credits and Amount of Credits Taken
Tax Year 2016**

Franchise Taxable Amount	Number of Returns		Amount of Credits	
	Taking Credits	Percent	Taken (\$)	Percent
\$0-\$23,667	236	16.8%	1,064,793	1.4%
\$23,668-\$133,667	112	8.0%	21,987	0.0%
\$133,668-\$1,000,000	205	14.6%	103,645	0.1%
\$1,000,001-\$5,000,000	226	16.1%	377,948	0.5%
\$5,000,001-\$20,000,000	224	15.9%	1,704,765	2.2%
\$20,000,001-\$40,000,000	108	7.7%	1,850,839	2.4%
\$40,000,001-\$100,000,000	121	8.6%	5,372,605	6.8%
\$100,000,001+	176	12.5%	68,092,775	86.6%
Total	1,408	100.0%	78,589,357	100.0%

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 2016**



**SECTION I
FRANCHISE TAX**

Table 1.8 shows the amount of franchise tax credits by credit type and franchise taxable amount. On average, credits offset 12.8% of tax liability for taxpayers whose taxable amount was above \$5 million and 3.9% for those with lower taxable amounts.

**Table 1.8
C Corporation Franchise Tax Credits Taken by Credit Type and Franchise Taxable Amount
Tax Year 2016**

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	530	8,076,837	338	1,347,676	192	6,729,161
+ Other Credits Claimed*	274	4,420,246	249	53,985	25	4,366,261
- Other Credits Not Taken **	--	(130,312)	--	(965)	--	(129,347)
+ Credits Subject to 50% Limit Taken	631	66,222,586	199	167,677	432	66,054,909
= Credits Taken	1,408	78,589,357	779	1,568,373	629	77,020,984

* Other credits include Renovating Historic Mill Facility, Rehabilitating an Historic Property, Recycling Facilities, 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 net worth base was used on 47.6% of 2016 tax year returns, followed by investment in tangible property base (19.2%), and appraised values in property (10.3%). Twenty-three percent of the returns listed no assets because: 1) the taxpayer was exempt from franchise tax; 2) the 2016 tax year return was a final return; or 3) the taxpayer had no assets. There were 154,735 S corporations with tax liability and/or tax credits.

**Table 1.9
S Corporation Returns by Tax Base Utilized
Tax Year 2016**

Franchise Taxable Amount	Number of S Corporation Returns				Total
	No Assets Listed	Net Worth	Investment in Tangible Property in N.C.	Appraised Value of Property in N.C.	
\$0-\$23,667	37,051	31,697	7,924	6,585	83,257
\$23,668-\$133,667	-	24,950	10,711	5,638	41,299
\$133,668-\$1,000,000	-	16,250	9,272	3,509	29,031
\$1,000,001-\$5,000,000	-	3,438	2,437	812	6,687
\$5,000,001-\$20,000,000	-	656	625	132	1,413
\$20,000,001-\$40,000,000	-	71	**	**	171
\$40,000,001+	-	45	140**	17**	102
Total	37,051	77,107	31,109	16,693	161,960

**Not shown to maintain taxpayer confidentiality. Amounts are combined with those in an adjacent cell vertically.

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 net franchise tax liability by tax base utilized. The greatest share of tax paid (48.8%) was under the net worth base.

**Table 1.10
S Corporation Net Franchise Tax Liability by Tax Base Utilized
Tax Year 2016**

Franchise Taxable Amount	Net Tax Liability (\$)				Total
	No Assets Listed	Net Worth	Investment in Tangible Property in N.C.	Appraised Value of Property in N.C.	
\$0-\$23,667	5,990,884	5,982,528	1,499,058	1,228,934	14,701,404
\$23,668-\$133,667	-	4,733,277	2,026,782	1,065,718	7,825,777
\$133,668-\$1,000,000	-	8,486,073	5,061,453	1,876,260	15,423,786
\$1,000,001-\$5,000,000	-	10,668,599	7,637,596	2,421,183	20,727,378
\$5,000,001-\$20,000,000	-	8,861,679	8,472,005	1,649,827	18,983,511
\$20,000,001-\$40,000,000	-	2,760,261	**	**	6,908,180
\$40,000,001+	-	5,960,927	9,807,783**	1,037,268**	12,658,059
Total	5,990,884	47,453,344	34,504,677	9,279,190	97,228,095

**Not shown to maintain taxpayer confidentiality. Amounts are combined with those in an adjacent cell vertically.

Note: Figures are based partially on unaudited returns.

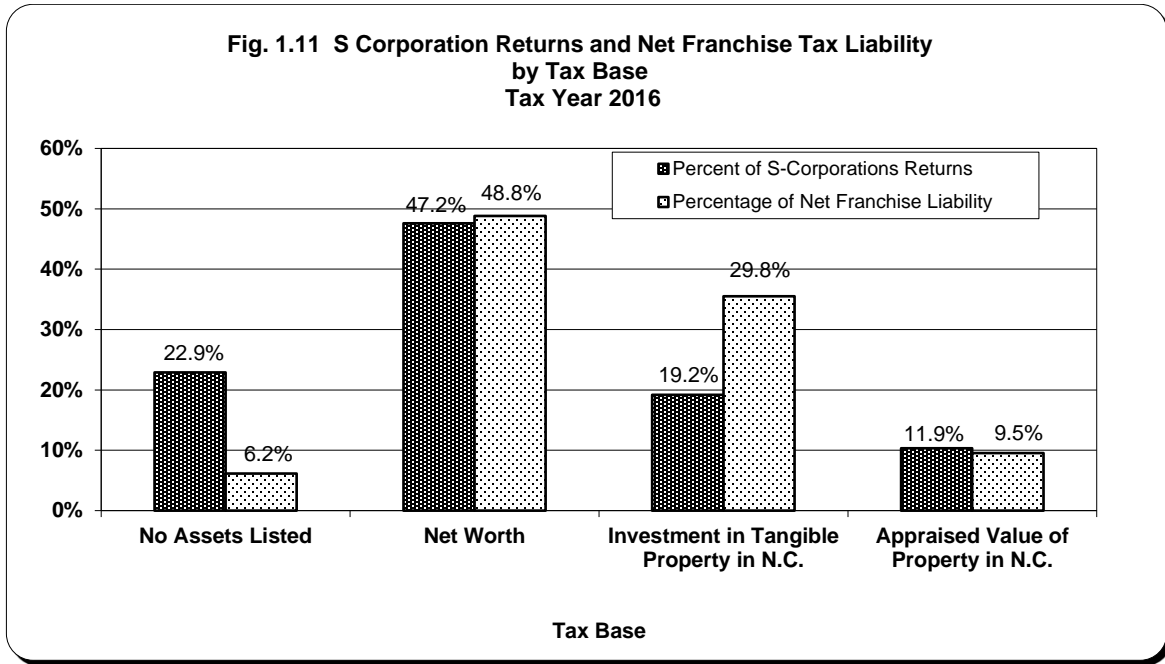


Table 1.12 and Figure 1.13 compare the distribution of S corporation returns and net franchise tax liability. The average tax was \$628, although 76.9% of taxpayers had a tax liability of \$200 or less. Forty-one taxpayers had a net tax liability above \$100,000.

**Table 1.12
S Corporation Returns and Net Franchise Tax Liability by Franchise Taxable Amount
Tax Year 2016**

Franchise Taxable Amount	Number of Returns		Net Franchise Tax Liability (\$)	
	Number	Percent	Liability	Percent
\$0-\$23,667	83,257	51.4%	14,701,404	15.1%
\$23,668-\$133,667	41,299	25.5%	7,825,777	8.0%
\$133,668-\$1,000,000	29,031	17.9%	15,423,786	15.9%
\$1,000,001-\$5,000,000	6,687	4.1%	20,727,378	21.3%
\$5,000,001-\$20,000,000	1,413	0.9%	18,983,511	19.5%
\$20,000,001-\$40,000,000	171	0.1%	6,908,180	7.1%
\$40,000,001+	102	0.1%	12,658,059	13.0%
Total	161,960	100.0%	97,228,095	100.0%

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

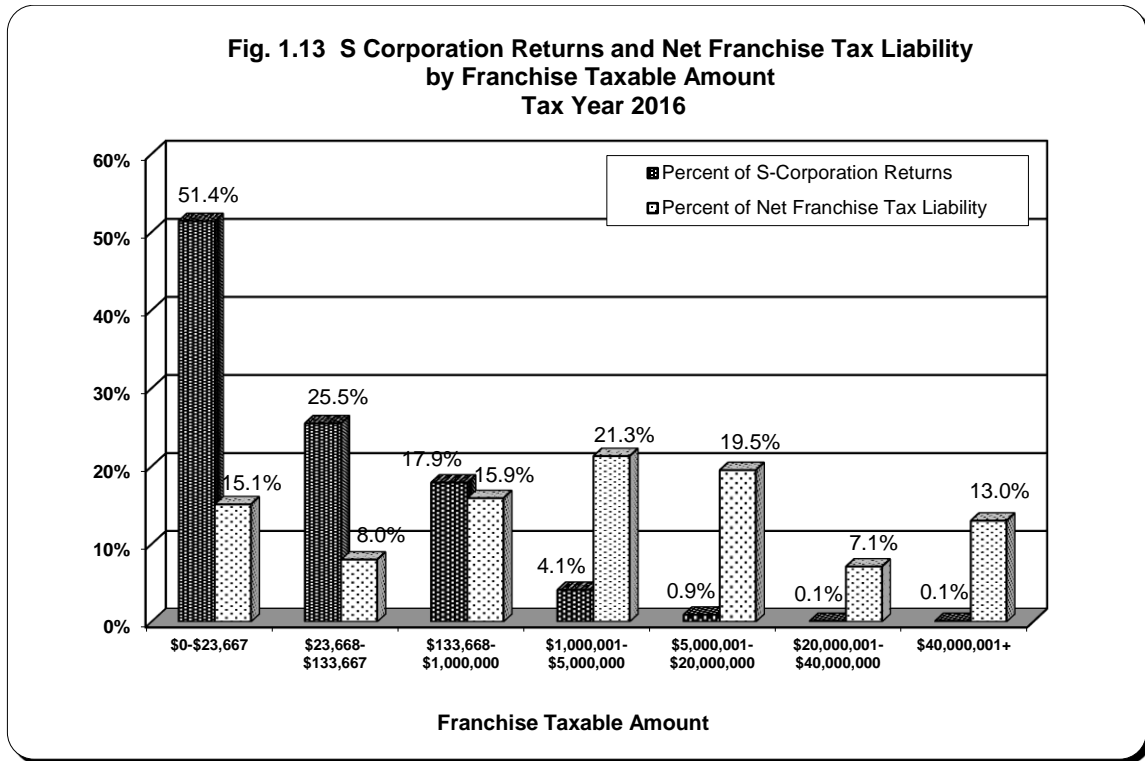


Table 1.14 and Figure 1.15 show the number of returns taking franchise tax credits and amount of credits taken. Returns with a franchise taxable amount greater than \$40 million comprised 0.2% of the returns taking credits and 33.9% of the credits taken.

**Table 1.14
S Corporation Returns Taking Franchise Tax Credits and Amount of Credits Taken
Tax Year 2016**

Franchise Taxable Amount	Number of Returns Taking Credits		Amount of Credits Taken (\$)	
		Percent		Percent
\$0-\$23,667	3,072	43.4%	538,396	22.0%
\$23,668-\$133,667	2,238	31.6%	393,423	16.1%
\$133,668-\$1,000,000	1,389	19.6%	251,800	10.3%
\$1,000,001-\$5,000,000	283	4.0%	120,278	4.9%
\$5,000,001-\$20,000,000	63	0.9%	176,732	7.2%
\$20,000,001-\$40,000,000	14	0.2%	136,474	5.6%
\$40,000,001+	13	0.2%	827,674	33.9%
Total	7,072	100.0%	2,444,777	100.0%

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

**SECTION I
FRANCHISE TAX**

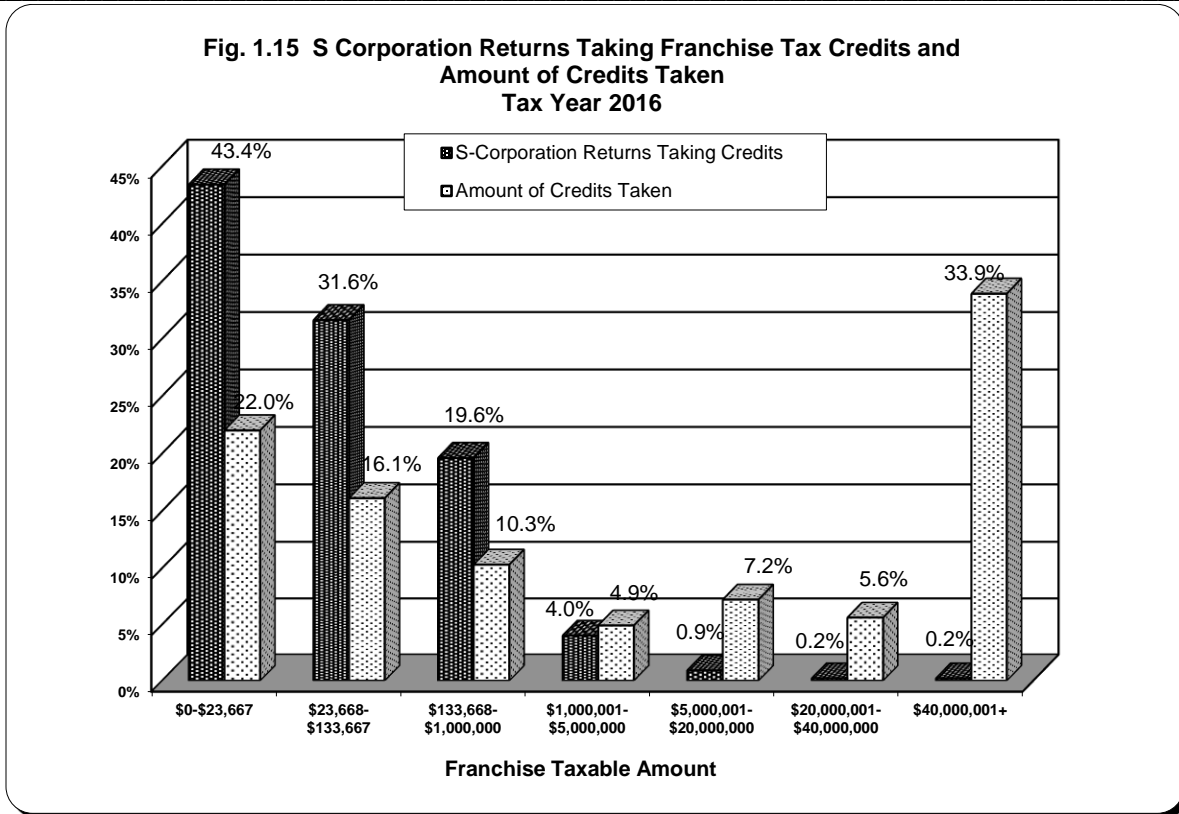


Table 1.16 shows the amount of franchise tax credits by credit type and franchise taxable amount.

**Table 1.16
S Corporation Franchise Tax Credits Taken by Credit Type and Franchise Taxable Amount
Tax Year 2016**

Income Tax Credits	All Returns		Taxable Amount ≤\$1,000,000		Taxable Amount \$1,000,001+	
	Number of Credits	Amount Claimed (\$)	Number of Credits	Amount Claimed (\$)	Number of Credits	Amount Claimed (\$)
Short Period Credit for Change in Income Year	228	97,955	201	26,724	27	71,231
+ Other Credits Claimed*	6,829	1,217,176	6,557	1,167,262	272	49,914
- Other Credits Not Taken **	--	(16,151)	--	(16,151)	--	--
+ Credits Subject to 50% Limit Taken	105	1,145,797	30	5,784	75	1,140,013
= Credits Taken	7,072	2,444,777	6,699	1,183,619	373	1,261,158

* This category includes LLC Additional Annual Report Fee and Historic Rehabilitation 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. Twenty-seven percent of the returns listed no assets because: 1) the taxpayer was exempt from franchise tax; 2) the 2016 tax year return was a final return; 3) or the taxpayer had no assets.

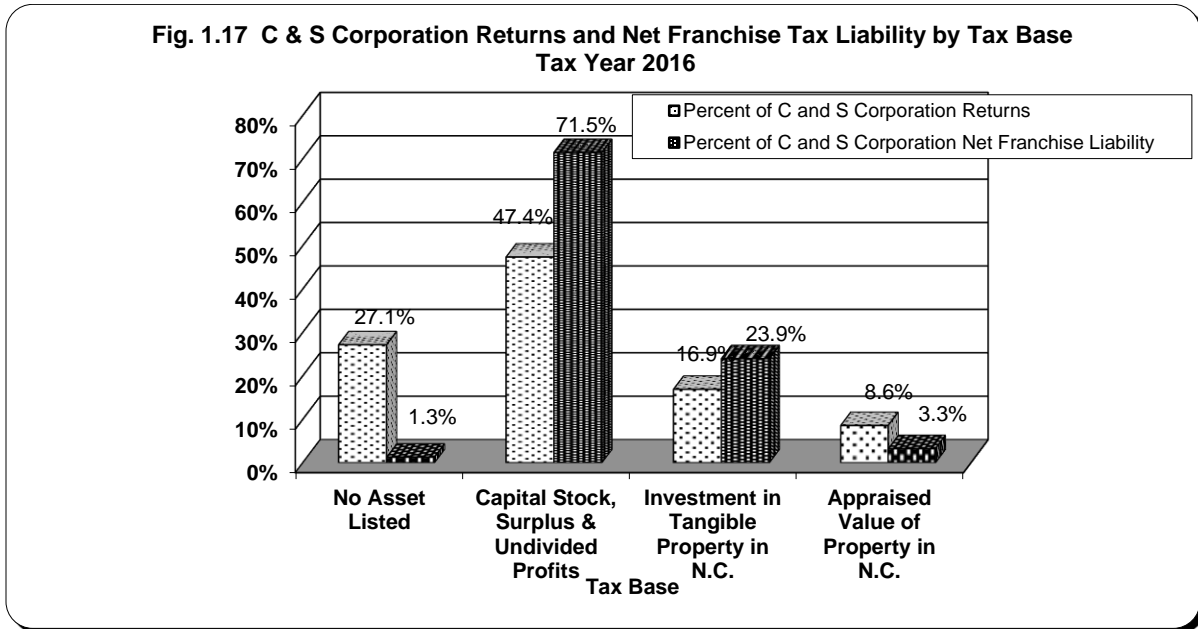


Figure 1.18 shows the number of C and S corporation returns and net franchise tax liability. Taxpayers with franchise taxable amount over \$20 million made up 1.2% of the returns, but paid 75.3% of net franchise tax.

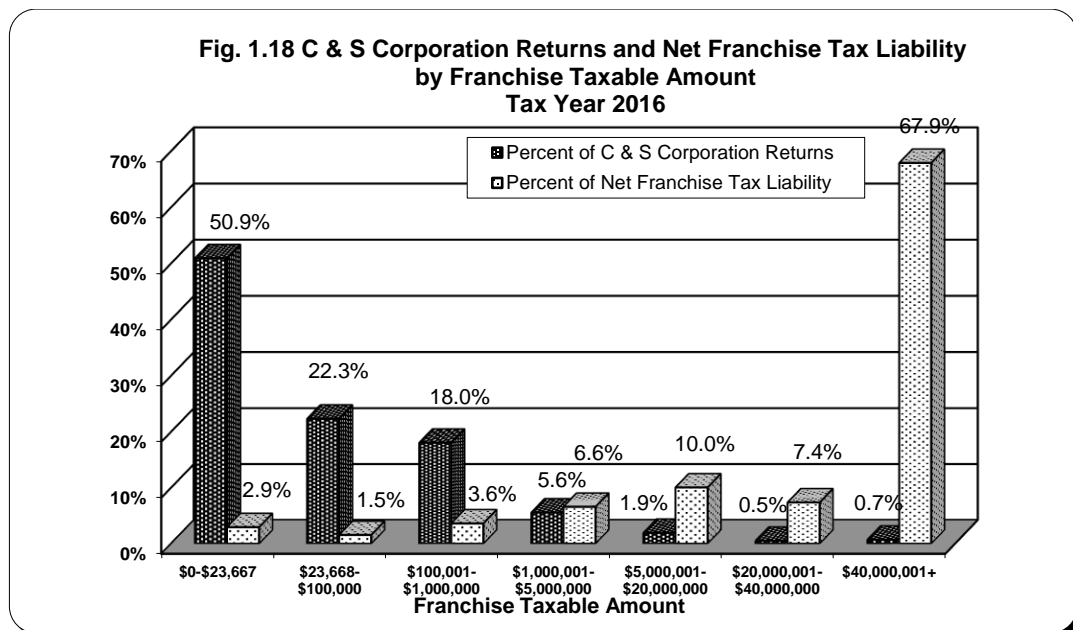
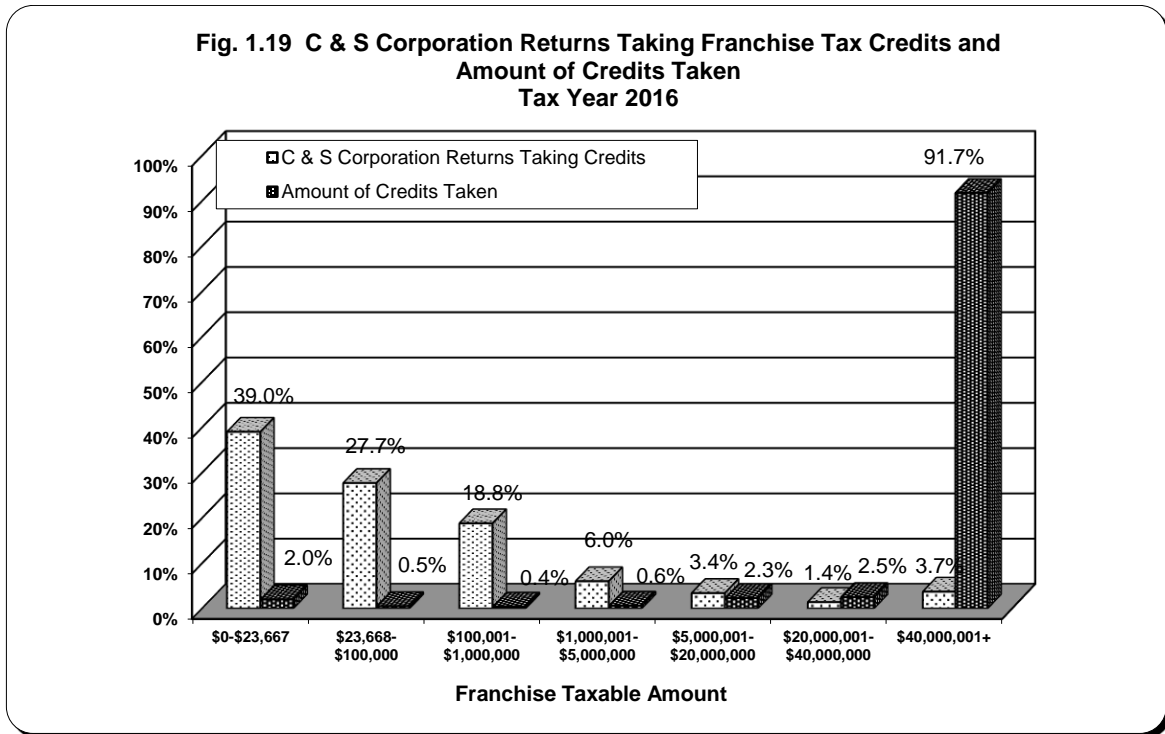


Figure 1.19 shows the distribution of C and S corporation returns that took franchise tax credits and the amount of credits taken. Only 8,480 of the 221,524 taxable corporations took credits in tax year 2016.¹¹ Corporations with over \$40 million as their franchise tax base took nearly 92% of all credits.



¹¹ The 221,524 taxable corporations include 66,774 C corporation taxpayers with nonzero net franchise tax and 153,885 S corporation taxpayers with nonzero net franchise tax. In addition, there were 24 C corporations and 850 S corporations that had zero net franchise tax because their tax credits exactly offset their tax liability.

C CORPORATIONS

Of the 78,723 tax returns that were filed for tax year 2016, only 26,971 (34.3%) of them had a net tax liability (i.e., a positive tax liability after credits were applied).

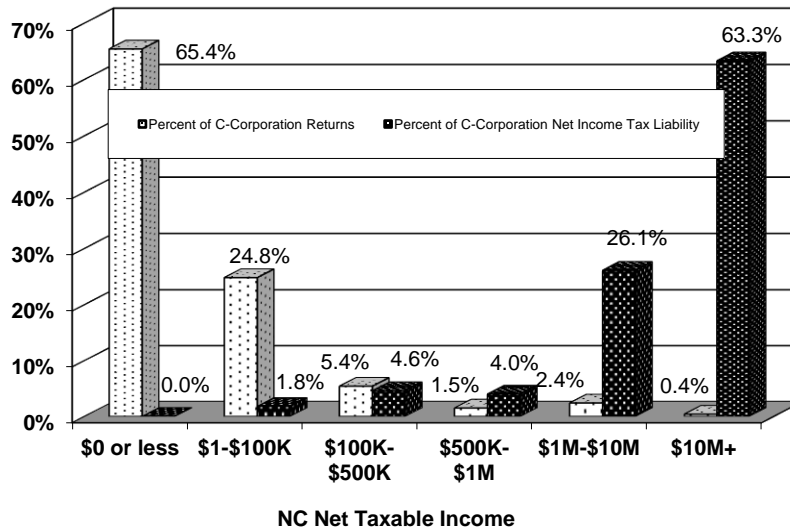
Table 2.1 and Figure 2.2 show the distribution of C corporation returns and net income tax liability by North Carolina net taxable income (as calculated on Line 25 of Form CD-405).

**Table 2.1
C Corporation Returns and Net Income Tax Liability by NC Net Taxable Income
Tax Year 2016**

NC Net Taxable Income	Number of Returns	Percent	Cumulative Percent	Net Income Tax Liability [\$]	Percent	Cumulative Percent
\$0 or less	51,482	65.4%	65.4%	0	--	--
\$1-\$15,000	11,343	14.4%	79.8%	2,056,248	0.2%	0.2%
\$15,001-\$30,000	3,080	3.9%	83.7%	2,665,623	0.3%	0.6%
\$30,001-\$50,000	2,299	2.9%	86.6%	3,602,626	0.4%	1.0%
\$50,001-\$100,000	2,849	3.6%	90.3%	8,074,511	0.9%	1.9%
\$100,001-\$500,000	4,243	5.4%	95.6%	39,065,613	4.6%	6.5%
\$500,001-\$1,000,000	1,213	1.5%	97.2%	34,351,377	4.0%	10.6%
\$1,000,001-\$10,000,000	1,885	2.4%	99.6%	221,943,416	26.1%	36.7%
\$10,000,001+	329	0.4%	100.0%	538,872,686	63.3%	100.0%
Total	78,723	100.0%	--	850,632,100	100.0%	--

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

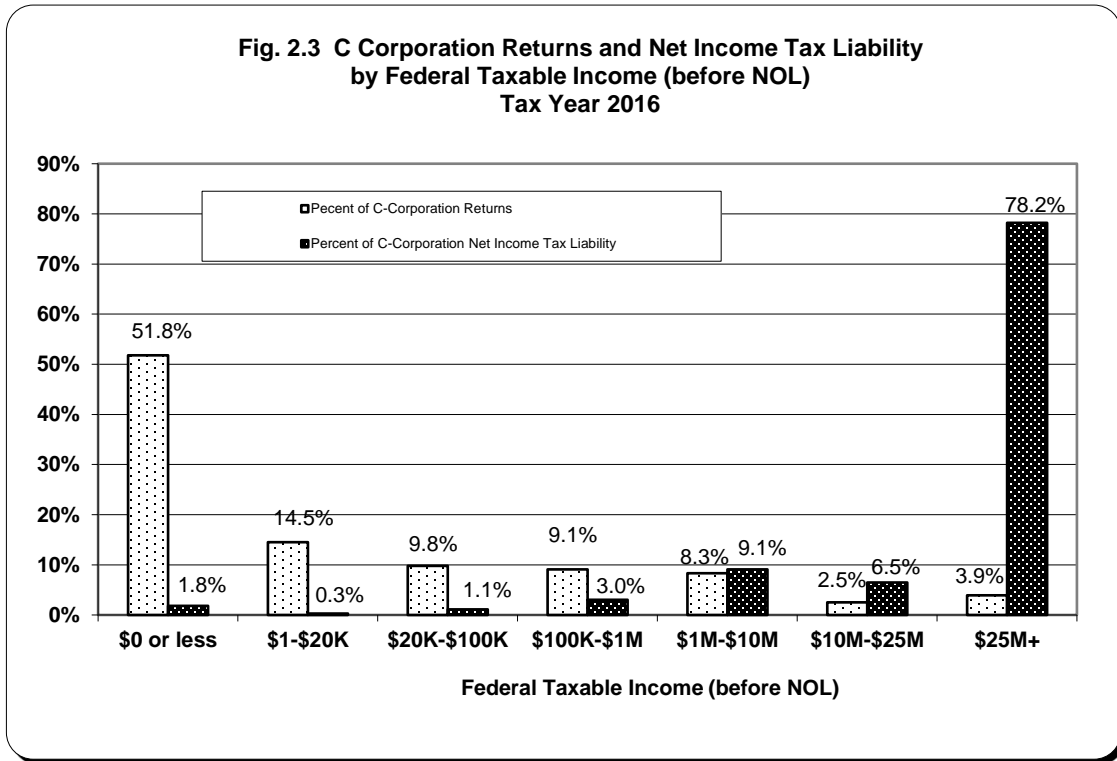
**Fig. 2.2 C Corporation Returns and Net Income Tax Liability
by NC Net Taxable Income
Tax Year 2016**



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 89.4% of the C corporation income tax liability, but made up 2.8% of the corporations filing returns. Approximately 63% of the total C corporation net income tax liability was attributable to the 329 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* and also before subtracting income apportionable or allocable to other states. 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 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 triple weight.

**Table 2.4
C Corporation Returns by Federal Taxable Income (Before NOL) and
Apportionment Percentage
Tax Year 2016**

Federal Taxable Income (before NOL)	NC Apportionment Percentage					Total
	<5%	5% - 24%	25% - 49%	50% - 99%	100%	
\$0 or less	12,641	1,950	666	779	24,777	40,813
\$1 - \$20,000	827	194	89	190	10,084	11,384
\$20,001 - \$100,000	1,466	403	181	380	5,276	7,706
\$100,001 - \$ 1,000,000	3,695	806	287	519	1,889	7,196
\$1,000,001 - \$10,000,000	4,887	883	327	207	253	6,557
\$10,000,001-\$25,000,000	1,619	258	65	**	**	1,985
\$25,000,001+	2,655	348	52	49**	21**	3,082
Total	27,790	4,842	1,667	2,124	42,300	78,723

**Not shown to maintain taxpayer confidentiality. Amounts are combined with those in an adjacent cell vertically.
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.

**Table 2.5
C Corporation Net Income Tax Liability by Federal Taxable Income (Before NOL) and
Apportionment Percentage
Tax Year 2016**

Federal Taxable Income (before NOL)	NC Apportionment Percentage					Total
	<5% [\$]	5% - 24% [\$]	25% - 49% [\$]	50% - 99% [\$]	100% [\$]	
\$0 or less	6,341,413	5,311,266	338,320	1,588,824	1,996,753	15,576,576
\$1 - \$20,000	15,771	12,603	17,047	108,101	2,235,229	2,388,751
\$20,001 - \$100,000	120,543	114,618	138,537	610,019	8,251,964	9,235,681
\$100,001 - \$ 1,000,000	1,023,152	1,521,386	1,550,458	5,432,129	15,936,713	25,463,838
\$1,000,001 - \$10,000,000	10,080,758	12,252,383	14,439,065	18,069,947	22,562,684	77,404,837
\$10,000,001-\$25,000,000	13,481,453	14,599,886	11,173,660	**	**	55,165,762
\$25,000,001+	300,224,624	200,065,508	128,864,331	41,323,094**	10,829,861**	665,396,655
Total	331,287,714	233,877,650	156,521,418	67,132,114	61,813,204	850,632,100

**Not shown to maintain taxpayer confidentiality. Amounts are combined with those in an adjacent cell vertically.
Note: Figures are based partially on unaudited returns.

C corporations that operated exclusively within North Carolina, and so apportion all of their income to the state, made up 53.7% of the returns filed for tax year 2016. However, these corporations accounted for only 7.3% of the corporation income tax liability.

The State receives a significant portion of its corporation income taxes from a small number of large multi-state firms. Nearly fifty-nine 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.

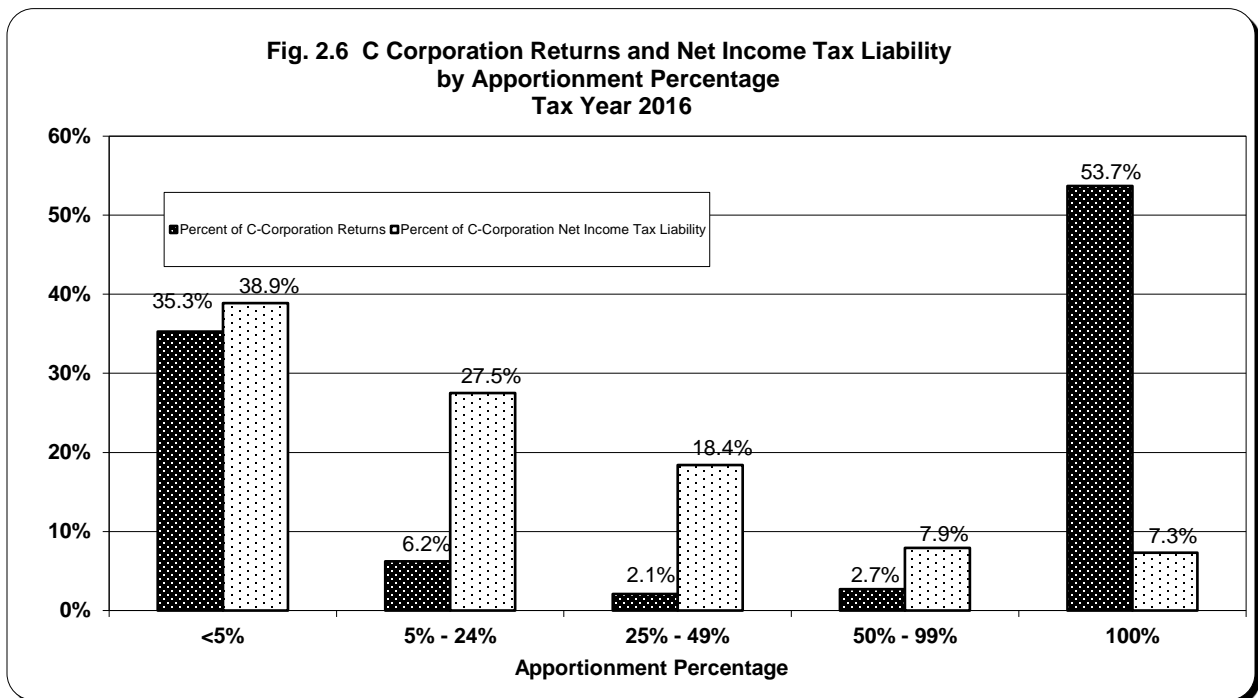


Table 2.7 on the next page shows statistics on the calculation of net tax liability at various steps, starting with federal taxable income. Returns are divided into taxable and nontaxable returns, where taxable returns are defined as those with a positive tax liability before credits are applied. The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

Out of 78,723 returns, 34.3% were taxable returns and 65.7% were nontaxable returns. Taxable returns with a federal taxable income over \$25 million made up 3.0% of the returns but accounted for 78.2% of the tax liability.

Of the 40,813 returns with federal taxable income of zero or less, 1,265 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 37,910 returns that did show a federal taxable income, 12,203 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 latter companies. From federal taxable income of \$172.0 billion, there was a reduction of \$39.1 billion due to NC adjustments, a reduction of \$5.5 billion due to nonapportionable income, a reduction of \$124.4 billion due to apportioning income to North Carolina, and a reduction of \$7.0 billion due to State Net Loss carryforwards.¹²

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 2016 was for the bonus depreciation allowances created by the Protecting Americans from Tax Hikes (PATH) Act of 2015 at the federal level. As such, these addbacks are only a temporary addition to tax, as they will be offset by future deductions.¹³

Finally, North Carolina tax credits for businesses reduced overall C corporation tax liabilities by \$75.8 million.

¹² 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.

¹³ Under the provisions of NCGS § 105-130.5B, taxpayers taking a special accelerated depreciation deduction under section 168(k) or 168(n) of the IRS Code must add back 85% of the amount to their NC taxable income. In each of the succeeding 5 taxable years, the taxpayer may deduct 20% of the add-back amount.

**SECTION II
INCOME TAX**

**Table 2.7
C Corporation Income Tax Calculation Detail by Federal Taxable Income (Before NOL)
Tax Year 2016**

			(+)	(-)	(-)	(-)	(=)
FTI of Corporation	Number of Returns	Federal Taxable Income, Before NOL	Adjustments to Federal Income	Contributions to Donees Outside NC	Nonapportionable Income	Reduction Due To Apportionment	Income Apportioned to NC
		[\$]	[\$]	[\$]	[\$]	[\$]	[\$]
Taxable Returns							
\$0 or less	1,265	(10,000,088,006)	18,225,871,972	62,721,426	(202,799,586)	7,954,328,558	411,533,568
\$1-\$20,000	7,203	47,065,268	29,167,925	153,072	712,873	12,353,594	63,013,654
\$20,001-\$100,000	5,244	258,407,056	111,571,012	1,629,800	7,639,838	114,433,668	246,274,762
\$100,001-\$1,000,000	4,775	1,800,670,339	461,446,917	9,822,064	71,789,927	1,504,704,923	675,800,342
\$1,000,001-\$10,000,000	4,620	17,896,367,322	3,174,250,007	78,380,190	402,198,088	18,535,335,220	2,054,703,831
\$10,000,001-\$25,000,000	1,487	24,095,056,194	2,942,169,966	101,078,888	236,617,545	25,203,502,919	1,496,026,808
\$25,000,001+	2,378	650,131,939,724	28,329,701,090	5,241,154,437	2,733,719,152	651,557,852,720	18,928,914,505
Total, Taxable	26,972	684,229,417,897	53,274,178,889	5,494,939,877	3,249,877,837	704,882,511,602	23,876,267,470
Nontaxable Returns							
\$0 or less	39,548	(348,179,189,689)	8,470,576,126	17,723,408	442,514,906	(322,362,894,525)	(17,805,957,352)
More than \$0	12,203	172,006,568,852	(39,097,728,624)	733,317,382	5,522,390,734	124,408,292,111	2,244,840,001
Total, Nontaxable	51,751	(176,172,620,837)	(30,627,152,498)	751,040,790	5,964,905,640	(197,954,602,414)	(15,561,117,351)

	(+)	(-)	(-)	(-)	(=)		(-)	(=)
FTI of Corporation	Nonapportionable Income Allocated to NC	Percentage Depletion Over Cost Depletion	Net Economic Loss	Contributions to NC Donees	Net Taxable Income	Computed Income Tax	Tax Credits	Net Tax Liability
	[\$]	[\$]	[\$]	[\$]	[\$]	[\$]	[\$]	[\$]
Taxable Returns								
\$0 or less	**	**	4,251,447	1,166,750	**	**	**	15,576,576
\$1-\$20,000	**	**	3,485,763	327,887	**	**	**	2,388,751
\$20,001-\$100,000	**	**	16,365,653	1,606,152	231,350,090	9,253,985	18,304	9,235,681
\$100,001-\$1,000,000	**	**	45,347,287	3,687,555	640,030,769	25,601,244	137,406	25,463,838
\$1,000,001-\$10,000,000	**	**	102,359,372	7,600,832	1,990,823,793	79,632,935	2,228,098	77,404,837
\$10,000,001-\$25,000,000	**	**	59,235,970	3,926,205	1,454,668,733	58,186,763	3,021,001	55,165,762
\$25,000,001+	**	**	494,119,904	80,244,068	18,360,338,078	734,413,506	69,016,851	665,396,655
Total, Taxable	136,533,892	28,489,139	725,165,396	98,559,449	23,160,587,378	926,423,487	75,791,387	850,632,100
Nontaxable Returns								
\$0 or less	**	**	5,221,569,931	2,011,485	(20,573,639,894)	-	-	-
More than \$0	**	**	6,990,451,497	580,997	(4,805,542,191)	-	-	-
Total, Nontaxable	(160,222,544)	15,556,242	12,212,021,428	2,592,482	(25,379,182,085)	-	-	-

**Not shown to maintain taxpayer confidentiality.

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

**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. Over 98% of the 26,972 returns with positive tax liability before credits did not take any income tax credits. Sixty-four percent of the 309 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 70.6% of the total credits taken.

**Table 2.8
Number of C Corporation Taxable Returns Taking Credits as a Percentage of Tax Liability
Tax Year 2016**

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-\$50,000	16,431	0	**	**	**	16,453
\$50,001-\$100,000	2,837	**	**	**	**	2,849
\$100,001-\$500,000	4,201	**	**	**	58**	4,243
\$500,001-\$1,000,000	1,189	**	**	**	**	1,213
\$1,000,001-\$10,000,000	1,754	24**	10**	34**	105**	1,885
\$10,000,001+	251	18	13	12	35	329
Total	26,663	42	23	46	198	26,972

**Not shown to maintain taxpayer confidentiality. Amounts are combined with those in an adjacent cell in the same column.
Note: Figures are based partially on unaudited returns. The table does not include returns that had zero or negative taxable income.

**Table 2.9
Amount of C Corporation Tax Credits Taken as a Percentage of Tax Liability
Tax Year 2016**

NC Taxable Income	Income Tax Credits as a Percentage of Tax				Total
	0.1% -9.9%	10% -19.9%	20% -39.9%	40% +	
	[\$]	[\$]	[\$]	[\$]	[\$]
\$1-\$50,000	0	**	**	**	9,028
\$50,001-\$100,000	**	**	**	**	15,363
\$100,001-\$500,000	**	**	**	164,100**	167,340
\$500,001-\$1,000,000	**	**	**	**	319,895
\$1,000,001-\$10,000,000	129,525**	199,447**	901,033**	5,976,248**	6,858,727
\$10,000,001+	7,059,803	3,322,995	10,695,417	47,342,819	68,421,034
Total	7,189,328	3,522,442	11,596,450	53,483,167	75,791,387

**Not shown to maintain taxpayer confidentiality. Amounts are combined with those in an adjacent cell in the same column.
Note: Figures are based partially on unaudited returns.

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 \$50 million in federal taxable income.

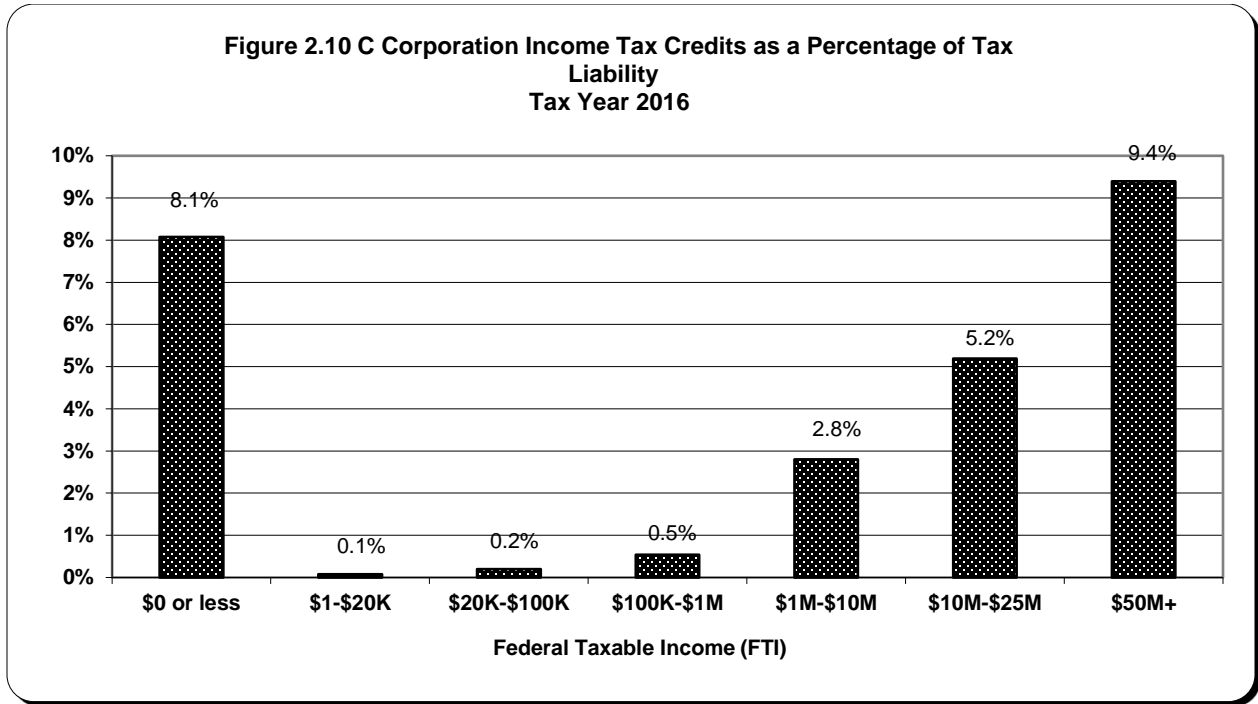


Table 2.11 provides the distribution of income tax credits by credit type and NC net taxable income.

**Table 2.11
C Corporation Income Tax Credits by Credit Type and NC Taxable Income (NCTI)
Tax Year 2016**

Income Tax Credits	All Returns	
	Number of Credits*	Amount (\$)
Historic Rehabilitation (Art 3D, Art 3H, Art 3L)	11	9,928,209
Other Non-Limited Credits and Carryforwards (Taken amount only)	10	3,792,716
Tax Credit Subject to 50% of Tax Limit (Taken only)	299	65,445,716
Credits Claimed	326	79,166,641
Credits Not Taken **	--	3,375,254
Credits Taken	309	75,791,387

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

** Most corporation income tax credits are reduced due to NCGS § 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.

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 63.2% of the tax liability, but only 1.6% of returns.

The total net tax liability of \$92.4 million shown in Table 2.12 belies the importance of taxation of the net income of S corporations since most taxable income is passed to shareholders.

**Table 2.12
S-Corporation Returns and Net Income Tax Liability by NC Taxable Income
Tax Year 2016**

NC Taxable Income*	Number of Returns	Percent	Number With Tax Due for Nonresidents	Net Tax Liability [\$]	Percent
\$0 or less	53,225	32.9%	0	0	0.0%
\$1-\$15,000	32,849	20.3%	4,073	1,110,939	1.2%
\$15,001-30,000	16,756	10.3%	1,055	1,246,856	1.3%
\$30,001-\$50,000	14,113	8.7%	776	1,651,827	1.8%
\$50,001-\$100,000	17,848	11.0%	890	3,264,217	3.5%
\$100,001-\$500,000	21,538	13.3%	1,449	16,861,158	18.2%
\$500,001-\$1,000,000	3,105	1.9%	276	9,859,710	10.7%
\$1,000,001-\$10,000,000	2,415	1.5%	272	30,417,689	32.9%
\$10,000,001+	111	0.1%	20	28,022,503	30.3%
Total	161,960	100.0%	8,811	92,434,899	100.0%

* 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.

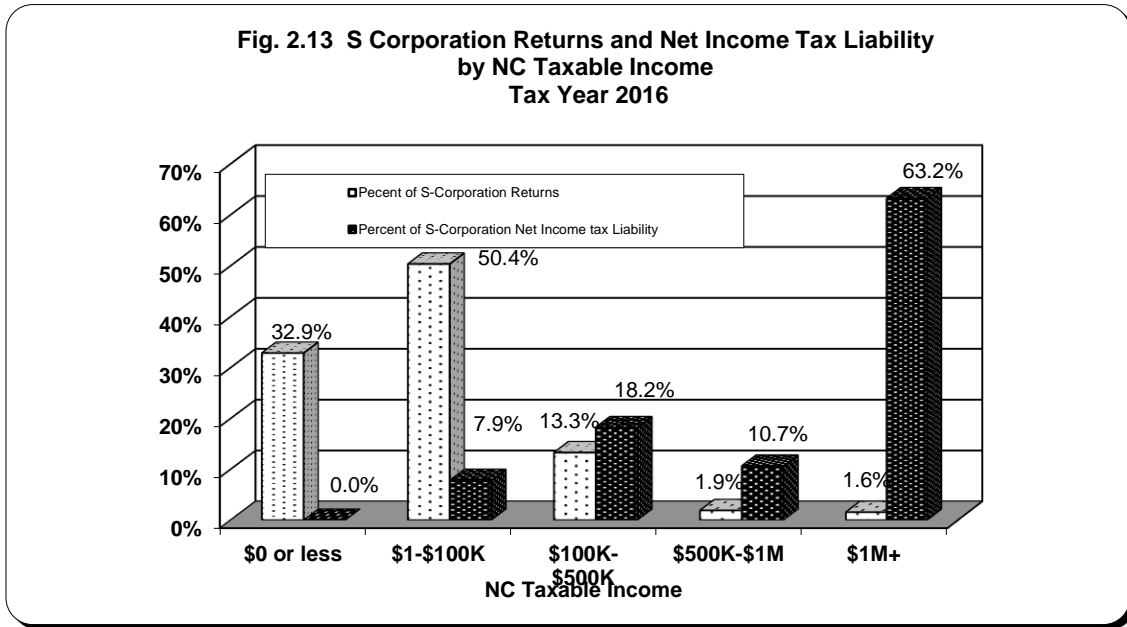
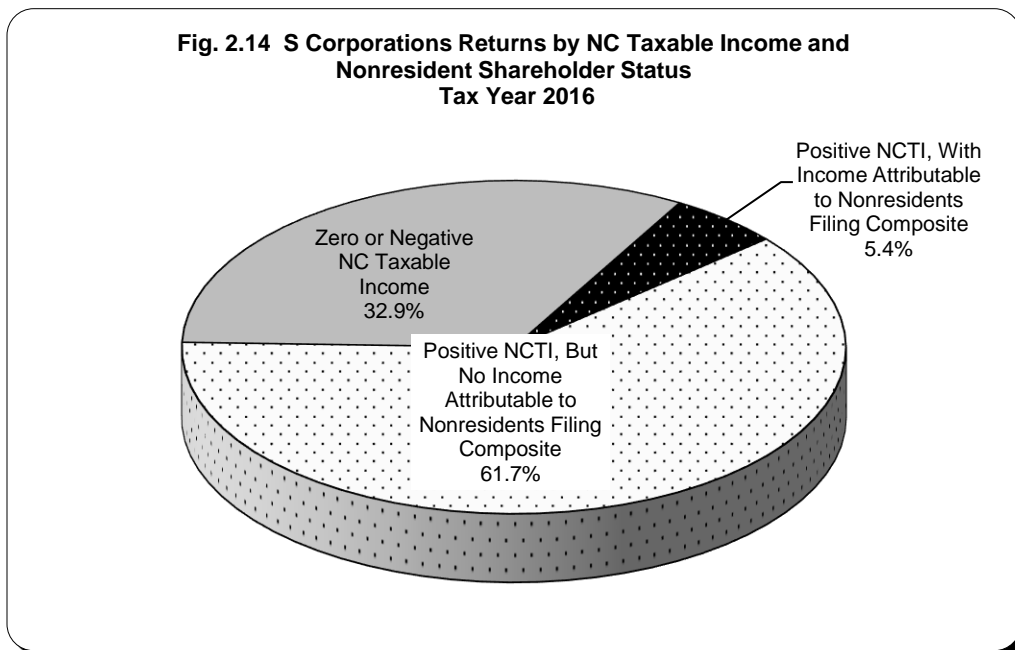


Figure 2.14 illustrates the distribution of returns by North Carolina taxable income and nonresident shareholder filing status. Only 5.4% of S corporation returns had a tax liability attributable to nonresidents who chose to allow the S corporation to file a composite return on their behalf.



**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 2016**

		(+)	(+)	(-)	(-)	(=)	(+)
NC Taxable Income	Number of Returns	Federal Corporation Income [\$]	Adjustments to Federal Income [\$]	Nonapportionable Income [\$]	Reduction Due To Apportionment [\$]	Income Apportioned to NC [\$]	Nonapportionable Income Allocated to NC [\$]
Zero or Negative	53,225	3,676,259,952	(425,427,100)	875,723,285	3,965,069,478	(1,589,959,911)	(48,618,830)
Positive, But No Income Attributable to Nonresidents Filing Composite	99,930	43,439,736,182	957,397,952	2,302,919,339	26,479,745,858	15,614,468,937	287,113,598
Positive, With Income Attributable to Nonresidents Filing Composite	8,805	49,528,006,173	1,042,637,247	2,022,400,801	46,622,516,712	1,925,725,907	448,405,035
Total	161,960	96,644,002,307	1,574,608,099	5,201,043,425	77,067,332,048	15,950,234,933	686,899,803

	(=)	(+)	(=)			(-)	(=)
NC Taxable Income	NC Net Taxable Income [\$]	Adjustment for Shareholders Paying Tax on Shares [\$]	Taxable Income Attributable to Nonresidents Filing Composite [\$]	Separately Stated Income Attributable to Nonresidents Filing Composite [\$]	Computed Income Tax [\$]	Tax Credits [\$]	Net Tax Liability [\$]
Zero or Negative	(1,638,578,741)	1,564,386,045	(74,192,696)	49,012	-	-	-
Positive, But No Income Attributable to Nonresidents Filing Composite	15,901,582,535	(15,901,582,535)	-	1,507,943	93,080	-	93,080
Positive, With Income Attributable to Nonresidents Filing Composite	2,374,130,942	(698,209,565)	1,675,921,377	3,531,854	96,601,935	4,260,116	92,341,819
Total	16,637,134,736	(15,035,406,055)	1,601,728,681	5,088,809	96,695,015	4,260,116	92,434,899

Note: Figures are based partially on unaudited returns.

**SECTION II
INCOME TAX**

Table 2.16 shows the income tax credits by taxable income. Most of the tax credits are related to the credits limited to 50% of tax, such as renewable energy credits and economic incentive credits such as R&D or Article 3J credits. Corporations with taxable income over \$1 million took 98.6% 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 2016**

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 Taken	33	4,260,116	18	59,283	15	4,200,833

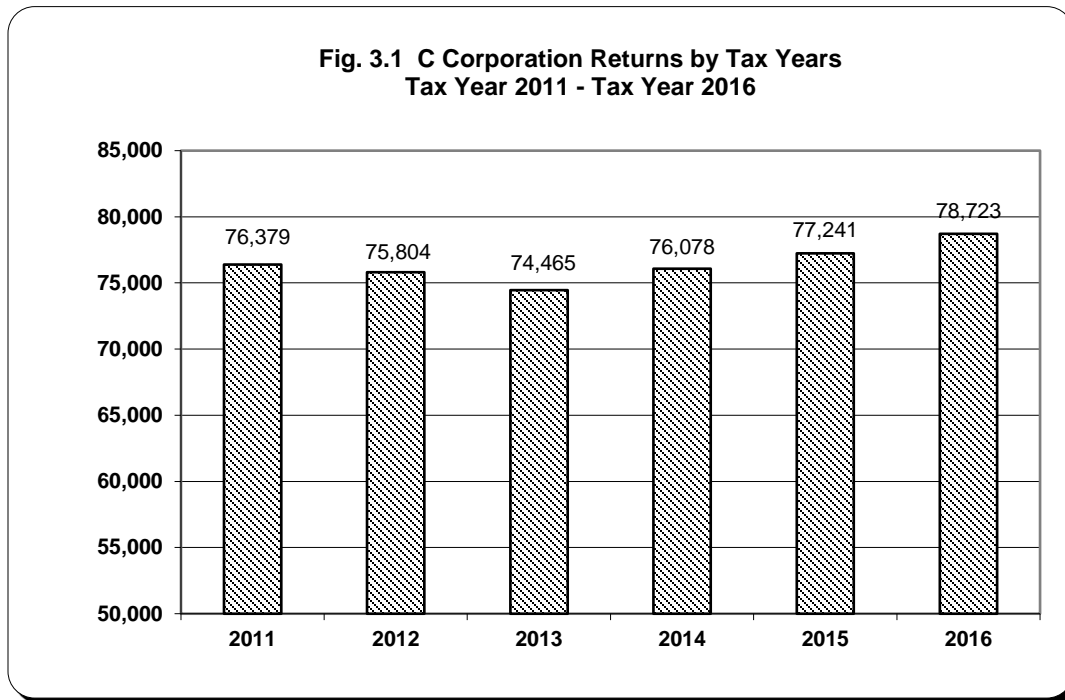
Note: Confidentiality prevents the disclosure of individual credits and credits amounts.

C CORPORATIONS

In this section, data on corporate returns are presented for tax years 2011 through 2016. 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. Since the 2007 recession, there was a general decline from a peak of 80,552 returns, but the number of returns has seen a rebound since 2014.¹⁴ Data from the IRS Statistics of Income Division also shows a decline in the number of Form 1120 filers nationally between 2008 and 2013.¹⁵

The number of first-time filers, as reported on the tax form, was 4,868 in 2015 and 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.



¹⁴ There was a small increase in NC C corporation returns between 2010 and 2011.

¹⁵ Annual statistical reports are available at <https://www.irs.gov/statistics/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 2011 through 2016 for C corporations.

The decreases in income tax revenues since 2014 reflects mainly the decrease in the tax rates in these years. In 2014, the income tax rate decreased from 6.9% to 6.0%; it was reduced further in 2015 to 5.0% and to 4.0% in 2016.

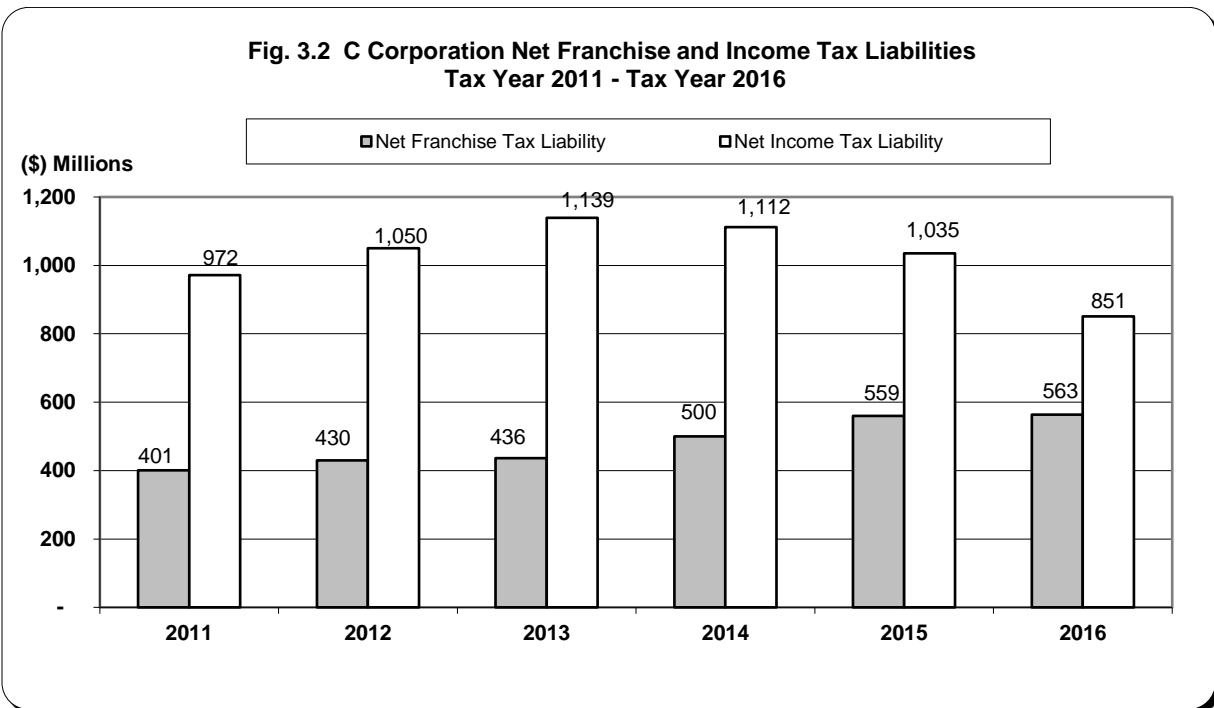


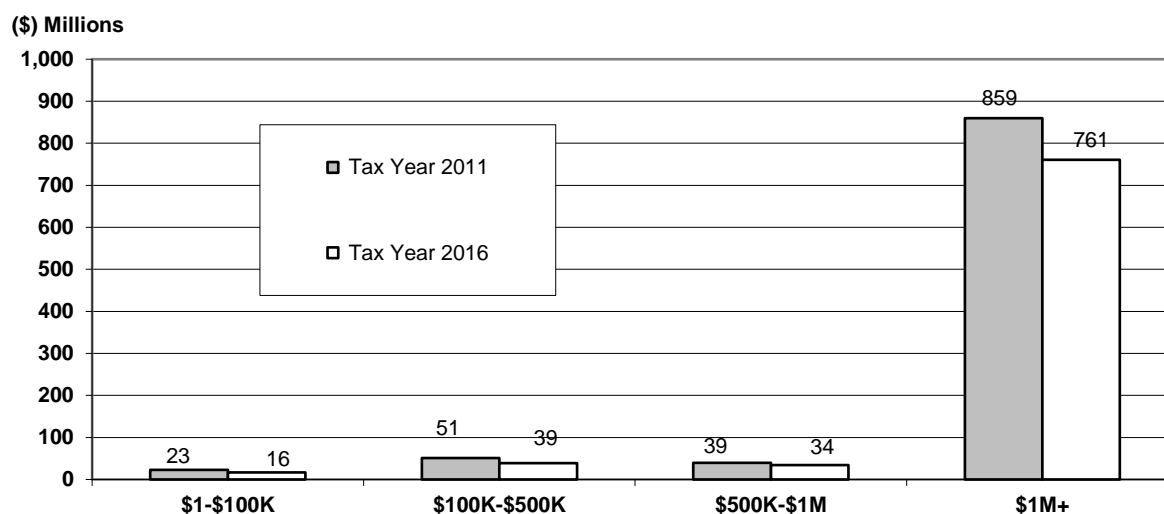
Table 3.3 and Figure 3.4 compare the net income tax liability of C corporations in tax year 2011 and tax year 2016 by NC taxable income brackets. The strongest growth has been for returns with NC taxable income above \$10 million.

Table 3.3
C Corporation Net Income Tax Liability by NC Taxable Income
Tax Year 2011 & Tax Year 2016

NC Taxable Income	Net Income Tax Liability TY 2011	Net Income Tax Liability TY 2016	% Difference
\$0 or less	(824,827)	--	--
\$1-\$15,000	3,090,028	2,056,248	-33.46%
\$15,001-\$30,000	3,852,084	2,665,623	-30.80%
\$30,001-\$50,000	5,086,291	3,602,626	-29.17%
\$50,001-\$100,000	11,080,691	8,074,511	-27.13%
\$100,001-\$500,000	50,694,134	39,065,613	-22.94%
\$500,001-\$1,000,000	39,328,096	34,351,377	-12.65%
\$1,000,001-\$10,000,000	272,113,784	221,943,416	-18.44%
\$10,000,001+	587,279,550	538,872,686	-8.24%
Total	971,699,831	850,632,100	-12.46%

Note: The tax rate in 2011 was 6.9% and the tax rate in 2016 was 4.0%.

Fig. 3.4 C Corporation Net Income Tax Liability by NC Taxable Income
Tax Year 2011 & Tax Year 2016



Trends in tax credit usage by C corporations. Over the preceding several years, a number of tax credits that have been used by corporations have been repealed. Table 3.5 provides a list of some of the tax credits that have been available to corporations in recent years and information on the expiration date of generating these credits.

**Table 3.5
Various Tax Credits Available to Corporations in Recent Years**

Tax Credit Description	Credit allowed against		Limited to 50% of tax liability?	Last Tax Year to generate credits
	Franchise Tax	Corporate Income Tax		
Creating Jobs - Art 3J	Y	Y	Y	2013
Investing in Business Property - Art 3J	Y	Y	Y	2013
N.C. State Ports	N	Y	Y	2013
Work opportunity	Y	Y	Y	2013
Research & Development - Art 3F	Y	Y	Y	2015
Renewable Energy - Art 3B	Y	Y	Y	2016*
Film Production	N	Y	N†	**
Historic Mill Rehabilitation - Art 3H	Y	Y	N	***
Cigarette Exportation	N	Y	Y	2017
Historic Rehabilitation - Art 3L	Y	Y	N	****
Railroad Intermodal Facility - Art 3K	Y	Y	Y	2037
Recycling Facility - Art 3C	Y	Y	N	None
Short period credit for change in income year	Y	N	N†	None

Notes:

†This is a refundable tax credit; amount of credit is not limited by tax liability

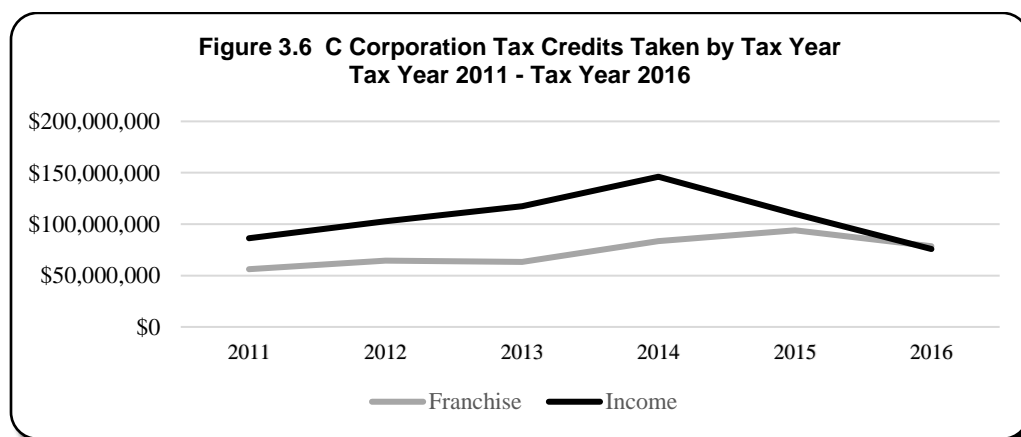
*A biomass resource project may generate credits if placed in service before May 5, 2017

**A taxpayer can claim a credit for expenses occurring before Jan. 1, 2015

***A taxpayer can claim a credit for a project for which an application for an eligibility certification is submitted prior to Jan. 1, 2015

****A taxpayer can claim a credit for expenses occurring before Jan. 1, 2020

Figure 3.6 shows the amount of credits taken against the franchise and corporate income tax for tax years 2011 through 2016. This chart shows the decrease in credit usage in 2015 and 2016. Even though some credits cannot be generated after a certain date, installments and carryforwards of unused credits will continue to be taken in future years.¹⁶



¹⁶ Figure 3.6 does not include film production tax credit usage.

S CORPORATIONS

Figure 3.7 compares the number of S corporation returns by tax years 2011 through 2016. Over the long term, the number of returns has grown. The rate of growth of the number of S corporations slowed after the 2007 recession. In tax year 2012, the number of filers decreased slightly from the prior year. However, the number of returns increased 10% between tax years 2012 and 2016. This is equivalent to an annualized rate of growth of 2.4%.

In Tax Year 2016, there were 10,292 taxpayers that indicated that they were first-time filers.

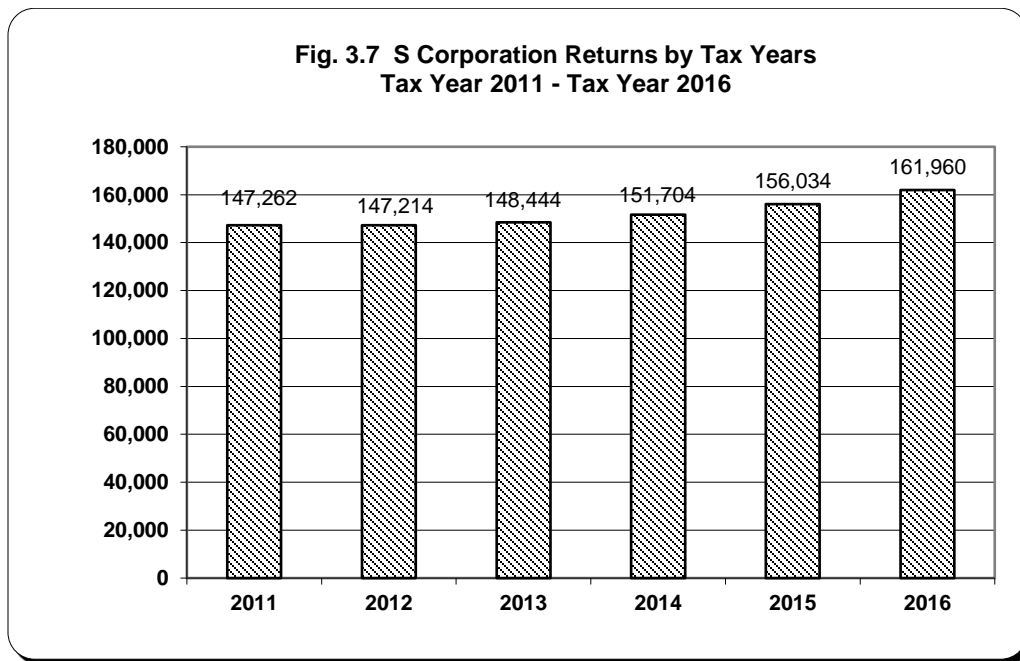


Figure 3.8 on the next page illustrates the relative amounts of net tax liabilities for 2011 through 2016 for S corporations. As discussed in Section II, the income tax liability for S corporations only includes taxes paid for nonresident shareholders filing a composite return. Therefore, comparisons 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. The rate declined to 5.75% in 2015. The tax rate on S corporation income remained at 5.75% for 2016, in comparison to the 4.0% rate for C corporations.

The large increase in the franchise tax liability in Tax Year 2016 is due primarily to the increase in the minimum tax from \$35 to \$200. It is estimated that this change resulted in an additional \$16.3 million in net tax liability for S corporations.

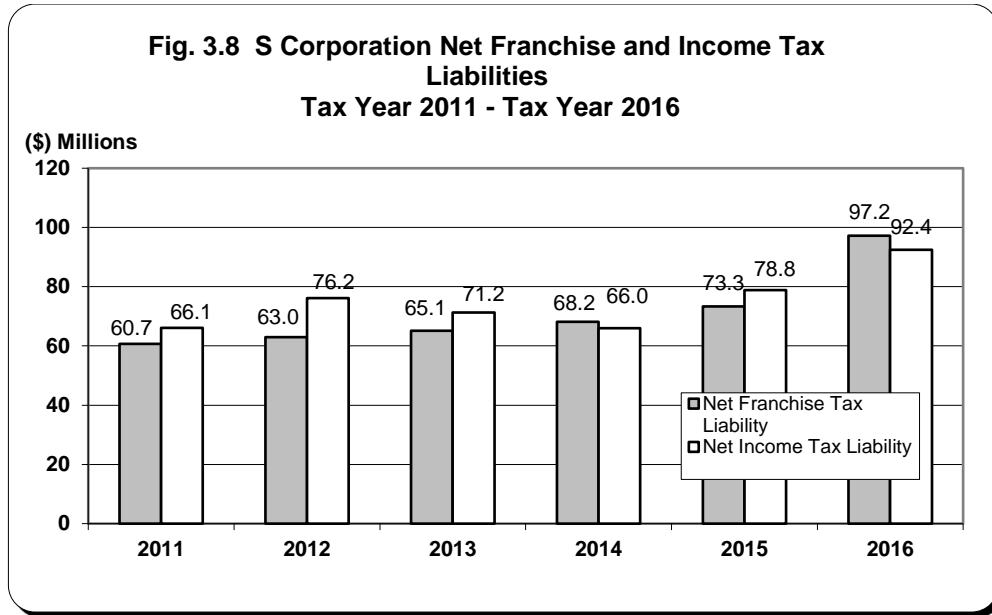
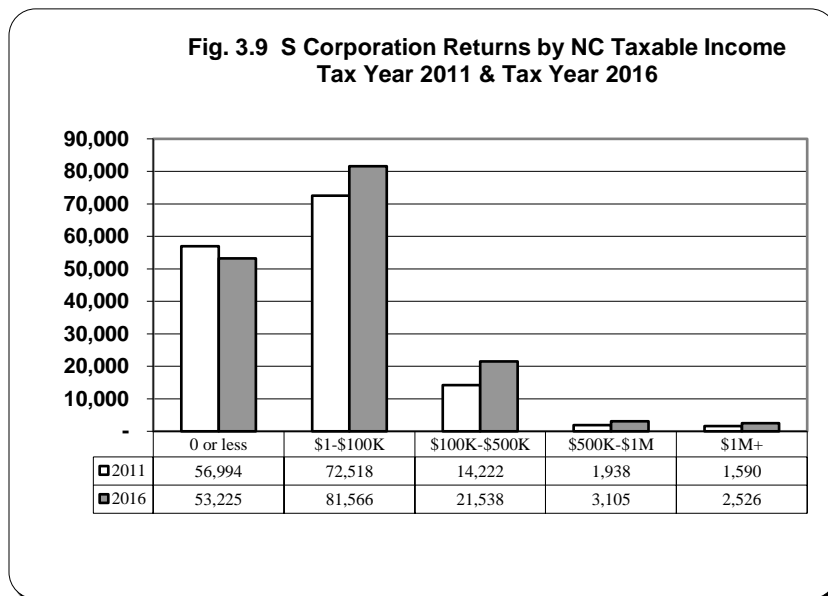


Figure 3.9 compares the number of S corporation returns in tax years 2011 and 2016 by NC taxable income brackets. The total number of returns has grown in each bracket except those with zero or negative taxable income. The percentage growth has been greatest in the largest NC taxable income bracket. 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 C corporate returns by the month in which their fiscal year begins, as well as for short-period returns. Calendar year returns comprised 75.6% of full-year returns and 70.4% of all returns. Their net franchise tax liability was 75.1% of the total, and their net income tax liability made up 74.0% of the total.

**Table 4.1
C Corporation Statistics by Fiscal Year Start Month
Tax Year 2016**

Tax Year Start Month	All Returns	Franchise Tax		Income Tax	
	Number of returns	Number	Amount (\$)	Number	Amount (\$)
January	55,452	45,716	423,335,173	18,237	629,159,738
February	1,044	1,008	19,031,650	394	39,482,302
March	629	602	2,219,740	260	3,214,848
April	3,180	3,062	20,686,220	1,352	31,842,077
May	961	897	3,361,703	386	8,075,426
June	955	873	4,664,388	379	12,327,246
July	4,264	3,626	18,839,282	1,668	25,271,907
August	898	840	6,091,542	379	11,338,797
September	885	817	3,052,938	376	7,244,992
October	3,340	3,066	23,198,025	1,356	28,092,997
November	1,141	1,084	5,006,302	468	9,383,936
December	635	597	2,212,886	253	5,031,107
Short-period returns	5,339	4,586	31,712,599	1,463	40,166,727
Total	78,723	66,774	563,412,448	26,971	850,632,100

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 a full year, or adopted the tax year of an affiliated corporation.

For S corporations, calendar year filers comprised 93.6% of the 161,960 returns and 98.6% of the 153,810 full-year returns. They represented 90.5% of net franchise tax liabilities and 85.8% of the net corporation income tax liabilities. There were 8,150 short-period returns included in the S corporation returns.

**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 36% of the total amount. Other sectors with relatively high shares of tax liability include finance and insurance, professional services, wholesale, retail, and information.

**Table 5.1
C Corporation Franchise Tax and Income Tax Liability by Industry Sector
Tax Year 2016**

Industry Sector	All Returns	Franchise Tax		Income Tax	
	Number of returns	Number	Amount (\$)	Number	Amount (\$)
Agriculture, Forestry, Fishing and Hunting	1,119	1,078	2,682,364	369	3,657,266
Mining	150	145	2,968,366	56	3,073,491
Utilities	230	209	30,566,448	62	3,224,443
Construction	6,012	5,809	10,354,529	2,361	22,713,602
Manufacturing	7,856	7,620	185,068,129	3,318	332,373,113
Wholesale	5,518	5,313	37,180,711	2,619	56,043,973
Retail	5,476	5,221	36,399,245	2,064	73,099,498
Transportation	1,991	1,913	7,571,146	796	12,735,795
Couriers and Warehousing	176	171	630,056	74	1,523,455
Information	2,327	2,193	36,150,630	716	50,826,340
Finance and Insurance	6,924	6,318	95,731,747	2,394	141,073,827
Real Estate and Rental & Leasing	11,491	6,694	45,034,640	2,506	32,906,436
Professional, Scientific and Technical Services	10,143	9,645	31,594,408	3,563	64,793,722
Management of Companies / see note	2,128	2,000	18,603,013	680	13,984,056
Administration & Support and Waste Management & Remediation Services	2,955	2,434	5,913,806	1,048	9,875,335
Educational Services	420	374	512,738	147	1,070,034
Health Care and Social Assistance	2,872	2,684	7,826,639	910	10,284,782
Arts, Entertainment and Recreation	912	776	1,085,025	315	853,170
Accommodations and Food Services	2,079	1,954	4,533,692	999	11,568,004
Other Services	3,903	2,718	2,254,957	1,211	4,154,636
Unidentifiable	4,041	1,505	750,159	763	797,122
Total	78,723	66,774	563,412,448	26,971	850,632,100

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." One hundred twenty-one (121) 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.) In addition, all bank holding companies (NAICS=551111) were reassigned to the Finance & Insurance sector.

**SECTION V
INDUSTRY SECTORS**

Table 5.2 provides a breakout of the income tax calculation similar to Table 2.7 for various industry sections.

**Table 5.2
C Corporation Income Tax Calculation Detail for Certain Industry Sectors
Tax Year 2016**

	Total	Manufacturing	Wholesale	Retail	Finance & Insurance	Professional Services
Taxable Returns						
Number of returns	26,972	3,319	2,619	2,064	2,394	3,563
Federal Taxable Income, Before NOL	684,229,417,897	215,572,415,321	45,202,161,684	60,259,213,465	154,193,810,992	50,813,487,054
(+) Adjustments to Federal Income	53,274,178,889	9,646,050,535	1,136,610,793	10,908,662,885	14,291,948,973	3,418,249,328
(-) Contributions to Donees Outside NC	5,494,939,877	2,323,872,354	342,105,652	1,119,811,855	644,939,519	309,928,310
(-) Nonapportionable Income	3,249,877,837	1,819,960,599	585,778,962	439,722	669,184,626	78,836,204
(-) Reduction Due to Apportionment	704,882,511,602	211,599,120,869	43,879,904,018	67,987,795,192	163,026,334,245	52,079,375,449
(=) Income Apportioned to NC	23,876,267,470	9,475,512,034	1,530,983,845	2,059,829,581	4,145,301,575	1,763,596,419
(+) Nonapportionable Income Allocated to NC	136,533,892	w	2,433,579	w	63,037,880	w
(-) Percentage Depletion Over Cost Depletion	28,489,139	w	0	w	0	w
(-) State Net Loss	725,165,396	235,258,025	82,159,143	51,628,692	98,670,289	73,474,788
(-) Contributions to NC Donees	98,559,449	14,234,820	2,233,844	29,347,914	37,223,564	1,961,615
(=) Net Taxable Income	23,160,587,378	9,230,012,059	1,449,024,437	1,979,148,872	4,072,445,602	1,691,527,813
Computed Income Tax	926,423,487	369,200,487	57,960,971	79,165,950	162,897,807	67,661,093
(-) Tax Credits	75,791,387	36,827,374	1,916,998	6,066,452	21,823,980	2,867,371
(=) Net Tax Liability	850,632,100	332,373,113	56,043,973	73,099,498	141,073,827	64,793,722

	Total	Manufacturing	Wholesale	Retail	Finance & Insurance	Professional Services
Non-Taxable Returns						
Number of returns	51,751	4,537	2,899	3,412	4,530	6,580
Federal Taxable Income, Before NOL	-176,172,620,837	-49,573,621,816	-15,119,342,714	-8,619,468,622	-19,392,311,502	-22,586,678,629
(+) Adjustments to Federal Income	-30,627,152,498	-21,662,551,663	2,440,666,163	1,585,616,869	-1,577,269,107	-4,021,127,663
(-) Contributions to Donees Outside NC	751,040,790	473,955,273	20,091,737	56,429,673	76,833,530	11,839,074
(-) Nonapportionable Income	5,964,905,640	1,575,952,233	397,311,037	21,410,551	-655,236,436	76,846,525
(-) Reduction Due to Apportionment	-197,954,602,414	-66,801,883,867	-12,374,049,149	-6,878,968,226	-19,223,489,955	-25,054,283,494
(=) Income Apportioned to NC	-15,561,117,351	-6,484,197,118	-722,030,176	-232,723,751	-1,167,687,748	-1,642,208,397
(+) Nonapportionable Income Allocated to NC	-160,222,544	w	-22,656,904	w	-102,826,185	755,185
(-) Percentage Depletion Over Cost Depletion	15,556,242	w	w	w	w	0
(-) State Net Loss	12,212,021,428	3,149,699,485	303,476,587	628,694,674	418,621,885	694,918,735
(-) Contributions to NC Donees	2,592,482	1,270,621	w	153,762	w	25,260
(=) Net Taxable Income	-25,379,182,085	-9,629,729,481	-1,049,055,153	-861,539,588	-1,689,103,073	-2,336,397,207
Computed Income Tax	0	0	0	0	0	0
(-) Tax Credits	0	0	0	0	0	0
(=) Net Tax Liability	0	0	0	0	0	0

Note: Refer to the note on the previous page for identification of NAICS code industry sectors. A "w" in a cell indicates that the amount is withheld to protect taxpayer confidentiality. Amounts are based on both audited and unaudited returns.

S CORPORATIONS

Table 5.3 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) construction; (3) real estate and rental & leasing; and (4) manufacturing.

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 pages.

**Table 5.3
S Corporation Franchise Tax and Income Tax Liability by Industry Sector
Tax Year 2016**

Industry Sector	All Returns	Franchise Tax		Income Tax	
	Number of returns	Number	Amount (\$)	Number	Amount (\$)
Agriculture, Mining & Utilities	4,027	3,913	4,049,037	75	855,113
Construction	24,390	23,423	12,736,129	1,159	10,703,199
Manufacturing	6,975	6,685	11,789,994	942	23,372,538
Wholesale	6,559	6,243	7,290,223	736	9,038,871
Retail	16,128	15,179	14,523,835	384	5,494,822
Transportation	4,714	4,470	2,063,410	245	1,987,359
Couriers and Warehousing	475	445	238,616	29	113,522
Information	2,500	2,320	1,429,175	249	2,732,084
Finance and Insurance	6,661	6,339	4,187,393	540	15,344,363
Real Estate and Rental & Leasing	17,281	16,515	12,715,683	616	3,479,904
Professional, Scientific and Technical Services	26,301	24,818	7,604,252	2,122	7,630,918
Management of Companies	988	934	1,273,348	254	2,613,253
Administration & Support and Waste Management & Remediation Services	6,978	6,634	2,442,955	518	4,697,122
Educational Services	1,105	1,032	369,701	61	743,369
Health Care and Social Assistance	10,765	10,274	4,527,774	121	723,778
Arts, Entertainment and Recreation	3,885	3,621	1,550,821	363	726,713
Accommodations and Food Services	8,110	7,667	4,506,894	144	1,394,753
Other Services	11,971	11,365	3,370,904	212	730,248
Unidentifiable	2,147	2,008	557,951	41	52,970
Total	161,960	153,885	97,228,095	8,811	92,434,899

Note: Calculations are based partially on unaudited returns. Agriculture, Mining and Utilities were reported as one sector to protect confidentiality of taxpayers. 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, taxpayers that were holding companies often listed their NAICS code as "Management of Companies." Nineteen (19) 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 of the Financial Services Division.)

**SECTION V
INDUSTRY SECTORS**

Table 5.4 shows the North Carolina net taxable income of S corporations in tax year 2016 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) manufacturing; (2) construction; (3) professional, scientific and technical services; (4) retail; (5) finance and insurance; (6) wholesale; and (7) health care and social assistance.

**Table 5.4
S Corporation NC Net Taxable Income by Industry Sector
Tax Year 2016**

Industry Sector	Net Taxable Income		
	Number of returns	Amount (\$)	Share of total amount
Agriculture, Forestry, Fishing and Hunting	3,587	312,682,761	1.9%
Mining	111	14,965,072	0.1%
Utilities	142	6,315,450	0.0%
Construction	21,968	2,331,511,277	14.0%
Manufacturing	6,334	2,623,589,665	15.8%
Wholesale	6,078	1,193,811,437	7.2%
Retail	15,329	1,433,885,756	8.6%
Transportation	4,358	306,484,603	1.8%
Couriers and Warehousing	445	44,081,007	0.3%
Information	2,277	286,987,257	1.7%
Finance and Insurance	5,738	1,421,296,371	8.5%
Real Estate and Rental & Leasing	15,857	1,071,169,922	6.4%
Professional, Scientific and Technical Services	24,187	2,081,113,231	12.5%
Management of Companies	849	210,268,322	1.3%
Administration & Support and Waste Management & Remediation Services	6,420	605,455,768	3.6%
Educational Services	1,046	50,544,047	0.3%
Health Care and Social Assistance	10,356	1,148,464,876	6.9%
Arts, Entertainment and Recreation	3,610	225,207,761	1.4%
Accommodations and Food Services	7,731	761,138,327	4.6%
Other Services	11,475	472,593,130	2.8%
Unidentifiable	1,477	35,568,696	0.2%
Total	149,375	16,637,134,736	

Note: Amounts shown in the table include accounts with negative values for net taxable income. 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. . Also, taxpayers that were holding companies often listed their NAICS code as "Management of Companies." Nineteen (19) 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 of the Financial Services Division.)

**SECTION V
INDUSTRY SECTORS**

Table 5.5 shows the North Carolina net taxable income of S corporations in tax year 2016 by industry sector for taxpayers who had positive amounts of net taxable income. The industry sectors with the largest net taxable income are (1) manufacturing; (2) construction; (3) professional, scientific and technical services; (4) retail; (5) finance and insurance; (6) wholesale; and (7) health care and social assistance.

**Table 5.5
S Corporation NC Net Taxable Income (Positive Values Only) by Industry Sector
Tax Year 2016**

Industry Sector	Net Taxable Income (Positive Values Only)		
	Number	Amount (\$)	Share of total amount
Agriculture, Forestry, Fishing and Hunting	2,222	395,217,114	2.2%
Mining	79	17,689,703	0.1%
Utilities	91	9,568,336	0.1%
Construction	16,439	2,553,355,327	14.0%
Manufacturing	4,603	2,760,325,081	15.1%
Wholesale	4,498	1,284,612,385	7.0%
Retail	10,294	1,644,909,969	9.0%
Transportation	3,013	360,629,944	2.0%
Couriers and Warehousing	327	49,990,333	0.3%
Information	1,565	310,530,854	1.7%
Finance and Insurance	4,680	1,468,580,187	8.0%
Real Estate and Rental & Leasing	10,829	1,228,171,486	6.7%
Professional, Scientific and Technical Services	18,519	2,215,299,833	12.1%
Management of Companies	595	277,822,009	1.5%
Administration & Support and Waste Management & Remediation Services	4,829	648,360,818	3.5%
Educational Services	706	59,433,691	0.3%
Health Care and Social Assistance	8,047	1,257,174,279	6.9%
Arts, Entertainment and Recreation	2,507	284,537,080	1.6%
Accommodations and Food Services	5,499	859,901,807	4.7%
Other Services	8,343	541,013,652	3.0%
Unidentifiable	982	48,811,039	0.3%
Total	108,667	18,275,934,927	

Note: Amounts shown in the table include accounts with negative values for net taxable income. 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. . Also, taxpayers that were holding companies often listed their NAICS code as "Management of Companies." Nineteen (19) 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 of the Financial Services Division.)