

North Carolina

**Corporation Income and Business
Franchise Taxes**

Statistics and Trends

Tax Year 2017

March 2020



NCDOR

**Revenue Research Section
Financial Services Division**

CONTENTS

INTRODUCTION.....	1
OVERVIEW OF TAXES COVERED BY THIS REPORT	2
<u>SECTION I - FRANCHISE TAX</u>	
C Corporation.....	5
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	
S Corporation.....	10
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	
C and S Corporations Combined	14
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	
<u>SECTION II - INCOME TAX</u>	
C Corporation.....	16
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	
S Corporation.....	24
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	

SECTION III – TRENDS

C Corporation28

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 2012 & 2017

Figure 3.4: C Corporation Net Income Tax Liability by NC Taxable Income – Tax Years 2012 & 2017

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

Figure 3.6: C Corporation Tax Credits Taken by Tax Year – Tax Years 2012 to 2017

S Corporation32

Figure 3.7: S Corporation Returns by Tax Years

Figure 3.8: S Corporation Net Franchise and Income Tax Liabilities by Tax Year

Figure 3.9: S Corporation Returns by NC Taxable Income – Tax Years 2012 & 2017

SECTION IV – FISCAL YEAR STATISTICS

C and S Corporations Combined34

Table 4.1: C Corporation Statistics by Fiscal Year Start Month

SECTION V – INDUSTRY SECTORS

C Corporation35

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

Table 5.2: C Corporation Income Tax Calculation Detail for Certain Industry Sectors

S Corporation37

Table 5.3: S Corporation Franchise Tax and Income Tax Liability by Industry Sector

Table 5.4: S Corporation NC Net Taxable Income by Industry Sector

Table 5.5: S Corporation NC Net Taxable Income (Positive Values Only) by Industry Sector

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 2017 (TY17)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) in December 2019. 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 2017 or for a tax year beginning sometime in 2017. Short-year returns are included if their tax period begins in 2017.

The relevant 2017 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 2012 through tax year 2017; 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 TY17.

	C corporations	S corporations
Number of returns	79,872	166,649
Number of returns with nonzero net franchise tax	67,798	158,998
Amount of net franchise tax	\$624,647,739	\$100,897,970
Number of returns with nonzero net income tax	27,318	9,547
Amount of net income tax	\$563,270,819	\$99,663,271

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 2017 because they are reported on 2017 corporate income tax returns. However, they are technically tax year 2018 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 2017 (2018 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); (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. 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. 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.

Beginning in tax year 2016, a new statute limited the deduction for 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 and after, 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.²

² In general, any expenses related to non-taxed income should be added back to N.C. taxable income.

De-coupling from federal bonus depreciation and Section 179 expensing. 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 2016. The State also adopted lower limits on Section 179 expensing for TY17, requiring an 85% addback of excess federal expensing over State limits.

Effective for tax years beginning in 2017 and after, there is a deduction from federal taxable income for amounts paid from the State Emergency Response and Disaster Relief Reserve Fund for hurricane relief or assistance to the extent included in federal taxable income.

Apportionment of multi-state business income. 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 quadruple-weighted in the formula.³ 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 3.0%.⁴

Several business incentive tax credits had been repealed in recent years. Tax credits remaining include 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 tax⁵. As a result, information concerning the income and tax liabilities of S corporations is included in this report.

³ In 2016, the sales factor was triple-weighted. In tax years prior to 2016, the sales factor had been double-weighted.

⁴ The corporate income tax rate was 4.0% in Tax Year 2016, 5.0% in Tax Year 2015, 6.0% in Tax Year 2014, and 6.9% in prior tax years.

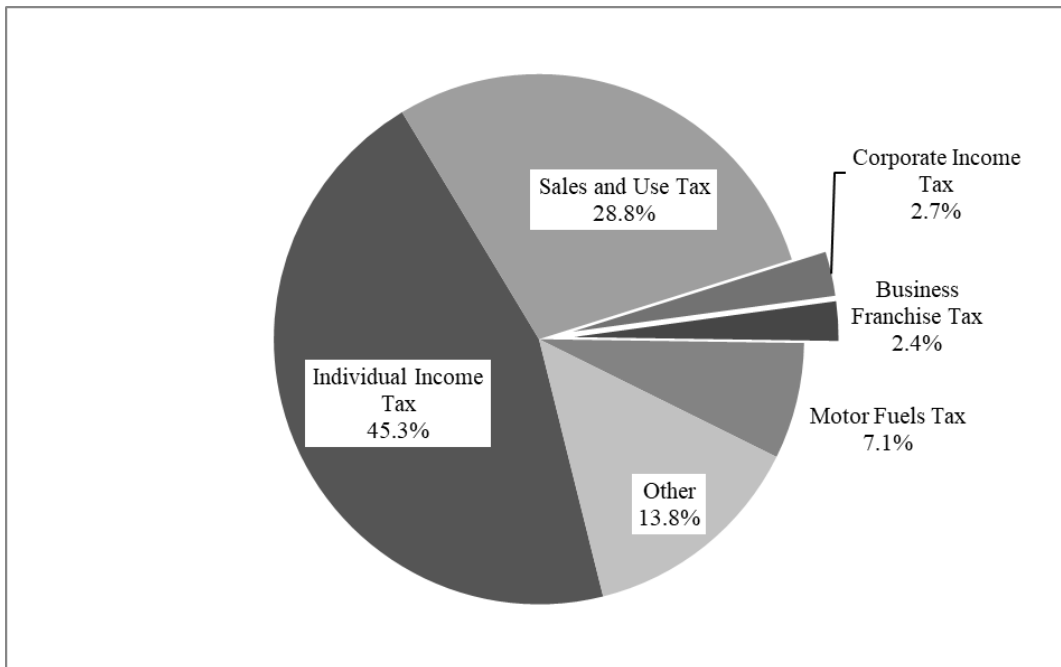
⁵ The tax rate applicable to S corporations is the individual income tax rate, not the corporate income tax rate.

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 2017-18 were \$27.9 billion. (Licenses and fees are included in this amount, but unemployment insurance contributions are not.)⁶ Net collections for the corporation income tax and the business franchise tax accounted for \$1.4 billion (5.1%) of the total.

The corporation taxes included in this report comprise the fourth largest category of revenues for the State government, surpassing motor vehicle licenses, highway use taxes, the insurance gross premium tax, 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 17-18



Note: The “other” category includes the highway use tax (2.9% of total), motor vehicle licenses (3.1%), insurance premiums tax (2.1%), alcoholic beverage tax (1.5%), and tobacco products tax (1.0%), among others. Unemployment insurance contributions are not included in this graph.

⁶ 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 \$624.6 million. (Net tax liability is the amount of tax liability after deducting tax credits.) After excluding filers that were not liable for franchise tax (12,058 returns), the average amount due from the remaining 67,814 returns was \$9,211. Sixty percent of these taxpayers owed \$200 or less; and 99% of taxpayers owed \$150,000 or less.

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 47.1% of the 2017 tax year returns, followed by investment in tangible property base (11.7%), and appraised values in property base (4.7%). Thirty-six percent of the returns listed no assets because: 1) the taxpayer was exempt from franchise tax (mainly non-profit entities); 2) the tax return was a final return; or 3) the taxpayer had no assets.⁷

**Table 1.1
C Corporation Returns by Tax Base Utilized
Tax Year 2017**

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	29,074	8,287	1,588	1,089	40,038
\$23,668-\$133,667	-	8,794	2,288	1,157	12,239
\$133,668-\$1,000,000	-	10,758	2,635	1,068	14,461
\$1,000,001-\$5,000,000	-	5,313	1,298	331	6,942
\$5,000,001-\$20,000,000	-	2,552	794	77	3,423
\$20,000,001-\$40,000,000	-	777	312	29	1,118
\$40,000,001-\$100,000,000	-	608	245	18	871
\$100,000,001+	-	559	200	21	780
Total	29,074	37,648	9,360	3,790	79,872

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.

⁷ There were 9,324 returns reporting that they were tax-exempt; of these, 8,173 reported no assets. There were 3,143 returns with a final return indicator, of which 2,594 reported no assets. (97 returns had both indicators.)

**SECTION I
FRANCHISE TAX**

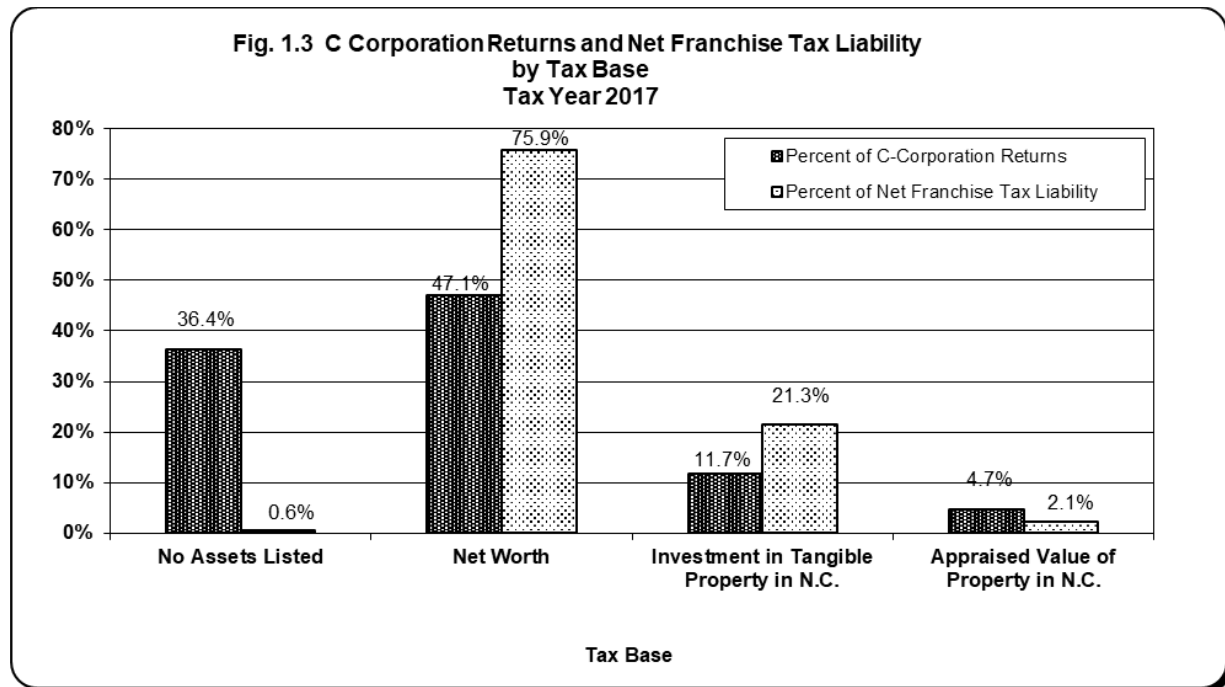
Table 1.2 compares the net franchise tax liability by tax base utilized. The greatest share of tax paid (75.9%) was under the net worth base. Taxpayers using the investment in tangible property base paid 21.3% of the franchise tax, while the appraised value in property base represented only 2.1% of the net tax liability.

**Table 1.2
C Corporation Net Franchise Tax Liability by Tax Base Utilized
Tax Year 2017**

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	3,794,887	1,569,413	305,817	212,875	5,882,992
\$23,668-\$133,667	-	1,650,044	445,721	227,150	2,322,915
\$133,668-\$1,000,000	-	6,329,310	1,590,297	609,179	8,528,786
\$1,000,001-\$5,000,000	-	18,245,659	4,443,860	968,858	23,658,377
\$5,000,001-\$20,000,000	-	38,131,522	11,453,597	1,061,491	50,646,610
\$20,000,001-\$40,000,000	-	31,751,690	12,380,260	1,195,362	45,327,312
\$40,000,001-\$100,000,000	-	54,195,619	21,150,782	1,454,180	76,800,581
\$100,000,001+	-	322,512,567	81,573,819	7,393,780	411,480,166
Total	3,794,887	474,385,824	133,344,153	13,122,875	624,647,739

Note: Figures are based partially on unaudited returns.

Figure 1.3 illustrates graphically the summary data in Tables 1.1 and 1.2 as a percentage of total tax liability.



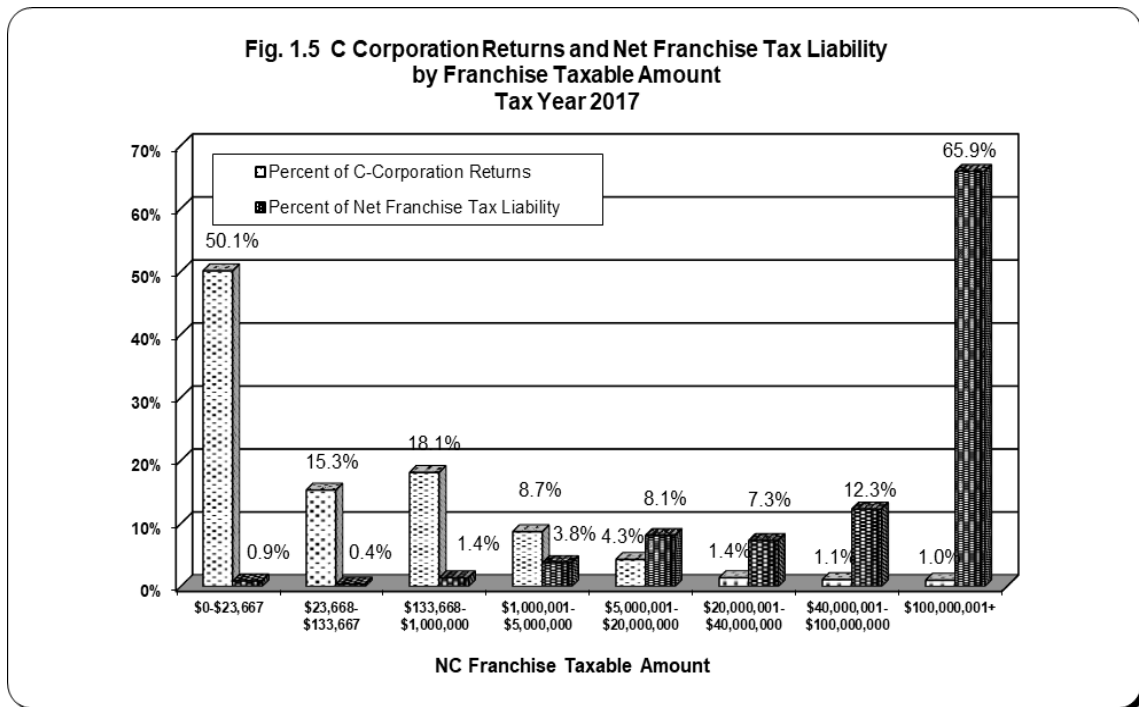
**SECTION I
FRANCHISE TAX**

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 2.1% of the returns, but paid 78.2% of net franchise tax.

**Table 1.4
C Corporation Returns and Net Franchise Tax Liability by Franchise Taxable Amount
Tax Year 2017**

Franchise Taxable Amount	Number of Returns		Net Franchise Tax Liability (\$)	
	Number of Returns	Percent	Liability (\$)	Percent
\$0-\$23,667	40,038	50.1%	5,882,992	0.9%
\$23,668-\$133,667	12,239	15.3%	2,322,915	0.4%
\$133,668-\$1,000,000	14,461	18.1%	8,528,786	1.4%
\$1,000,001-\$5,000,000	6,942	8.7%	23,658,377	3.8%
\$5,000,001-\$20,000,000	3,423	4.3%	50,646,610	8.1%
\$20,000,001-\$40,000,000	1,118	1.4%	45,327,312	7.3%
\$40,000,001-\$100,000,000	871	1.1%	76,800,581	12.3%
\$100,000,001+	780	1.0%	411,480,166	65.9%
Total	79,872	100.0%	624,647,739	100.0%

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



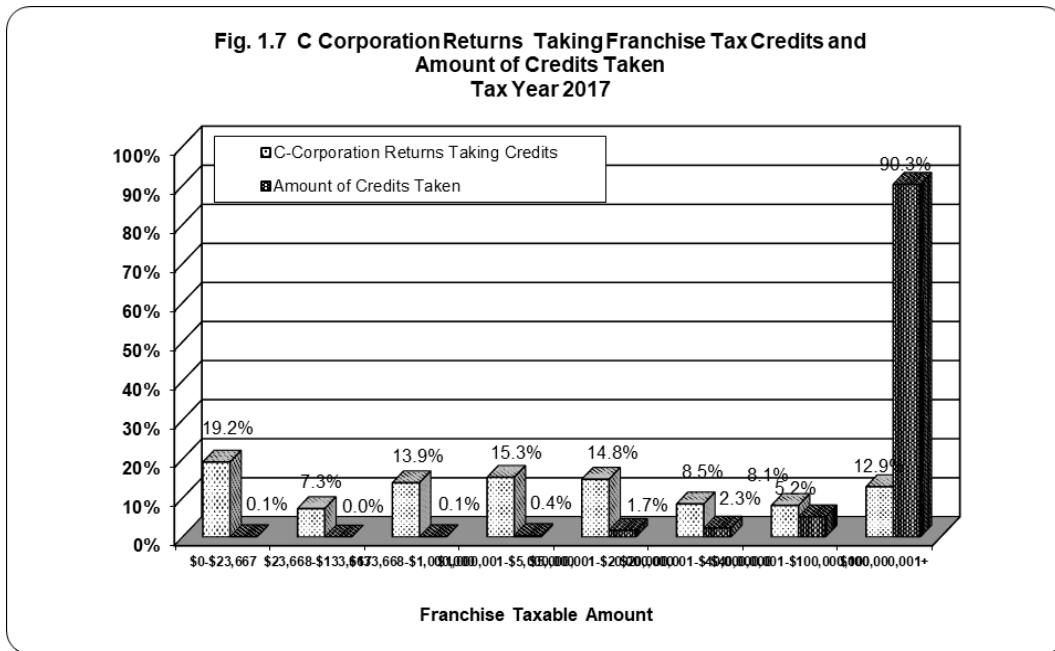
**SECTION I
FRANCHISE TAX**

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 1,222 (1.8%) of the taxable returns took credits.⁸ Returns with franchise taxable amount greater than \$100 million comprised only 12.9% of the returns taking credits, but these taxpayers had 90.3% of the credit amount claimed.

**Table 1.6
C Corporation Returns Taking Franchise Tax Credits and Amount of Credits Taken
Tax Year 2017**

Franchise Taxable Amount	Number of Returns Taking Credits		Amount of Credits Taken (\$)	
		Percent		Percent
\$0-\$23,667	238	19.2%	43,208	0.1%
\$23,668-\$133,667	91	7.3%	17,085	0.0%
\$133,668-\$1,000,000	172	13.9%	56,079	0.1%
\$1,000,001-\$5,000,000	190	15.3%	327,060	0.4%
\$5,000,001-\$20,000,000	183	14.8%	1,368,419	1.7%
\$20,000,001-\$40,000,000	105	8.5%	1,866,111	2.3%
\$40,000,001-\$100,000,000	101	8.1%	4,193,213	5.2%
\$100,000,001+	160	12.9%	73,363,043	90.3%
Total	1,240	100.0%	81,234,218	100.0%

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



⁸ There were 18 returns with no tax liability but were claiming \$8,894 in short-period credits. These taxpayers are included in Table 1.6

**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 12.1% of tax liability for taxpayers whose taxable amount was above \$5 million and 1.1% for those with lower taxable amounts.

**Table 1.8
C Corporation Franchise Tax Credits Taken by Credit Type and Franchise Taxable Amount
Tax Year 2017**

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	471	21,276,717	286	266,565	185	21,010,152
+ Miscellaneous Credits Claimed*	288	5,416,638	259	47,513	29	5,369,125
- Misc. Credits Not Taken **	--	(521,992)	--	(1,377)	--	(520,615)
+ Credits Subject to 50% Limit Taken	500	55,062,855	156	130,731	344	54,932,124
= Credits Taken	1,240	81,234,218	691	443,432	549	80,790,786

* Misc. 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 48.4% of 2017 tax year returns, followed by investment in tangible property base (18.8%), and appraised values in property (10.0%). Twenty-three percent of the returns listed no assets because: 1) the taxpayer was exempt from franchise tax; 2) the tax return was a final return; or 3) the taxpayer had no assets. There were 159,769 S corporations with tax liability and/or tax credits.⁹

**Table 1.9
S Corporation Returns by Tax Base Utilized
Tax Year 2017**

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	37,986	32,709	7,982	6,263	84,940
\$23,668-\$133,667	-	26,213	10,753	5,748	42,714
\$133,668-\$1,000,000	-	17,276	9,421	3,594	30,291
\$1,000,001-\$5,000,000	-	3,657	2,451	847	6,955
\$5,000,001-\$20,000,000	-	679	645	127	1,451
\$20,000,001-\$40,000,000	-	86	93	13	192
\$40,000,001+	-	45	51	10	106
Total	37,986	80,665	31,109	16,602	166,649

**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 (49.4%) was under the net worth base.

**Table 1.10
S Corporation Net Franchise Tax Liability by Tax Base Utilized
Tax Year 2017**

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	6,193,153	6,142,986	1,500,616	1,153,179	14,989,934
\$23,668-\$133,667	-	4,958,285	2,025,310	1,078,549	8,062,144
\$133,668-\$1,000,000	-	8,987,437	5,151,933	1,916,790	16,056,160
\$1,000,001-\$5,000,000	-	11,327,160	7,672,441	2,507,267	21,506,868
\$5,000,001-\$20,000,000	-	9,187,855	8,567,709	1,569,336	19,324,900
\$20,000,001-\$40,000,000	-	3,252,777	3,833,443	512,470	7,598,690
\$40,000,001+	-	5,974,927	6,348,405	1,035,942	13,359,274
Total	6,193,153	49,831,427	35,099,857	9,773,533	100,897,970

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

Note: Figures are based partially on unaudited returns.

⁹ Forty-nine nontaxable returns claimed \$10,227 in short-period tax credits.

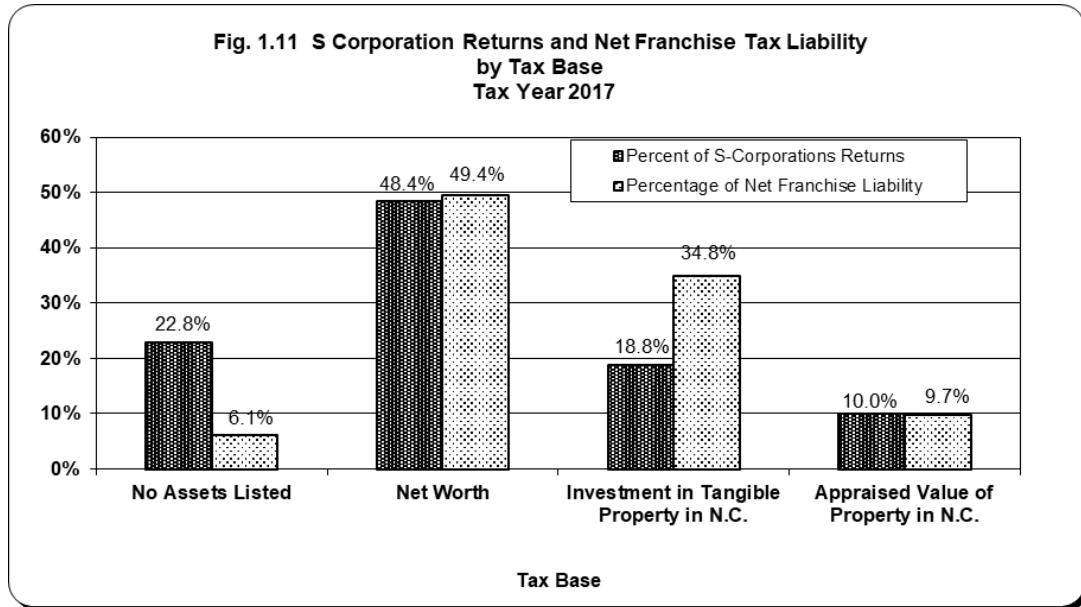


Table 1.12 and Figure 1.13 compare the distribution of S corporation returns and net franchise tax liability. The average tax was \$632 for taxable returns, although 75.5% of taxable returns had a tax liability of \$200 or less. Forty-five taxpayers had a net tax liability above \$100,000.

**Table 1.12
S Corporation Returns and Net Franchise Tax Liability by Franchise Taxable Amount
Tax Year 2017**

Franchise Taxable Amount	Number of Returns		Net Franchise Tax Liability (\$)	
	Number of Returns	Percent	Liability (\$)	Percent
\$0-\$23,667	84,940	51.0%	14,989,934	14.9%
\$23,668-\$133,667	42,714	25.6%	8,062,144	8.0%
\$133,668-\$1,000,000	30,291	18.2%	16,056,160	15.9%
\$1,000,001-\$5,000,000	6,955	4.2%	21,506,868	21.3%
\$5,000,001-\$20,000,000	1,451	0.9%	19,324,900	19.2%
\$20,000,001-\$40,000,000	192	0.1%	7,598,690	7.5%
\$40,000,001+	106	0.1%	13,359,274	13.2%
Total	166,649	100.0%	100,897,970	100.0%

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

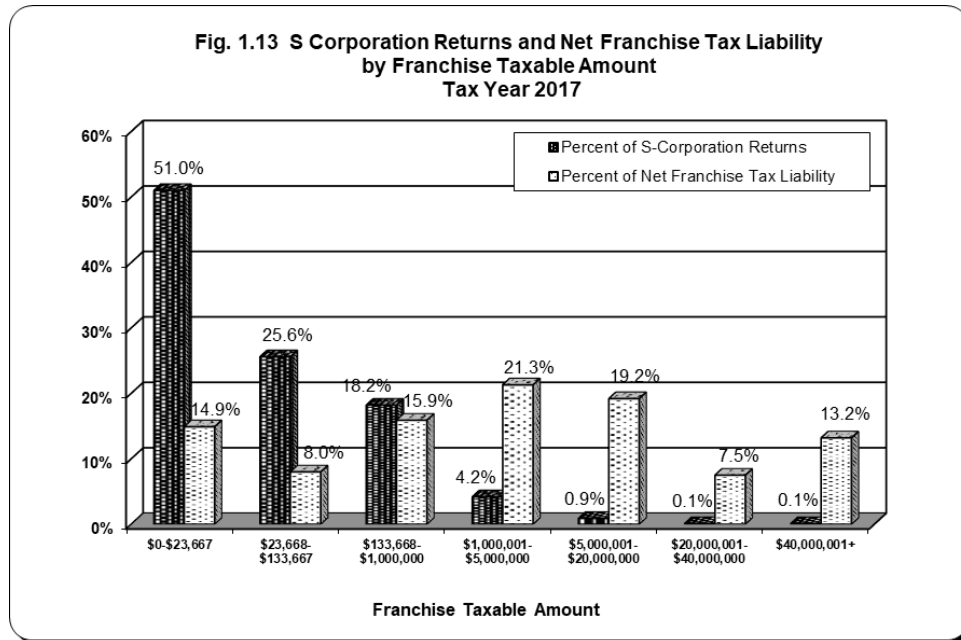


Table 1.14 and Figure 1.15 show the number of returns taking franchise tax credits and amount of credits taken. Returns with a franchise taxable amount greater than \$40 million comprised 0.1% of the returns taking credits and 35.2% of the credits taken.

**Table 1.14
S Corporation Returns Taking Franchise Tax Credits and Amount of Credits Taken
Tax Year 2017**

Franchise Taxable Amount	Number of Returns Taking Credits		Amount of Credits Taken (\$)	
	Number	Percent	Amount	Percent
\$0-\$23,667	3,741	45.9%	660,266	23.4%
\$23,668-\$133,667	2,515	30.9%	442,456	15.7%
\$133,668-\$1,000,000	1,520	18.7%	275,655	9.8%
\$1,000,001-\$5,000,000	294	3.6%	137,131	4.9%
\$5,000,001-\$20,000,000	50	0.6%	160,602	5.7%
\$20,000,001-\$40,000,000	12	0.1%	154,873	5.5%
\$40,000,001+	11	0.1%	994,369	35.2%
Total	8,143	100.0%	2,825,352	100.0%

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

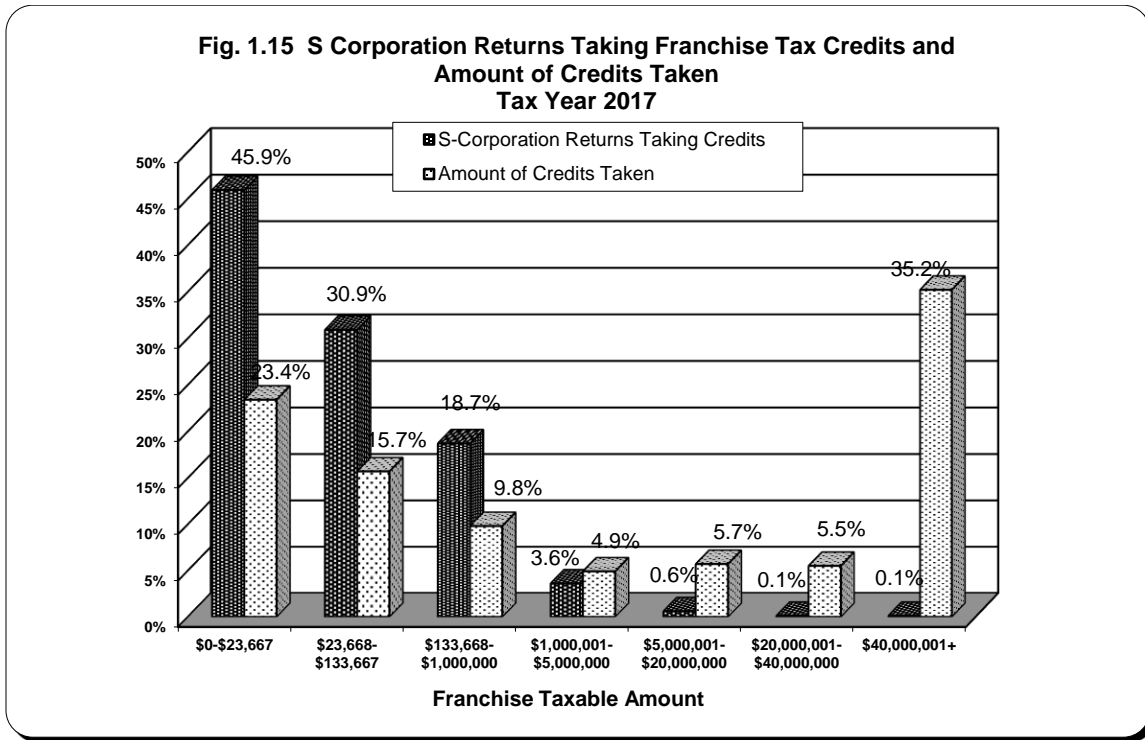


Table 1.16 shows the amount of franchise tax credits by credit type and franchise taxable amount.

**Table 1.16
S Corporation Franchise Tax Credits Taken by Credit Type and Franchise Taxable Amount
Tax Year 2017**

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	232	235,630	199	30,774	33	204,856
+ Miscellaneous Credits Claimed*	7,936	1,565,046	7,646	1,358,431	290	206,615
- Misc. Credits Not Taken **	--	(15,698)	--	(15,698)	--	--
+ Credits Subject to 50% Limit Taken	68	1,040,374	23	4,870	45	1,035,504
= Credits Taken	8,143	2,825,352	7,776	1,378,377	367	1,446,975

* 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 tax return was a final return; 3) or the taxpayer had no assets. The net worth base was used by the largest number of corporations.

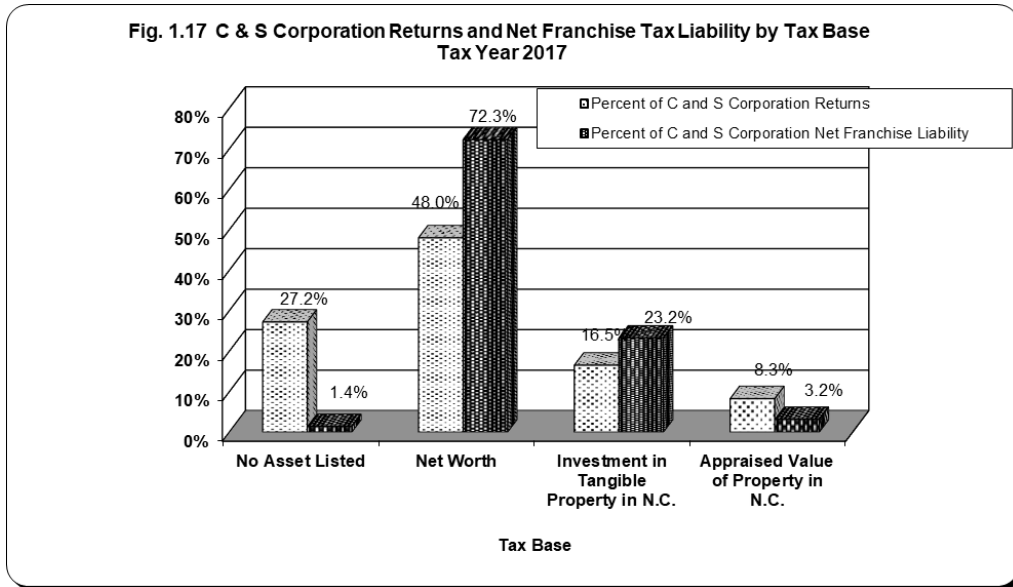


Figure 1.18 shows the number of C and S corporation returns and net franchise tax liability. Taxpayers with franchise taxable amount over \$20 million made up 1.2% of the returns, but incurred 76.4% of net franchise tax liability.

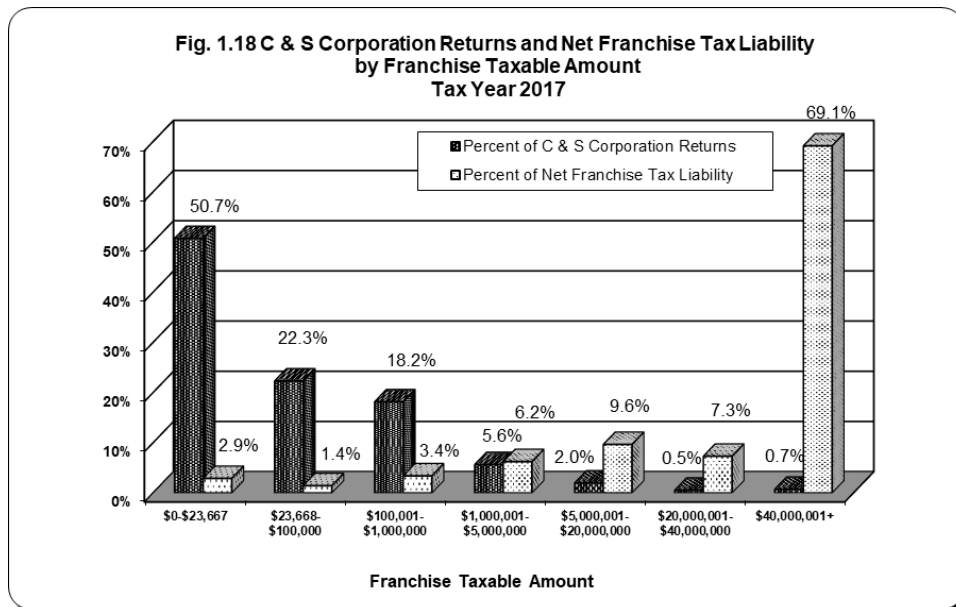
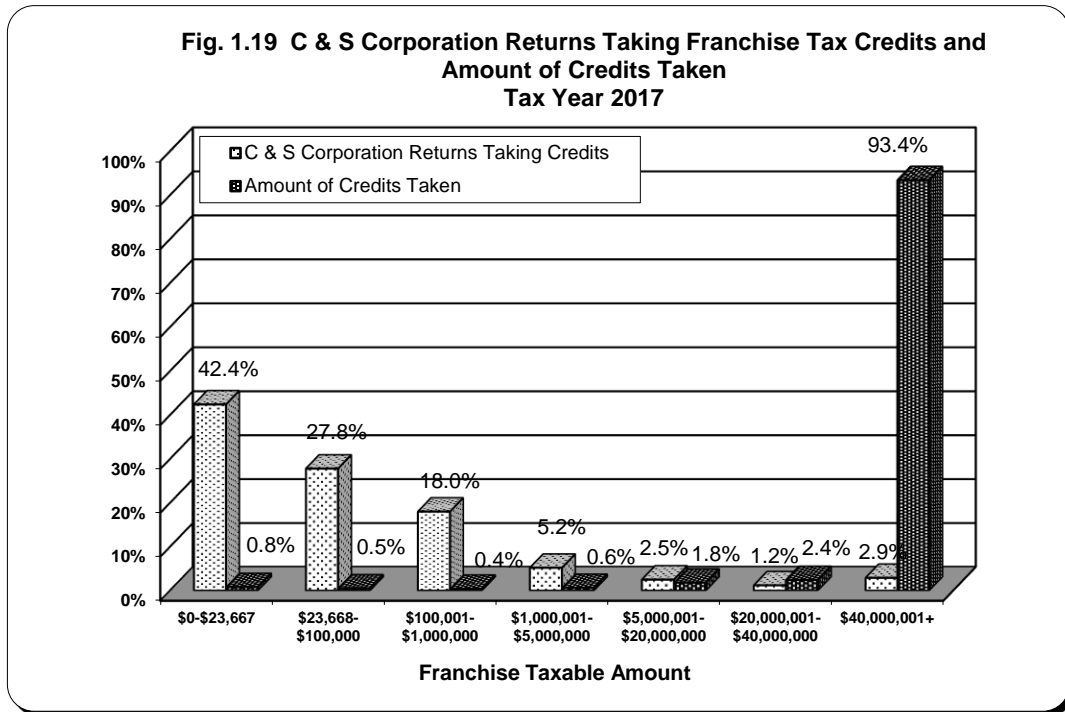


Figure 1.19 shows the distribution of C and S corporation returns that took franchise tax credits and the amount of credits taken. Only 9,316 of the 227,583 taxable corporations took credits in tax year 2017.¹⁰ Corporations with over \$40 million as their franchise tax base took over 93% of all credits.



¹⁰ The 227,583 taxable corporations include 34 C corporations and 820 S corporations that had zero net franchise tax because their tax credits exactly offset their tax liability. In addition, there were 67 nontaxable returns claiming the short-period tax credit.

C CORPORATIONS

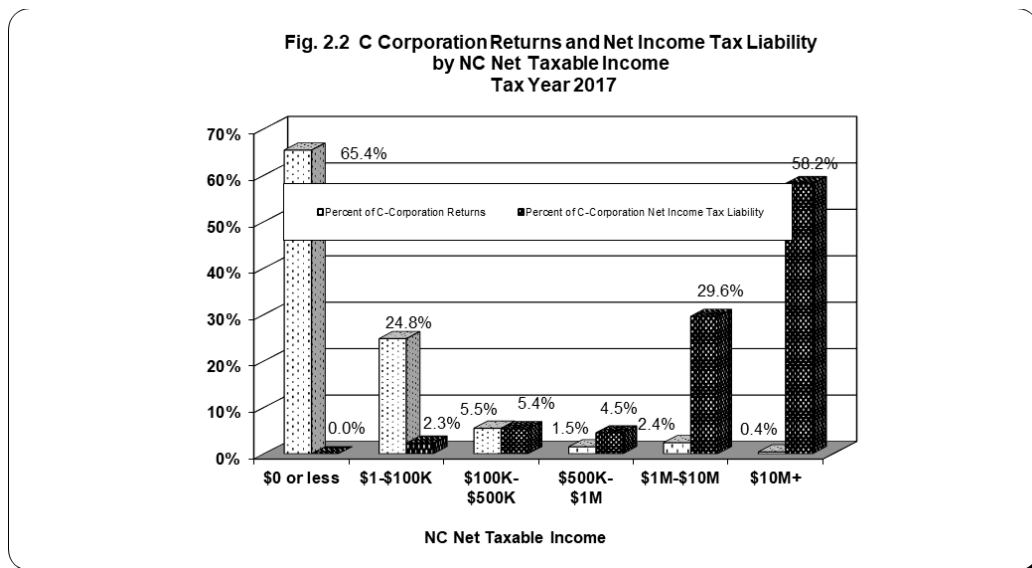
Of the 79,872 tax returns that were filed for tax year 2017, only 27,318 (34.2%) of them had a net tax liability (i.e., a positive tax liability after credits were applied).

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 2017**

NC Net Taxable Income	Number of Returns	Percent	Cumulative Percent	Net Income Tax Liability [\$]	Percent	Cumulative Percent
\$0 or less	52,264	65.4%	65.4%	0	--	--
\$1-\$15,000	11,432	14.3%	79.7%	1,558,707	0.3%	0.3%
\$15,001-\$30,000	3,090	3.9%	83.6%	2,005,933	0.4%	0.6%
\$30,001-\$50,000	2,365	3.0%	86.6%	2,773,810	0.5%	1.1%
\$50,001-\$100,000	2,866	3.6%	90.2%	6,085,327	1.1%	2.2%
\$100,001-\$500,000	4,412	5.5%	95.7%	30,511,998	5.4%	7.6%
\$500,001-\$1,000,000	1,208	1.5%	97.2%	25,560,652	4.5%	12.2%
\$1,000,001-\$10,000,000	1,921	2.4%	99.6%	166,918,038	29.6%	41.8%
\$10,000,001+	314	0.4%	100.0%	327,856,354	58.2%	100.0%
Total	79,872	100.0%	--	563,270,819	100.0%	--

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

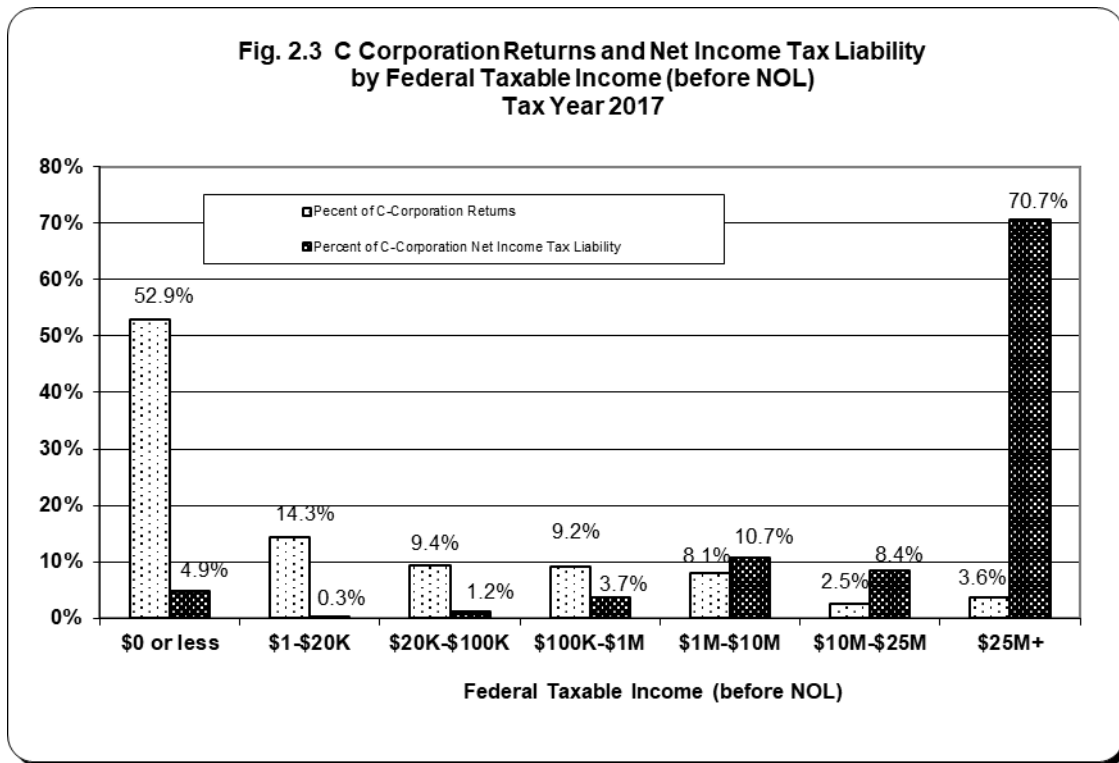


SECTION II INCOME TAX

As shown in Table 2.1 and Figure 2.2 on the previous page, C corporations with a North Carolina Taxable Income of over \$1 million were liable for 87.8% of the C corporation income tax liability, but made up 2.8% of the corporations filing returns. Approximately 58% of the total C corporation net income tax liability was attributable to the 314 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 seventy percent 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 quadruple weight.

**Table 2.4
C Corporation Returns by Federal Taxable Income (Before NOL) and
Apportionment Percentage
Tax Year 2017**

Federal Taxable Income (before NOL)	NC Apportionment Percentage					Total
	<5%	5% - 24%	25% - 49%	50% - 99%	100%	
\$0 or less	13,657	2,243	683	898	24,767	42,248
\$1 - \$20,000	782	198	89	184	10,154	11,407
\$20,001- \$100,000	1,422	407	165	331	5,151	7,476
\$100,001 - \$ 1,000,000	3,786	840	293	471	1,982	7,372
\$1,000,001 - \$10,000,000	4,793	895	332	210	277	6,507
\$10,000,001-\$25,000,000	1,597	263	60	**	**	1,957
\$25,000,001+	2,525	312	42	40**	23**	2,905
Total	28,562	5,158	1,664	2,134	42,354	79,872

**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 2017**

Federal Taxable Income (before NOL)	NC Apportionment Percentage					Total [\$]
	<5% [\$]	5% - 24% [\$]	25% - 49% [\$]	50% - 99% [\$]	100% [\$]	
\$0 or less	20,953,850	3,902,269	193,746	1,157,879	1,505,925	27,713,669
\$1 - \$20,000	15,304	10,826	10,472	47,494	1,677,878	1,761,974
\$20,001- \$100,000	95,840	85,697	105,985	483,913	6,110,156	6,881,591
\$100,001 - \$ 1,000,000	1,112,988	1,274,890	1,195,534	4,000,172	13,284,422	20,868,006
\$1,000,001 - \$10,000,000	8,185,395	10,834,916	10,633,786	13,031,960	17,577,481	60,263,538
\$10,000,001-\$25,000,000	16,121,168	11,139,492	7,984,439	**	**	47,348,161
\$25,000,001+	221,162,202	126,003,424	21,347,732	26,413,592**	15,609,992**	398,433,880
Total	267,646,747	153,251,514	41,471,694	45,135,010	55,765,854	563,270,819

**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 53.0% of the returns filed for tax year 2017. However, these corporations accounted for only 9.9% 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. Over forty-seven 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.

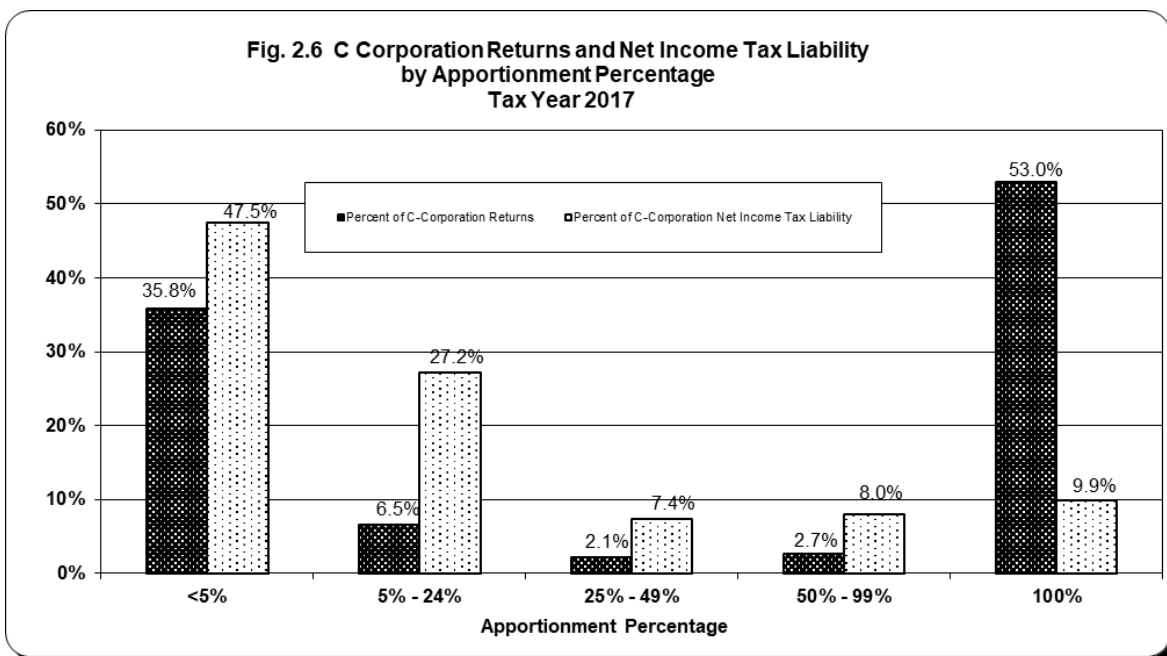


Table 2.7 on the next page shows statistics on the calculation of net tax liability at various steps, starting with federal taxable income. Returns are divided into taxable and nontaxable returns, where taxable returns are defined as those with a positive tax liability before credits are applied. The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

Out of 79,872 returns, 34.2% were taxable returns and 65.8% were nontaxable returns. Taxable returns with a federal taxable income over \$25 million made up 2.8% of the returns but accounted for 70.7% of the tax liability.

Of the 42,248 returns with federal taxable income of zero or less, 1,563 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 37,624 returns that did show a federal taxable income, 11,868 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 \$144.6 billion, there was a reduction of \$18.1 billion due to NC adjustments, a reduction of \$3.3 billion due to nonapportionable income, a reduction of \$120.5 billion due to apportioning income to North Carolina, and a reduction of \$4.6 billion due to State Net Loss carryforwards.¹¹

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 2017 was for the bonus depreciation allowances at the federal level. The Protecting Americans from Tax Hikes (PATH) Act of 2015 allowed 50% bonus depreciation. The Tax Cuts and Jobs Act (TCJA) of 2017 increased bonus depreciation to 100% for property acquired and placed in service after September 27, 2017. As such, these addbacks are only a temporary addition to tax, as they will be offset by future deductions.¹²

Finally, North Carolina tax credits for businesses reduced overall C corporation tax liabilities by \$40.0 million.

¹¹ 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.

¹² 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 2017**

			(+)	(-)	(-)	(-)	(=)
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
		[\$]	[\$]	[\$]	[\$]	[\$]	[\$]
<u>Taxable Returns</u>							
\$0 or less	1,563	(14,727,416,317)	47,713,102,327	229,118,997	(250,305,799)	32,041,189,988	965,682,824
\$1-\$20,000	7,206	47,787,144	38,490,272	154,196	751,917	22,618,205	62,753,098
\$20,001-\$100,000	5,196	256,090,161	114,146,791	977,390	4,931,710	119,682,357	244,645,495
\$100,001-\$1,000,000	5,001	1,876,760,915	703,091,729	14,291,345	70,466,659	1,762,138,297	732,956,343
\$1,000,001-\$10,000,000	4,636	17,782,277,603	4,725,135,581	90,167,559	611,529,437	19,722,355,551	2,083,360,637
\$10,000,001-\$25,000,000	1,469	23,467,493,172	11,768,832,163	228,043,938	288,472,119	33,035,949,210	1,683,860,068
\$25,000,001+	2,248	608,757,123,727	43,757,515,549	5,681,641,118	2,386,430,102	629,295,285,846	15,151,282,210
Total, Taxable	27,319	637,460,116,405	108,820,314,412	6,244,394,543	3,112,276,145	715,999,219,454	20,924,540,675
<u>Nontaxable Returns</u>							
\$0 or less	40,685	(444,355,913,455)	44,061,594,997	26,506,596	991,351,202	(385,633,650,013)	(15,678,526,243)
More than \$0	11,868	144,595,240,734	(18,107,476,295)	507,748,892	3,288,780,010	120,542,622,525	2,148,613,012
Total, Nontaxable	52,553	(299,760,672,721)	25,954,118,702	534,255,488	4,280,131,212	(265,091,027,488)	(13,529,913,231)

	(+)	(-)	(-)	(-)	(=)		(-)	(=)
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
	[\$]	[\$]	[\$]	[\$]	[\$]	[\$]	[\$]	[\$]
<u>Taxable Returns</u>								
\$0 or less	**	**	39,089,259	5,092,131	947,292,214	28,418,804	705,135	27,713,669
\$1-\$20,000	**	**	4,149,230	278,829	58,740,387	**	**	1,761,974
\$20,001-\$100,000	**	**	16,253,806	1,584,071	229,645,349	**	**	6,881,591
\$100,001-\$1,000,000	**	**	50,494,736	4,326,340	698,352,993	20,950,638	82,632	20,868,006
\$1,000,001-\$10,000,000	**	**	70,616,344	8,434,088	2,057,456,391	61,723,711	1,460,173	60,263,538
\$10,000,001-\$25,000,000	**	**	55,277,921	6,129,826	1,643,487,924	49,304,654	1,956,493	47,348,161
\$25,000,001+	**	**	603,835,865	87,816,478	14,475,097,095	434,252,926	35,819,046	398,433,880
Total, Taxable	**	**	839,717,161	113,661,763	20,110,072,353	594,650,733	40,023,479	563,270,819
<u>Nontaxable Returns</u>								
\$0 or less	**	**	5,276,381,138	**	(20,531,482,756)	-	-	-
More than \$0	**	**	4,631,209,934	**	(2,617,404,610)	-	-	-
Total, Nontaxable	**	**	9,907,591,072	**	(23,148,887,366)	-	-	-

**Not shown to maintain taxpayer confidentiality. Amounts are included in totals.
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 99% of the 27,319 returns with positive tax liability before credits did not take any income tax credits. Seventy percent of the 242 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 83.6% of the total credits taken.

**Table 2.8
Number of C Corporation Taxable Returns Taking Credits as a Percentage of Tax Liability
Tax Year 2017**

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	16,582	**	**	**	**	16,598
\$50,001-\$100,000	2,853	**	**	**	**	2,866
\$100,001-\$500,000	4,382	**	**	**	**	4,412
\$500,001-\$1,000,000	1,183	**	**	**	**	1,208
\$1,000,001-\$10,000,000	1,824	**	**	**	66	1,921
\$10,000,001+	253	14	**	**	35	314
Total	27,077	36	23	14	169	27,319

**Not shown to maintain taxpayer confidentiality. Amounts are included in totals.

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 2017**

NC Taxable Income	Income Tax Credits as a Percentage of Tax				
	0.1% -9.9%	10% -19.9%	20% -39.9%	40% +	Total
	[\$]	[\$]	[\$]	[\$]	[\$]
\$1-\$50,000	**	**	**	**	4,833
\$50,001-\$100,000	**	**	**	**	15,197
\$100,001-\$500,000	**	**	**	**	107,393
\$500,001-\$1,000,000	**	**	**	**	212,545
\$1,000,001-\$10,000,000	**	**	**	2,992,569	3,629,687
\$10,000,001+	1,095,230	**	**	30,169,294	36,061,897
Total	1,143,665	4,740,989	668,323	33,478,575	40,031,552

**Not shown to maintain taxpayer confidentiality. Amounts are included in totals.

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.

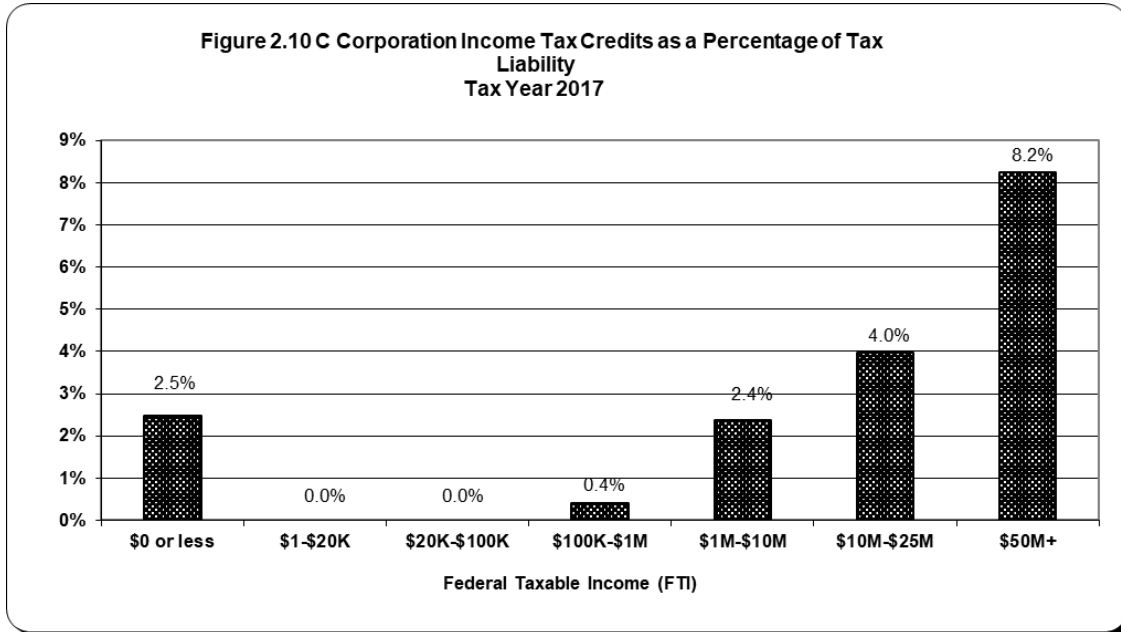


Table 2.11 provides the distribution of income tax credits by credit type and NC net taxable income.

**Table 2.11
C Corporation Income Tax Credits by Credit Type and NC Taxable Income (NCTI)
Tax Year 2017**

Income Tax Credits	All Returns	
	Number of Credits*	Amount (\$)
Non-Limited Credits and Carryforwards (Taken amount only)	18	14,779,495
Tax Credit Subject to 50% of Tax Limit (Taken only)	228	34,415,575
Credits Claimed	326	49,195,070
Credits Not Taken **	--	9,163,518
Credits Taken	242	40,031,552

* 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 63.9% of the tax liability, but only 1.6% of returns.

The total net tax liability of \$99.7 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 2017**

NC Taxable Income*	Number of Returns	Percent	Number With Tax Due for Nonresidents	Net Tax Liability [\$]	Percent
\$0 or less	54,288	32.6%	0	0	0.0%
\$1-\$15,000	33,041	19.8%	4,336	1,119,121	1.1%
\$15,001-30,000	17,084	10.3%	1,190	1,342,013	1.3%
\$30,001-\$50,000	14,794	8.9%	843	1,724,391	1.7%
\$50,001-\$100,000	18,511	11.1%	954	3,480,987	3.5%
\$100,001-\$500,000	22,951	13.8%	1,591	17,211,121	17.3%
\$500,001-\$1,000,000	3,286	2.0%	327	11,103,991	11.1%
\$1,000,001-\$10,000,000	2,559	1.5%	290	31,371,034	31.5%
\$10,000,001+	135	0.1%	16	32,310,613	32.4%
Total	166,649	100.1%	9,547	99,663,271	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.

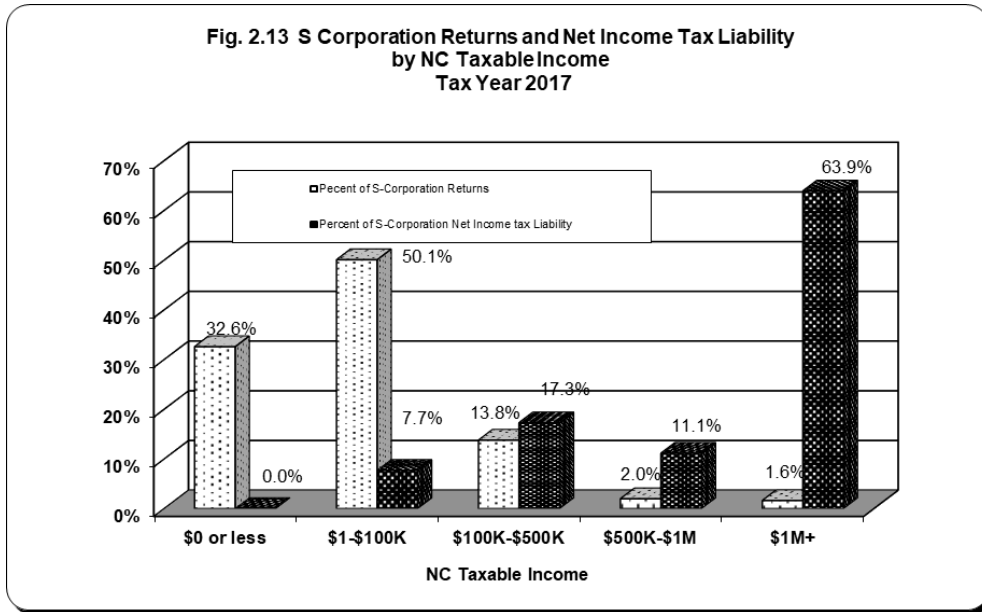
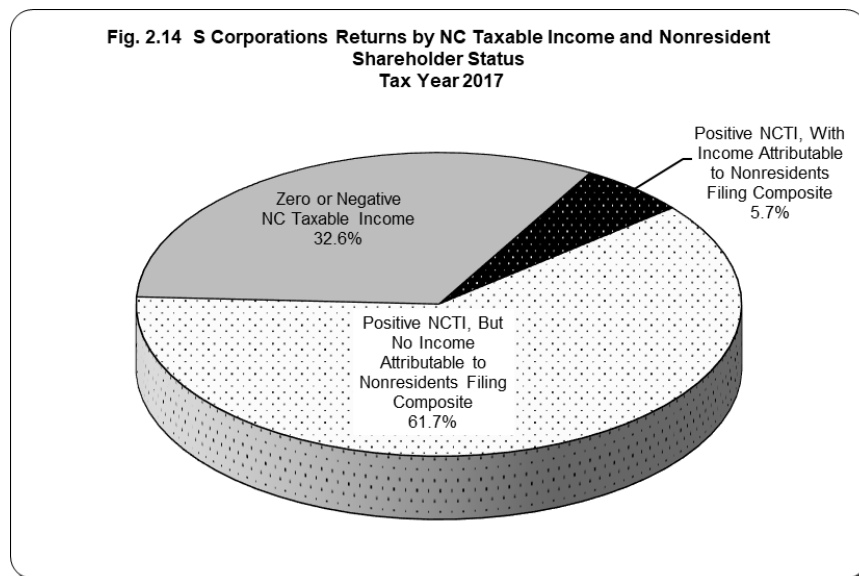


Figure 2.14 illustrates the distribution of returns by North Carolina taxable income and nonresident shareholder filing status. Only 5.7% of S corporation returns had a tax liability attributable to nonresidents who chose to allow the S corporation to file a composite return on their behalf.



**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 2017**

		(+)	(+)	(-)	(-)	(=)	(+)
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	54,288	5,049,165,183	(754,738,593)	1,250,307,813	4,812,533,352	(1,768,414,575)	(90,571,432)
Positive, But No Income Attributable to Nonresidents Filing Composite	102,834	48,485,514,180	1,452,762,483	700,423,029	33,048,674,055	16,189,179,579	208,088,348
Positive, With Income Attributable to Nonresidents Filing Composite	9,527	62,357,559,484	1,009,120,295	1,898,308,655	59,295,577,332	2,172,793,792	18,649,910
Total	166,649	115,892,238,847	1,707,144,185	3,849,039,497	97,156,784,739	16,593,558,796	136,166,826

	(=)	(+)	(=)			(-)	(=)
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	(1,858,986,007)	1,681,806,549	(177,179,458)	160,905	-	-	-
Positive, But No Income Attributable to Nonresidents Filing Composite	16,397,267,917	(16,397,267,917)	-	1,857,283	93,337	-	93,337
Positive, With Income Attributable to Nonresidents Filing Composite	2,191,443,702	(313,412,992)	1,878,030,710	6,733,732	103,272,495	3,702,561	99,569,934
Total	16,729,725,612	(15,028,874,360)	1,700,851,252	8,751,920	103,365,832	3,702,561	99,663,271

Note: Figures are based partially on unaudited returns.

Table 2.16 shows the income tax credits taken. 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.

**Table 2.16
S Corporation Income Tax Credits by Credit Type and NC Taxable Income
Tax Year 2017**

Income Tax Credits	All Returns	
	Number of Credits	Amount Claimed (\$)
Credits Taken	20	3,702,561

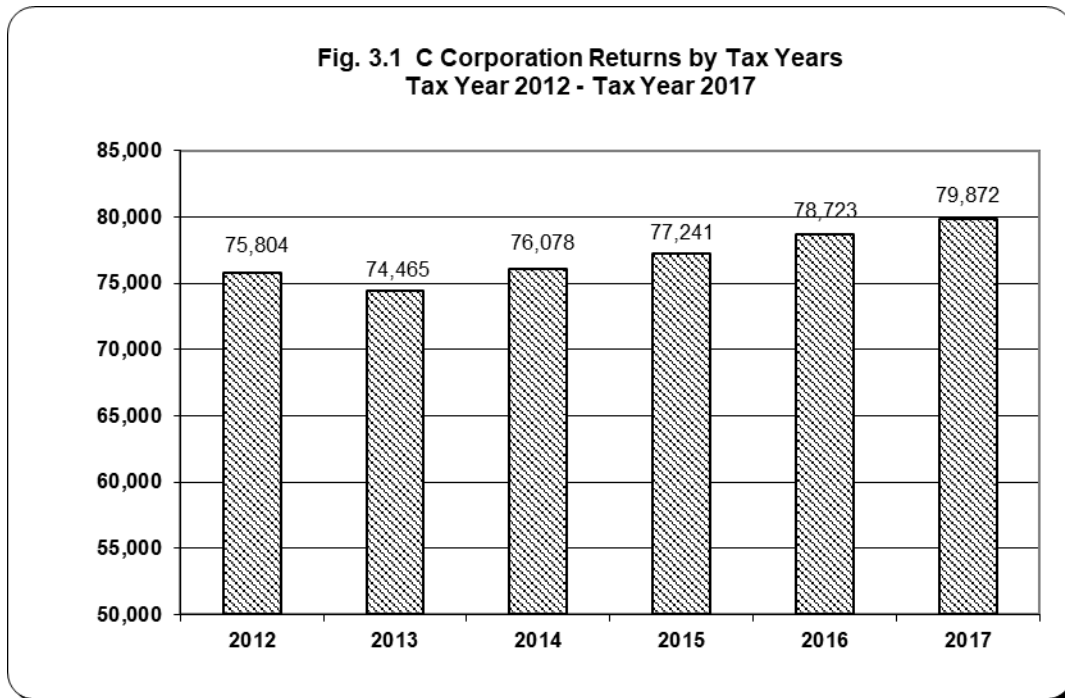
Note: Confidentiality prevents the disclosure by taxable income categories or by tax credit type.

C CORPORATIONS

In this section, data on corporate returns are presented for tax years 2012 through 2017. 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 2014.¹³ Data from the IRS Statistics of Income Division also shows a decline in the number of Form 1120 filers nationally between 2008 and 2013.¹⁴

The number of first-time filers, as reported on the tax form, was 5,432 in 2017 and 5,028 in 2016. These numbers are higher than in prior years since the Great Recession. The number of new filers was approximately 5,000 annually during the period from 2005 through 2007.



¹³ There was a small increase in NC C corporation returns between 2010 and 2011.

¹⁴ 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 2012 through 2017 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. In 2017, the tax rate was 3.0%.

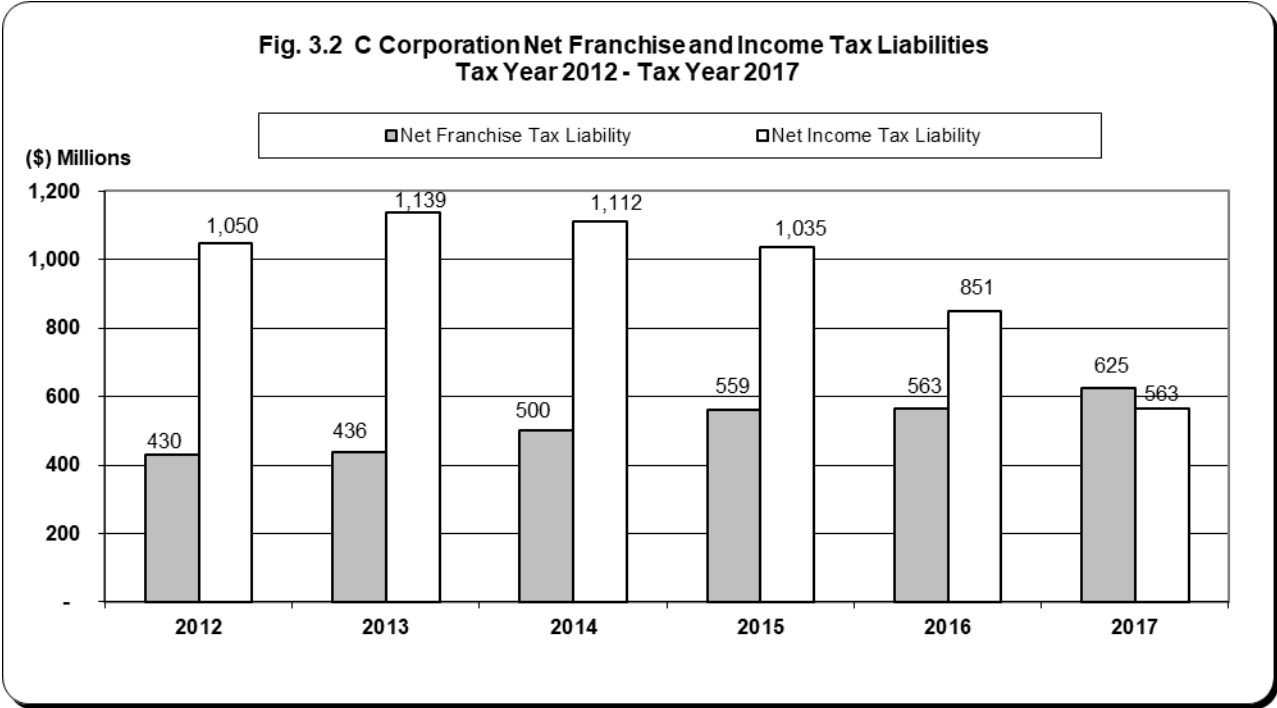


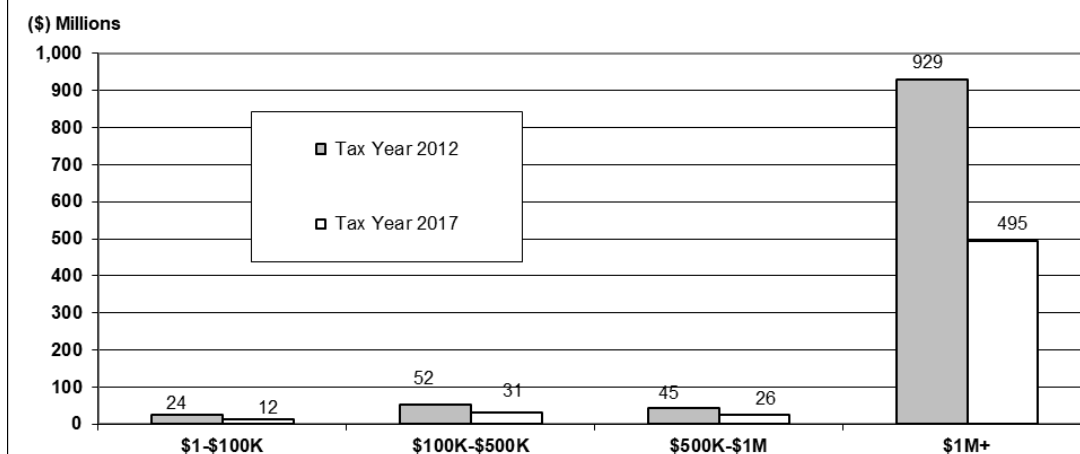
Table 3.3 and Figure 3.4 compare the net income tax liability of C corporations in tax year 2012 and tax year 2017 by NC taxable income brackets. Each taxable income bracket has experienced a decrease in tax liability due to the decline in the tax rate.

Table 3.3
C Corporation Net Income Tax Liability by NC Taxable Income
Tax Year 2012 & Tax Year 2017

NC Taxable Income	Net Income Tax Liability TY 2012	Net Income Tax Liability TY 2017	% Difference
\$0 or less	-	-	--
\$1-\$15,000	3,299,146	1,558,707	-52.8%
\$15,001-\$30,000	4,117,021	2,005,933	-51.3%
\$30,001-\$50,000	5,404,739	2,773,810	-48.7%
\$50,001-\$100,000	10,841,843	6,085,327	-43.9%
\$100,001-\$500,000	52,135,352	30,511,998	-41.5%
\$500,001-\$1,000,000	44,529,235	25,560,652	-42.6%
\$1,000,001-\$10,000,000	295,915,722	166,918,038	-43.6%
\$10,000,001+	633,417,380	327,856,354	-48.2%
Total	1,049,660,438	563,270,819	-46.3%

Note: The tax rate in 2012 was 6.9% and the tax rate in 2017 was 3.0%.

Fig. 3.4 C Corporation Net Income Tax Liability by NC Taxable Income
Tax Year 2012 & Tax Year 2017



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

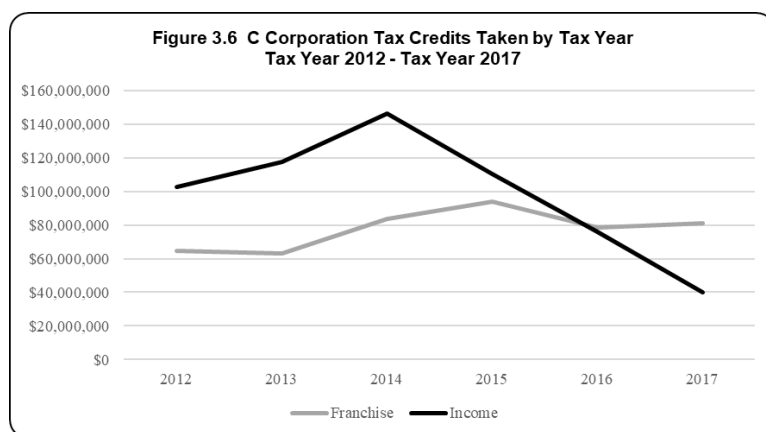
*A biomass resource project may generate credits if placed in service before May 5, 2017

**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, 2022

Figure 3.6 shows the amount of credits taken by C corporations against the franchise and corporate income tax for tax years 2012 through 2017. Income tax credits have decreased sharply since 2014, while franchise tax credits have had a much smaller decline since 2015. 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.¹⁵



¹⁵ 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 2012 through 2017. 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 2013, the number of filers decreased slightly from the prior year. However, the number of returns increased 13% between tax years 2012 and 2017. This is equivalent to an annualized rate of growth of 2.5%.

In Tax Year 2017, there were 11,014 taxpayers that indicated that they were first-time filers. In the prior year, there had been 10,292.

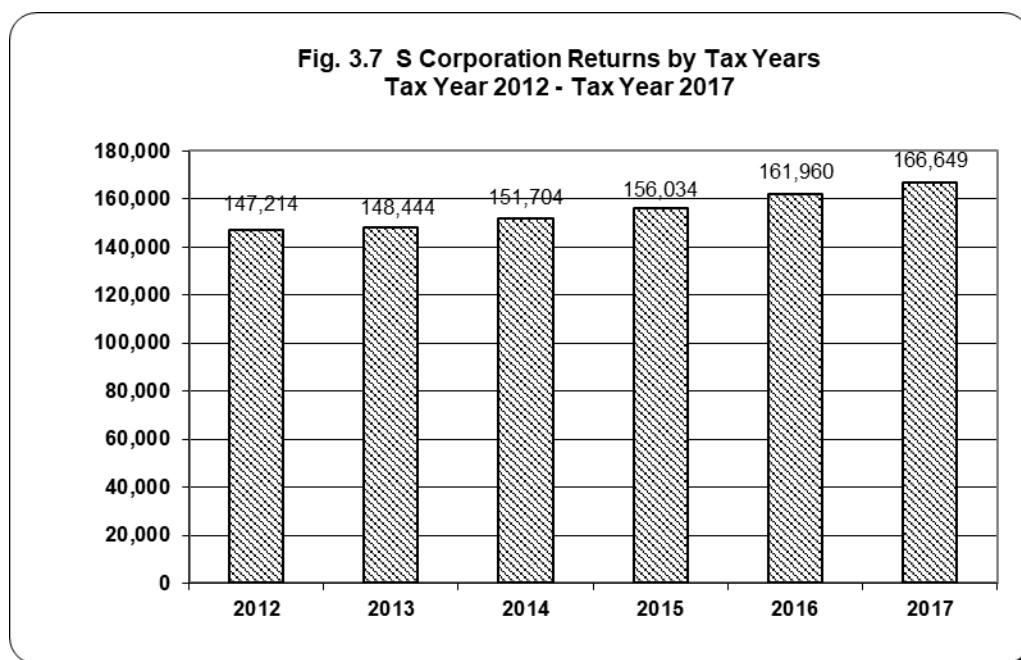


Figure 3.8 on the next page illustrates the relative amounts of net tax liabilities for 2012 through 2017 for S corporations. As discussed in Section II, the income tax liability for S corporations only includes taxes paid for nonresident shareholders filing a composite return. Therefore, comparisons across time may be misleading if certain larger taxpayers alter their behavior in this regard.

Beginning in 2014, the income tax rate for individuals, which is applicable to S corporations, 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 fell to 5.499% for 2017, in comparison to the 3.0% 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.

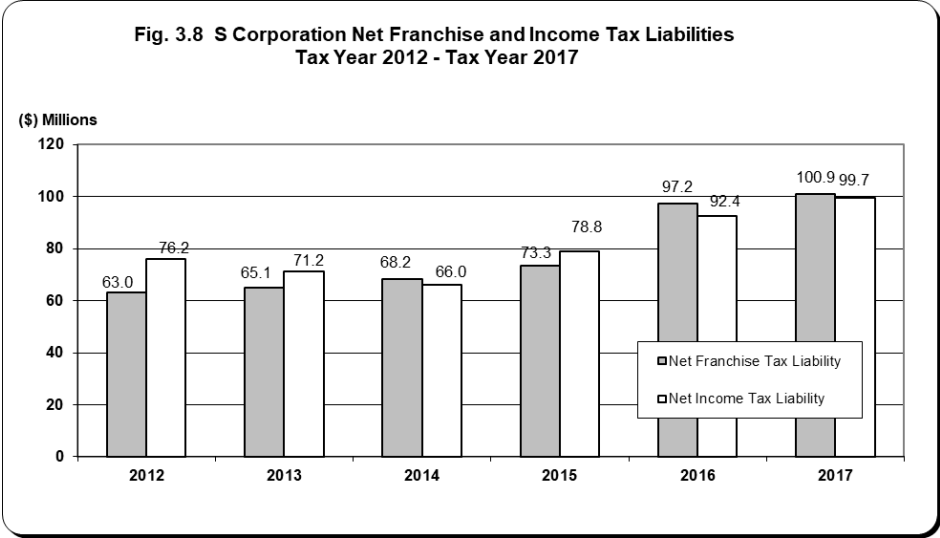
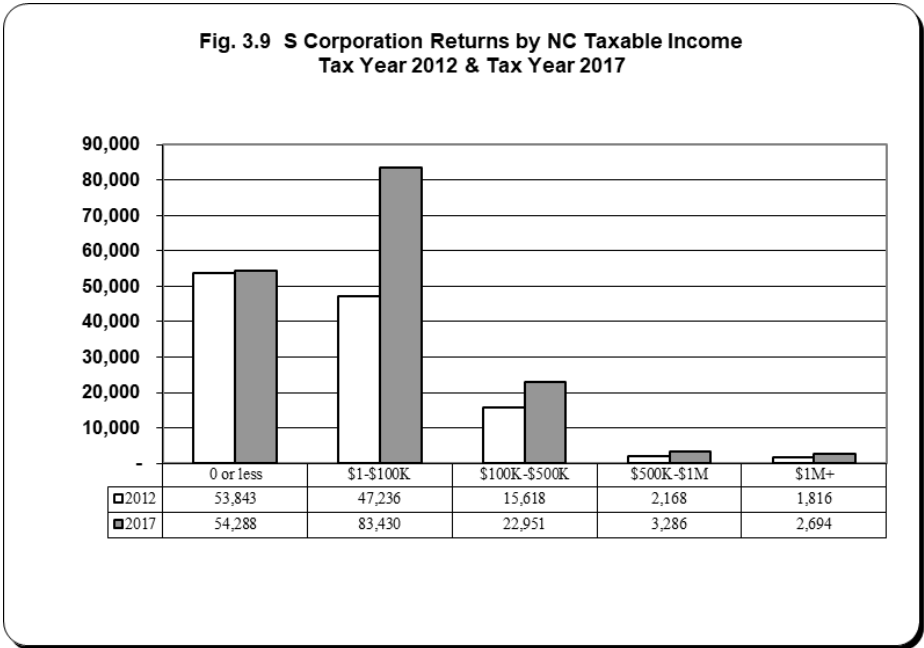


Figure 3.9 compares the number of S corporation returns in tax years 2012 and 2017 by NC taxable income brackets. The total number of returns has grown in each bracket, with the smallest increase for those with zero or negative taxable income. The percentage growth has been greatest in the largest NC 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 76.2% of full-year returns and 70.9% of all returns. Their net franchise tax liability was 70.7% of the total, and their net income tax liability made up 66.2% of the total.

**Table 4.1
C Corporation Statistics by Fiscal Year Start Month
Tax Year 2017**

Tax Year Start Month	All Returns	Franchise Tax		Income Tax	
	Number of returns	Number	Amount (\$)	Number	Amount (\$)
January	56,639	46,869	441,902,652	18,555	373,099,679
February	1,059	1,022	26,366,306	390	28,390,685
March	619	586	2,590,070	243	2,793,709
April	3,154	3,018	23,824,063	1,342	22,816,936
May	941	874	3,499,630	398	5,667,935
June	936	851	4,645,896	387	9,123,639
July	4,153	3,461	22,027,005	1,636	17,419,562
August	860	797	6,698,582	373	17,569,829
September	889	820	4,282,099	376	5,068,945
October	3,285	2,995	32,023,018	1,351	35,255,327
November	1,143	1,086	5,772,849	465	7,737,627
December	669	632	3,311,572	276	3,729,571
Short-period returns	5,525	4,787	47,703,997	1,526	34,597,375
Total	79,872	67,798	624,647,739	27,318	563,270,819

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 166,649 returns and 98.6% of the 156,088 full-year returns. They represented 90.7% of net franchise tax liabilities and 90.4% of the net corporation income tax liabilities. There were 8,408 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, approximately 30% of the total amount. Other sectors with relatively high shares of tax liability include finance and insurance, real estate and rental & leasing, retail, information, and wholesale.

**Table 5.1
C Corporation Franchise Tax and Income Tax Liability by Industry Sector
Tax Year 2017**

Industry Sector	All Returns	Franchise Tax		Income Tax	
	Number of returns	Number	Amount (\$)	Number	Amount (\$)
Agriculture, Forestry, Fishing and Hunting	1,115	1,071	2,561,980	392	2,676,332
Mining	150	145	3,145,949	60	1,336,212
Utilities	225	200	31,818,013	54	4,200,237
Construction	5,956	5,742	12,231,062	2,353	20,011,965
Manufacturing	7,885	7,663	190,922,124	3,291	169,719,123
Wholesale	5,635	5,470	39,155,404	2,641	41,683,803
Retail	5,364	5,137	38,671,742	2,069	53,699,733
Transportation	2,055	1,964	8,641,885	844	12,072,826
Couriers and Warehousing	181	179	680,861	70	1,260,870
Information	2,406	2,284	48,302,478	739	37,737,572
Finance and Insurance	7,179	6,520	109,597,989	2,426	100,836,027
Real Estate and Rental & Leasing	11,485	6,817	50,127,823	2,522	43,201,216
Professional, Scientific and Technical Services	10,469	9,961	42,677,214	3,689	35,661,418
Management of Companies / see note	2,255	2,147	21,396,523	693	10,600,565
Administration & Support and Waste Management & Remediation Services	3,107	2,538	6,057,526	1,100	8,473,427
Educational Services	438	384	486,168	158	772,291
Health Care and Social Assistance	2,825	2,641	8,220,566	921	7,245,994
Arts, Entertainment and Recreation	909	773	1,454,104	322	949,301
Accommodations and Food Services	2,094	1,972	5,293,128	996	7,600,278
Other Services	4,158	2,788	2,420,918	1,242	2,935,096
Unidentifiable	3,981	1,402	784,282	736	596,533
Total	79,872	67,798	624,647,739	27,318	563,270,819

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 thirty-three (133) 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 sectors.

**Table 5.2
C Corporation Income Tax Calculation Detail for Certain Industry Sectors
Tax Year 2017**

Tax Year 2017 C Corporation statistics: Income Tax Calculation Detail by Industry Sector						
	Total	Manufacturing	Wholesale	Retail	Finance & Insurance	Professional Services
Taxable Returns						
Number of returns	27,319	3,292	2,641	2,069	2,426	3,689
Federal Taxable Income, Before NOL	637,460,116,405	198,092,758,350	34,895,329,038	46,782,571,650	143,588,053,387	55,174,634,596
(+) Adjustments to Federal Income	108,820,314,412	27,218,521,585	7,190,693,235	16,561,189,899	18,902,124,716	-3,832,627,774
(-) Contributions to Donees Outside NC	6,244,394,543	2,479,088,502	318,819,669	1,106,441,343	1,219,820,347	360,323,008
(-) Nonapportionable Income	3,112,276,145	649,990,665	277,000,762	18,297,473	478,439,417	20,582,722
(-) Reduction Due to Apportionment	715,999,219,454	215,721,786,993	40,051,507,578	60,272,638,717	156,654,532,109	49,711,828,535
(=) Income Apportioned to NC	20,924,540,675	6,460,413,775	1,438,694,264	1,946,384,016	4,137,386,230	1,249,272,557
(+) Nonapportionable Income Allocated to NC	**	**	**	**	**	**
(-) Percentage Depletion Over Cost Depletion	**	**	**	**	**	**
(-) State Net Loss	839,717,161	216,631,160	27,682,701	35,991,303	281,533,721	42,027,768
(-) Contributions to NC Donees	113,661,763	12,078,047	1,733,837	32,968,913	50,597,758	2,408,361
(=) Net Taxable Income	20,110,072,353	6,236,751,466	1,410,138,786	1,877,556,044	3,902,363,966	1,205,764,604
Computed Income Tax	603,302,371	187,102,576	42,304,187	**	117,070,975	36,172,936
(-) Tax Credits	40,031,552	17,383,453	620,384	**	16,234,948	511,518
(=) Net Tax Liability	563,270,819	169,719,123	41,683,803	53,699,733	100,836,027	35,661,418
Non-Taxable Returns						
Number of returns	52,553	4,593	2,994	3,295	4,753	6,780
Federal Taxable Income, Before NOL	-299,760,672,721	-83,548,086,501	-16,400,727,594	-15,687,624,582	-40,787,957,652	-38,910,037,884
(+) Adjustments to Federal Income	25,954,118,702	8,573,643,307	2,448,692,962	3,361,393,270	13,543,794,159	-9,134,388,744
(-) Contributions to Donees Outside NC	534,255,488	221,126,731	36,423,127	11,646,142	50,009,795	14,460,193
(-) Nonapportionable Income	4,280,131,212	2,939,520,262	-772,030,384	14,002,501	169,065,936	97,419,949
(-) Reduction Due to Apportionment	-197,954,602,414	-75,501,147,292	-12,462,270,219	-11,918,664,891	-26,272,029,294	-45,943,974,436
(=) Income Apportioned to NC	-13,529,913,231	-2,633,942,895	-754,157,156	-433,215,064	-1,191,209,930	-2,212,332,334
(+) Nonapportionable Income Allocated to NC	**	**	**	**	**	**
(-) Percentage Depletion Over Cost Depletion	**	**	**	**	**	**
(-) State Net Loss	9,907,591,072	3,333,323,254	323,292,912	591,236,065	368,946,740	753,172,242
(-) Contributions to NC Donees	106,573,496	1,197,423	198,104	1,122,724	379,413	23,236
(=) Net Taxable Income	-23,148,887,366	-5,956,183,615	-1,101,643,563	-1,025,508,049	-1,672,148,935	-2,966,065,551
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 "***" 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 2017**

Industry Sector	All Returns	Franchise Tax		Income Tax	
	Number of returns	Number	Amount (\$)	Number	Amount (\$)
Agriculture, Mining & Utilities	4,088	3,950	3,927,174	86	1,270,506
Construction	25,352	24,440	13,554,507	1,277	9,630,522
Manufacturing	7,106	6,821	11,999,190	989	16,307,310
Wholesale	6,681	6,366	7,607,086	818	9,770,330
Retail	16,261	15,392	14,872,362	420	5,225,100
Transportation	4,911	4,675	2,182,504	280	2,550,981
Couriers and Warehousing	485	458	257,474	21	173,609
Information	2,490	2,317	1,437,592	279	4,163,304
Finance and Insurance	6,804	6,545	4,320,934	587	20,439,442
Real Estate and Rental & Leasing	18,007	17,154	12,978,877	670	4,508,578
Professional, Scientific and Technical Services	27,167	25,780	7,885,431	2,239	8,066,207
Management of Companies	1,064	1,024	1,477,252	316	3,637,687
Administration & Support and Waste Management & Remediation Services	7,231	6,891	2,492,904	560	8,803,156
Educational Services	1,171	1,105	410,782	66	835,641
Health Care and Social Assistance	11,120	10,693	4,949,504	150	858,887
Arts, Entertainment and Recreation	3,989	3,719	1,636,299	365	1,004,379
Accommodations and Food Services	8,378	7,985	4,809,748	151	1,756,107
Other Services	12,354	11,809	3,572,666	223	603,839
Unidentifiable	1,990	1,874	525,684	50	57,686
Total	166,649	158,998	100,897,970	9,547	99,663,271

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." Eighteen (18) 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 2017 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) construction; (2) professional, scientific and technical services; (3) manufacturing; (4) retail; (5) real estate and rental & leasing; (6) health care and social assistance; (7) finance and insurance; and (8) wholesale.

**Table 5.4
S Corporation NC Net Taxable Income by Industry Sector
Tax Year 2017**

Industry Sector	Net Taxable Income		
	Number of returns	Amount (\$)	Share of total amount
Agriculture, Forestry, Fishing and Hunting	3,648	376,491,784	2.3%
Mining	111	17,901,880	0.1%
Utilities	139	7,413,143	0.0%
Construction	23,005	2,636,797,261	15.8%
Manufacturing	6,478	1,961,261,358	11.7%
Wholesale	6,194	1,145,069,649	6.8%
Retail	15,491	1,390,430,978	8.3%
Transportation	4,549	334,794,345	2.0%
Couriers and Warehousing	455	34,211,130	0.2%
Information	2,283	309,491,831	1.8%
Finance and Insurance	5,884	1,210,876,698	7.2%
Real Estate and Rental & Leasing	16,567	1,251,560,946	7.5%
Professional, Scientific and Technical Services	25,069	2,138,017,178	12.8%
Management of Companies	919	255,307,348	1.5%
Administration & Support and Waste Management & Remediation Services	6,639	815,742,443	4.9%
Educational Services	1,113	57,243,194	0.3%
Health Care and Social Assistance	10,694	1,226,846,656	7.3%
Arts, Entertainment and Recreation	3,674	264,620,959	1.6%
Accommodations and Food Services	8,025	713,723,737	4.3%
Other Services	11,908	533,772,465	3.2%
Unidentifiable	1,399	48,150,629	0.3%
Total	154,244	16,729,725,612	

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." Eighteen (18) 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 2017 by industry sector for taxpayers who had positive amounts of net taxable income. The industry sectors with the largest net taxable income are (1) construction; (2) professional, scientific and technical services; (3) manufacturing; (4) retail; (5) real estate and rental & leasing; (6) health care and social assistance; (7) finance and insurance; and (8) wholesale.

**Table 5.5
S Corporation NC Net Taxable Income (Positive Values Only) by Industry Sector
Tax Year 2017**

Industry Sector	Net Taxable Income (Positive Values Only)		
	Number	Amount (\$)	Share of total amount
Agriculture, Forestry, Fishing and Hunting	2,294	466,767,106	2.5%
Mining	78	19,717,749	0.1%
Utilities	91	10,321,135	0.1%
Construction	17,220	2,867,336,494	15.4%
Manufacturing	4,682	2,107,040,697	11.3%
Wholesale	4,597	1,218,393,242	6.6%
Retail	10,424	1,625,576,609	8.7%
Transportation	3,179	388,692,911	2.1%
Couriers and Warehousing	328	38,659,296	0.2%
Information	1,570	334,738,030	1.8%
Finance and Insurance	4,799	1,313,943,973	7.1%
Real Estate and Rental & Leasing	11,468	1,407,233,185	7.6%
Professional, Scientific and Technical Services	19,049	2,338,040,408	12.6%
Management of Companies	654	318,928,864	1.7%
Administration & Support and Waste Management & Remediation Services	5,020	863,853,309	4.6%
Educational Services	779	66,250,318	0.4%
Health Care and Social Assistance	8,439	1,347,559,518	7.2%
Arts, Entertainment and Recreation	2,538	328,649,929	1.8%
Accommodations and Food Services	5,483	845,180,003	4.5%
Other Services	8,664	627,392,404	3.4%
Unidentifiable	934	56,103,365	0.3%
Total	112,290	18,590,378,545	

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." Eighteen (18) 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.)