

North Carolina

**Corporation Income and Business
Franchise Taxes**

Statistics and Trends

Tax Year 2018

February 2021



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 2018 (TY18)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 2020. 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 2018 or for a tax year beginning sometime in 2018. Short-year returns are included if their tax period begins in 2018.

The relevant 2018 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 2013 through tax year 2018; 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 TY18.

	C corporations	S corporations
Number of returns	81,657	171,753
Number of returns with nonzero net franchise tax	69,158	164,210
Amount of net franchise tax	\$648,230,396	\$86,039,466
Number of returns with nonzero net income tax	28,136	9,990
Amount of net income tax	\$736,027,797	\$104,537,744

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 2018 because they are reported on 2018 corporate income tax returns. However, they are technically tax year 2019 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 tax periods beginning in 2018 (2019 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. Beginning with tax periods starting on or after Jan. 1, 2019, S corporations are subject to a \$200 tax on the first \$1 million in taxable assets and \$1.50 per \$1,000 of the amount over \$1 million.

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. Partnerships that elect to be taxed as corporations for federal income tax purposes became liable for franchise tax beginning in 2019.

The minimum franchise 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.

Decoupling 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 2017. The State also adopted lower limits on Section 179 expensing for TY18, requiring an 85% addback of excess federal expensing over State limits.

Decoupling from federal Tax Cut and Jobs Act (TCJA) provisions. In addition to the decoupling related to bonus depreciation and Section 179 expensing, North Carolina also decoupled from several other TCJA provisions for tax year 2018 and forward. Among these are the Opportunity Zone Fund adjustments and provisions related to foreign-sourced income of multinational corporations. Also, North Carolina decoupled from the provision that would require certain nonprofits to treat income from parking facilities as unrelated business income.

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 sales.³ 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 a corporation's 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, 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 prior years, the apportionment factor was based on a combination of sales, property and payroll shares. The sales-only apportionment factor was phased in between 2016 and 2018.

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.

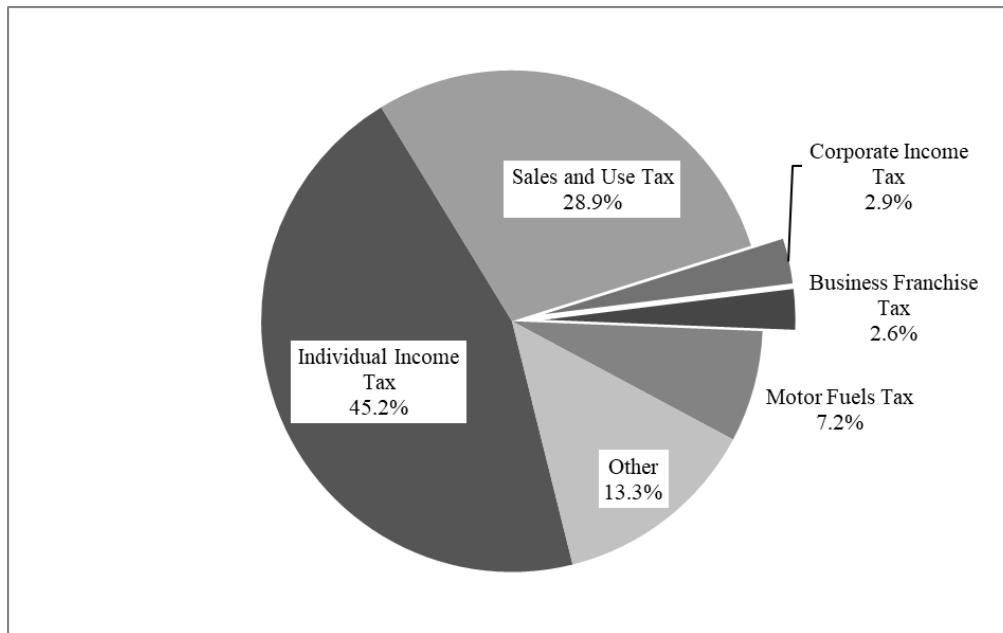
⁵ The tax rate applicable to S corporations is the individual income tax rate (5.499% in 2018), not the corporate income tax rate.

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 2018-19 were \$29.3 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 \$1.6 billion (5.4%) 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, Fiscal Year 2018-2019



Note: The “other” category includes the highway use tax (2.9% of total), motor vehicle licenses (3.0%), insurance premiums tax (2.0%), 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 \$648.2 million. (Net tax liability is the amount of tax liability after deducting tax credits.) After excluding filers that were not liable for franchise tax (12,482 returns), the average amount due from the remaining 69,175 returns was \$9,371. Sixty percent of these taxpayers owed \$200 or less; and 99% of taxpayers owed \$157,145 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 46.0% of the 2018 tax year returns, followed by investment in tangible property base (11.1%), and appraised values in property base (4.1%). Nearly thirty-nine 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 2018**

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	31,579	8,157	1,465	894	42,095
\$23,668-\$133,667	-	8,535	2,051	1,006	11,592
\$133,668-\$1,000,000	-	10,589	2,559	993	14,141
\$1,000,001-\$5,000,000	-	5,495	1,322	329	7,146
\$5,000,001-\$20,000,000	-	2,750	860	81	3,691
\$20,000,001-\$40,000,000	-	833	350	25	1,208
\$40,000,001-\$100,000,000	-	648	273	24	945
\$100,000,001+	-	593	224	22	839
Total	31,579	37,600	9,104	3,374	81,657

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 9,600 returns reporting that they were tax-exempt; of these, 8,444 reported no assets. There were 3,218 returns with a final return indicator, of which 2,726 reported no assets. (77 returns had both indicators.)

**SECTION I
FRANCHISE TAX**

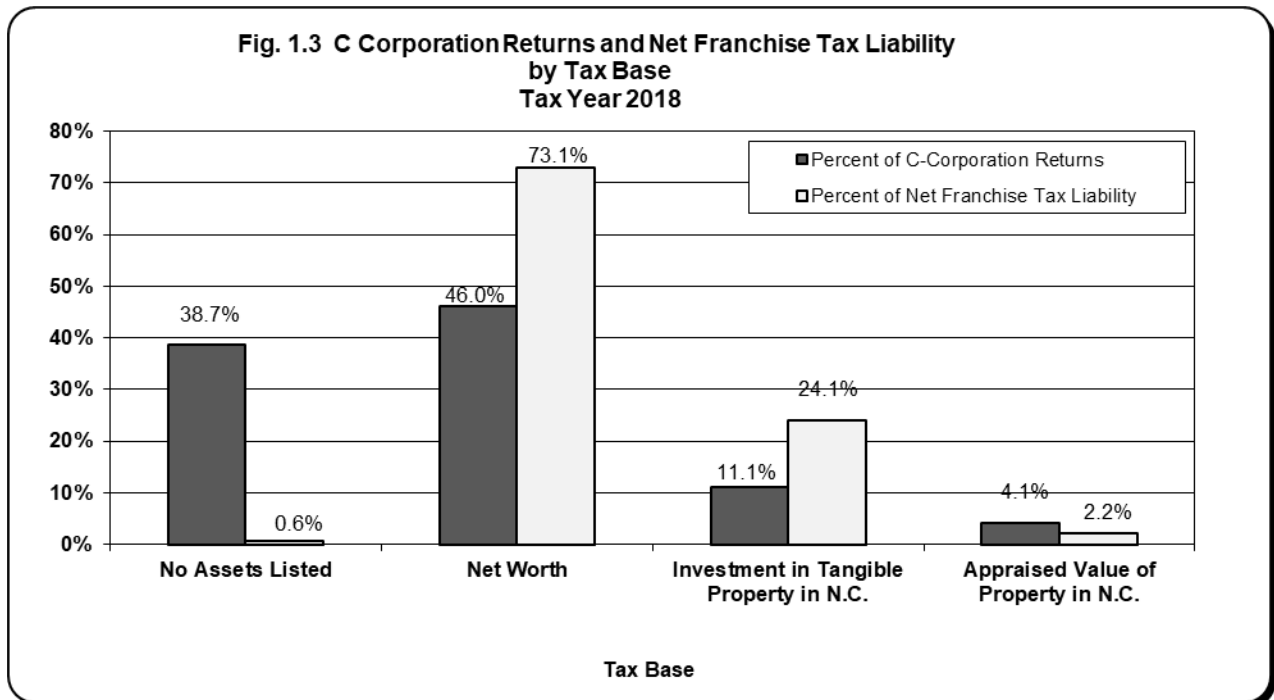
Table 1.2 compares the net franchise tax liability by tax base utilized. The greatest share of tax paid (75.9%) was under the net worth base. Taxpayers using the investment in tangible property base paid 21.3% of the franchise tax, while the appraised value in property base represented only 2.1% of the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

**Table 1.2
C Corporation Net Franchise Tax Liability by Tax Base Utilized
Tax Year 2018**

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	4,014,723	1,537,276	280,537	174,997	6,007,533
\$23,668-\$133,667	-	1,591,185	389,826	197,825	2,178,836
\$133,668-\$1,000,000	-	6,271,264	1,544,338	562,474	8,378,076
\$1,000,001-\$5,000,000	-	18,824,614	4,417,094	997,268	24,238,976
\$5,000,001-\$20,000,000	-	40,606,233	12,656,364	1,132,683	54,395,280
\$20,000,001-\$40,000,000	-	34,278,494	14,166,104	915,786	49,360,384
\$40,000,001-\$100,000,000	-	58,739,784	24,104,067	1,949,383	84,793,234
\$100,000,001+	-	311,984,501	98,574,796	8,318,780	418,878,077
Total	4,014,723	473,833,351	156,133,126	14,249,196	648,230,396

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.



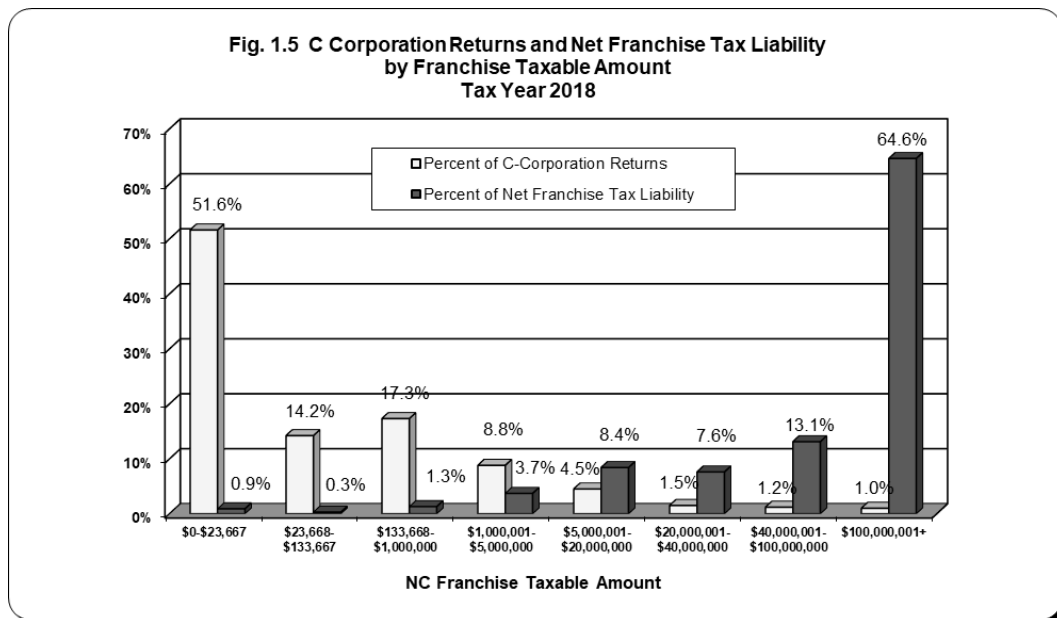
**SECTION I
FRANCHISE TAX**

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 2.2% of the returns, but paid 77.7% of net franchise tax.

**Table 1.4
C Corporation Returns and Net Franchise Tax Liability by Franchise Taxable Amount
Tax Year 2018**

Franchise Taxable Amount	Number of Returns		Net Franchise Tax Liability (\$)	
	Number of Returns	Percent	Liability (\$)	Percent
\$0-\$23,667	42,095	51.6%	6,007,533	0.9%
\$23,668-\$133,667	11,592	14.2%	2,178,836	0.3%
\$133,668-\$1,000,000	14,141	17.3%	8,378,076	1.3%
\$1,000,001-\$5,000,000	7,146	8.8%	24,238,976	3.7%
\$5,000,001-\$20,000,000	3,691	4.5%	54,395,280	8.4%
\$20,000,001-\$40,000,000	1,208	1.5%	49,360,384	7.6%
\$40,000,001-\$100,000,000	945	1.2%	84,793,234	13.1%
\$100,000,001+	839	1.0%	418,878,077	64.6%
Total	81,657	100.0%	648,230,396	100.0%

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



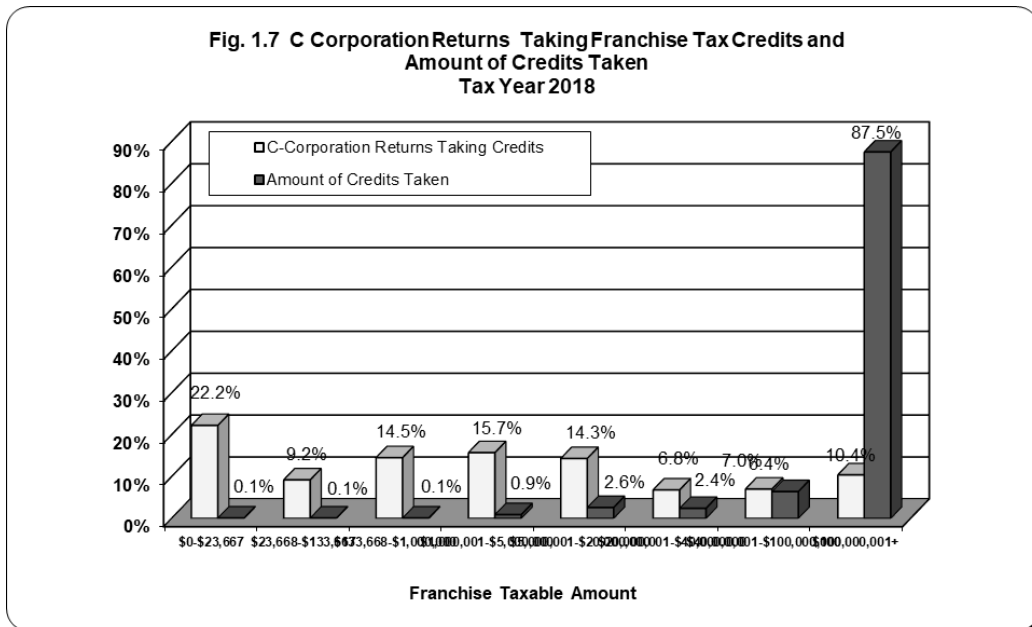
**SECTION I
FRANCHISE TAX**

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 1,168 (1.7%) of the taxable returns took credits.⁸ Returns with franchise taxable amount greater than \$100 million comprised only 10.4% of the returns taking credits, but these taxpayers had 87.5% of the credit amount claimed.

**Table 1.6
C Corporation Returns Taking Franchise Tax Credits and Amount of Credits Taken
Tax Year 2018**

Franchise Taxable Amount	Number of Returns		Amount of Credits	
	Taking Credits	Percent	Taken (\$)	Percent
\$0-\$23,667	259	22.2%	94,467	0.1%
\$23,668-\$133,667	107	9.2%	35,964	0.1%
\$133,668-\$1,000,000	169	14.5%	86,461	0.1%
\$1,000,001-\$5,000,000	183	15.7%	568,070	0.9%
\$5,000,001-\$20,000,000	167	14.3%	1,677,383	2.6%
\$20,000,001-\$40,000,000	80	6.8%	1,540,304	2.4%
\$40,000,001-\$100,000,000	82	7.0%	4,149,177	6.4%
\$100,000,001+	121	10.4%	57,079,953	87.5%
Total	1,168	100.0%	65,231,779	100.0%

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



⁸ There were 25 returns with no tax liability but were claiming \$4,881 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 9.6% of tax liability for taxpayers whose taxable amount was above \$5 million and 1.9% for those with lower taxable amounts.

**Table 1.8
C Corporation Franchise Tax Credits Taken by Credit Type and Franchise Taxable Amount
Tax Year 2018**

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	515	12,607,657	330	638,338	185	11,969,319
+ Miscellaneous Credits Claimed*	299	2,124,327	269	59,056	30	2,065,271
- Misc. Credits Not Taken **	--	(418,857)	--	(2,539)	--	(416,318)
+ Credits Subject to 50% Limit Taken	371	50,918,652	121	90,107	250	50,828,545
= Credits Taken	1,168	65,231,779	718	784,962	450	64,446,817

* Misc. credits include Renovating an 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 50.0% of 2018 tax year returns, followed by investment in tangible property base (17.1%), and appraised values in property (9.3%). Twenty-four 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 165,259 S corporations with tax liability before tax credits were applied.⁹

**Table 1.9
S Corporation Returns by Tax Base Utilized
Tax Year 2018**

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	40,399	33,783	7,183	5,772	87,137
\$23,668-\$133,667	-	27,958	9,726	5,584	43,268
\$133,668-\$1,000,000	-	19,204	9,141	3,690	32,035
\$1,000,001-\$5,000,000	-	4,102	2,504	844	7,450
\$5,000,001-\$20,000,000	-	747	670	130	1,547
\$20,000,001-\$40,000,000	-	94	**	**	200
\$40,000,001+	-	47	**	**	116
Total	40,399	85,935	29,379	16,040	171,753

**Not shown to maintain taxpayer confidentiality. These amounts are included in the totals.

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 (50.3%) was under the net worth base.

**Table 1.10
S Corporation Net Franchise Tax Liability by Tax Base Utilized
Tax Year 2018**

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	6,683,506	6,303,444	1,341,907	1,057,633	15,386,490
\$23,668-\$133,667	-	5,249,747	1,819,397	1,036,752	8,105,896
\$133,668-\$1,000,000	-	3,657,728	1,708,916	702,800	6,069,444
\$1,000,001-\$5,000,000	-	7,318,767	4,686,671	1,455,084	13,460,522
\$5,000,001-\$20,000,000	-	9,030,569	8,074,479	1,413,913	18,518,961
\$20,000,001-\$40,000,000	-	3,641,493	**	**	7,913,860
\$40,000,001+	-	8,067,378	**	**	16,584,293
Total	6,683,506	43,269,126	28,910,853	7,175,981	86,039,466

**Not shown to maintain taxpayer confidentiality. These amounts are included in the totals.

Note: Figures are based partially on unaudited returns.

⁹ In addition, 22 nontaxable returns claimed \$2,699 in short-period tax credits.

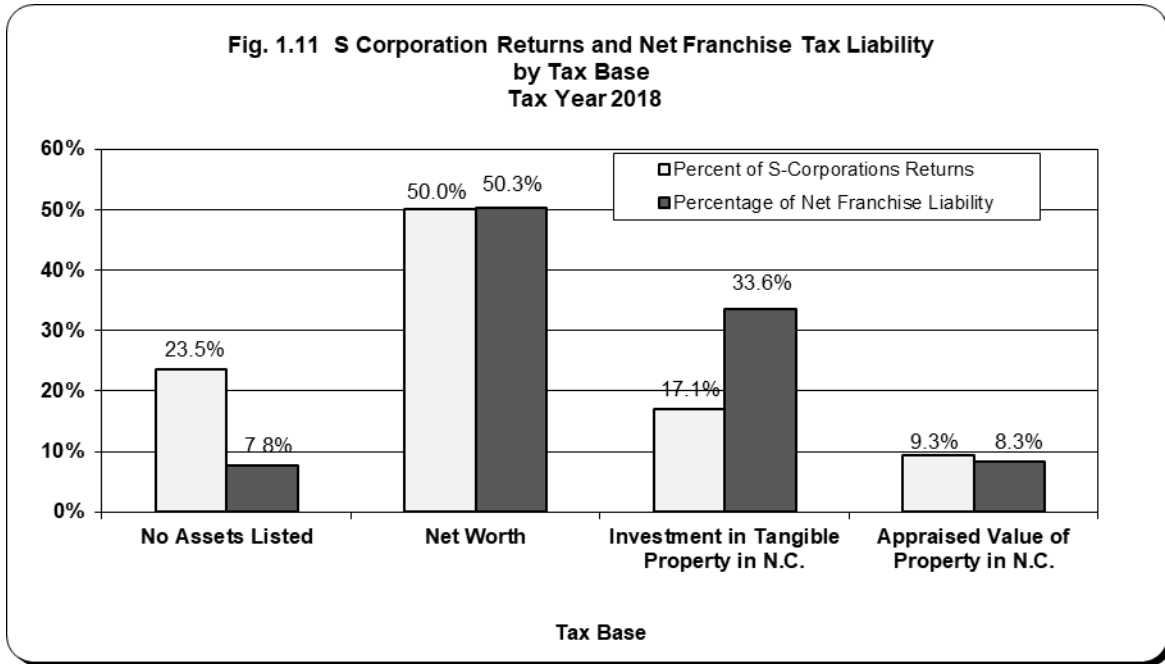


Table 1.12 and Figure 1.13 compare the distribution of S corporation returns and net franchise tax liability. The average tax was \$271 for taxable returns, although 94.4% of taxable returns had a tax liability of \$200 or less. Fifty-three taxpayers had a net tax liability above \$100,000.

**Table 1.12
S Corporation Returns and Net Franchise Tax Liability by Franchise Taxable Amount
Tax Year 2018**

Franchise Taxable Amount	Number of Returns		Net Franchise Tax Liability (\$)	
	Number	Percent	Liability	Percent
\$0-\$23,667	87,137	50.7%	15,386,490	17.9%
\$23,668-\$133,667	43,268	25.2%	8,105,896	9.4%
\$133,668-\$1,000,000	32,035	18.7%	6,069,444	7.1%
\$1,000,001-\$5,000,000	7,450	4.3%	13,460,522	15.6%
\$5,000,001-\$20,000,000	1,547	0.9%	18,518,961	21.5%
\$20,000,001-\$40,000,000	200	0.1%	7,913,860	9.2%
\$40,000,001+	116	0.1%	16,584,293	19.3%
Total	171,753	100.0%	86,039,466	100.0%

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

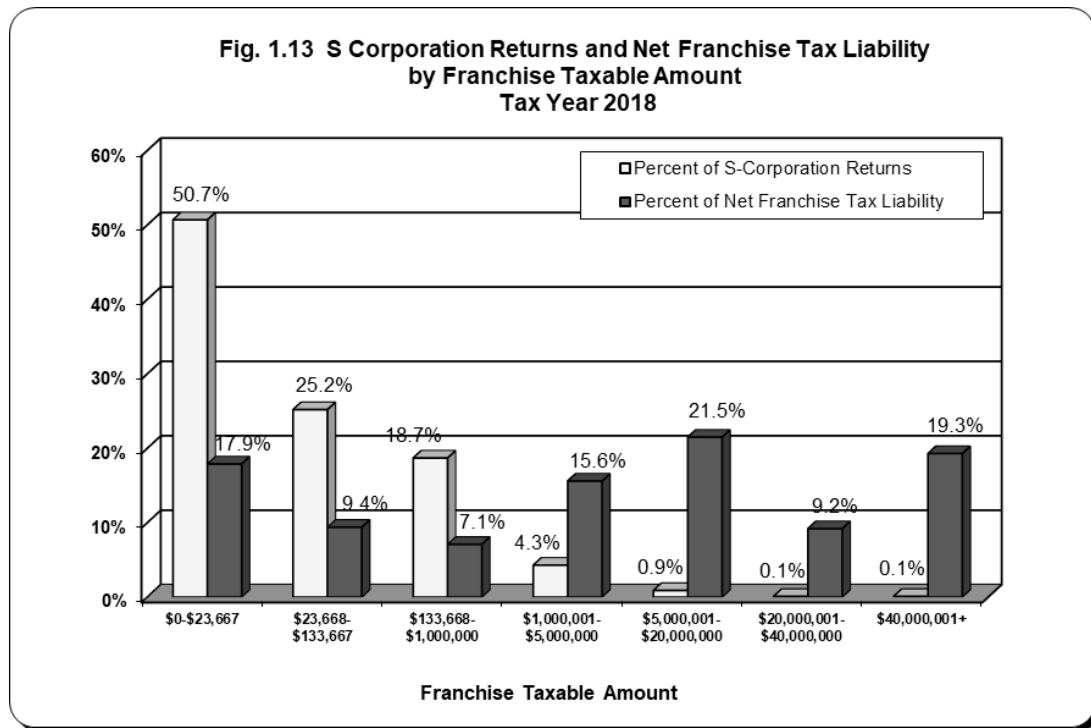


Table 1.14 and Figure 1.15 show the number of returns taking franchise tax credits and amount of credits taken. Returns with a franchise taxable amount greater than \$20 million comprised 0.2% of the returns taking credits and 38.6% of the credits taken.

**Table 1.14
S Corporation Returns Taking Franchise Tax Credits and Amount of Credits Taken
Tax Year 2018**

Franchise Taxable Amount	Number of Returns Taking Credits		Amount of Credits Taken (\$)	
	Number	Percent	Amount	Percent
\$0-\$23,667	4,480	46.3%	789,310	26.4%
\$23,668-\$133,667	2,929	30.2%	515,904	17.3%
\$133,668-\$1,000,000	1,847	19.1%	326,851	10.9%
\$1,000,001-\$5,000,000	357	3.7%	102,347	3.4%
\$5,000,001-\$20,000,000	58	0.6%	101,570	3.4%
\$20,000,001+	15	0.2%	1,152,887	38.6%
Total	9,686	100.0%	2,988,869	100.0%

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

**SECTION I
FRANCHISE TAX**

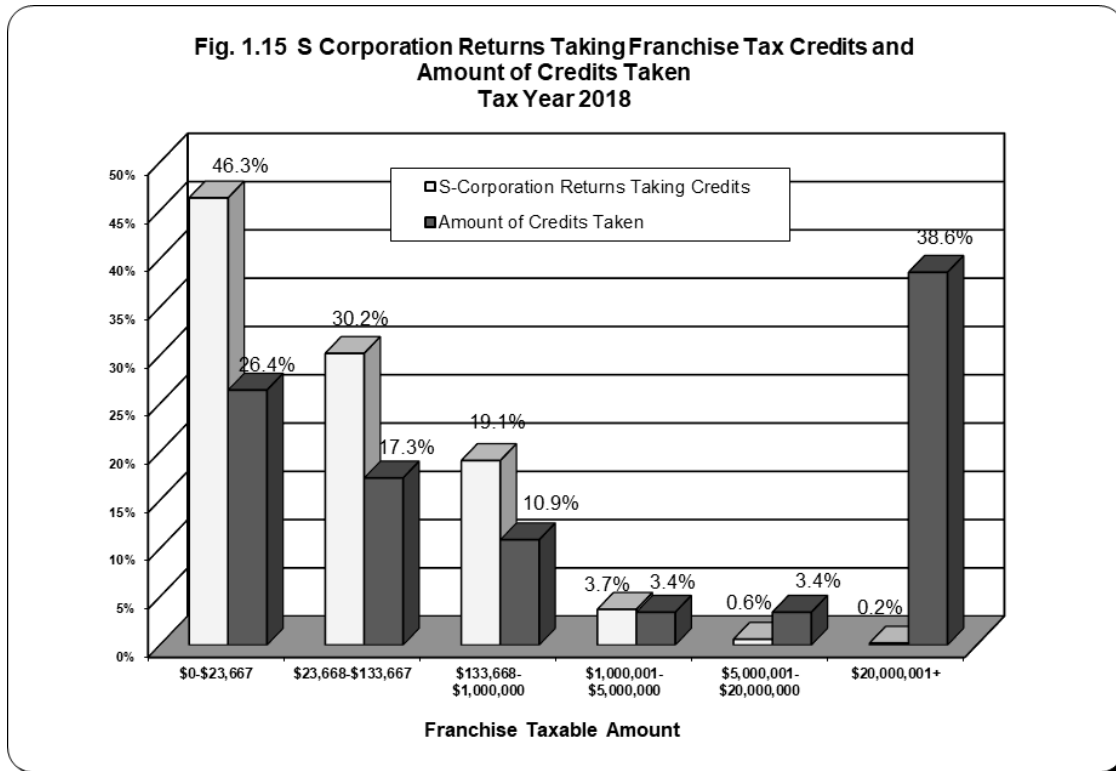


Table 1.16 shows the amount of franchise tax credits by credit type and franchise taxable amount.

**Table 1.16
S Corporation Franchise Tax Credits Taken by Credit Type and Franchise Taxable Amount
Tax Year 2018**

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	195	329,232	172	21,100	23	308,132
+ Miscellaneous Credits Claimed*	9,509	1,835,627	9,129	1,619,912	380	215,715
- Misc. Credits Not Taken **	--	(9,947)	--	(9,947)	--	--
+ Credits Subject to 50% Limit Taken	38	833,957	11	1,000	27	832,957
= Credits Taken	9,686	2,988,869	9,256	1,632,065	430	1,356,804

* 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-eight 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.

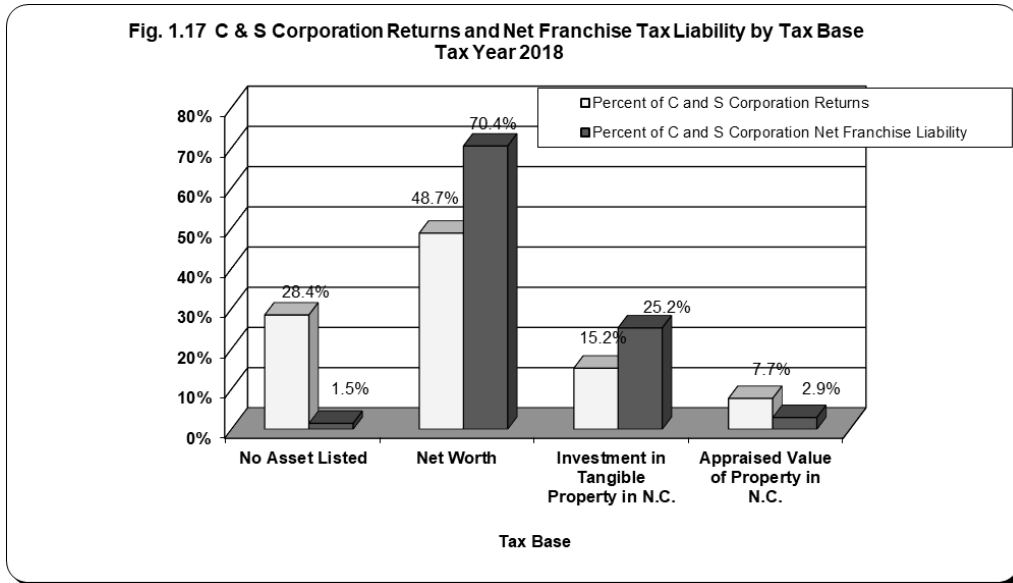
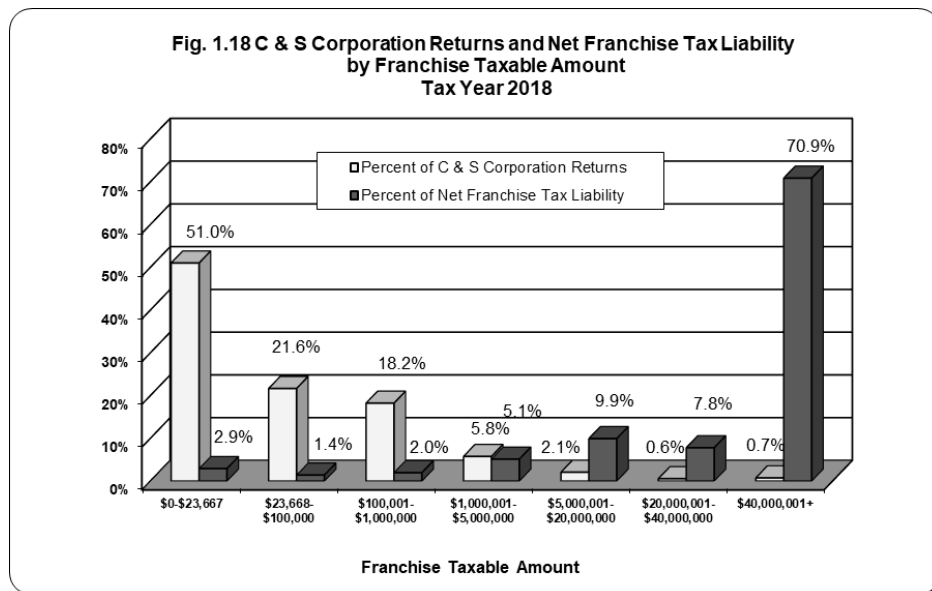
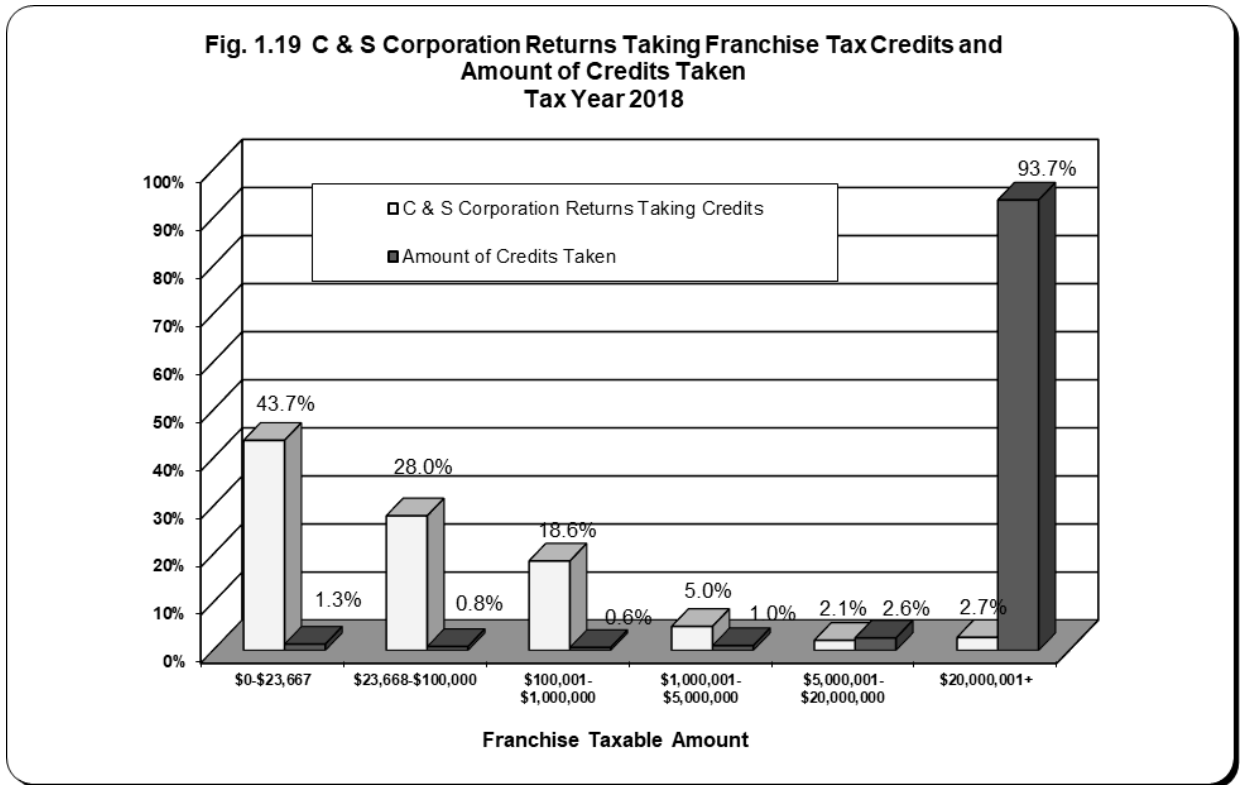


Figure 1.18 shows the number of C and S corporation returns and net franchise tax liability. Taxpayers with franchise taxable amount over \$20 million made up 1.3% of the returns, but incurred 78.7% of net franchise tax liability.



**SECTION I
FRANCHISE TAX**

Figure 1.19 shows the distribution of C and S corporation returns that took franchise tax credits and the amount of credits taken. Only 10,807 of the 234,434 taxable corporations took credits in tax year 2018.¹⁰ Corporations with over \$20 million as their franchise tax base took over 93% of all credits.



¹⁰ The 234,434 taxable corporations include 42 C corporations and 1,071 S corporations that had zero net franchise tax because their tax credits exactly offset their tax liability. In addition, there were 47 nontaxable returns claiming the short-period tax credit.

C CORPORATIONS

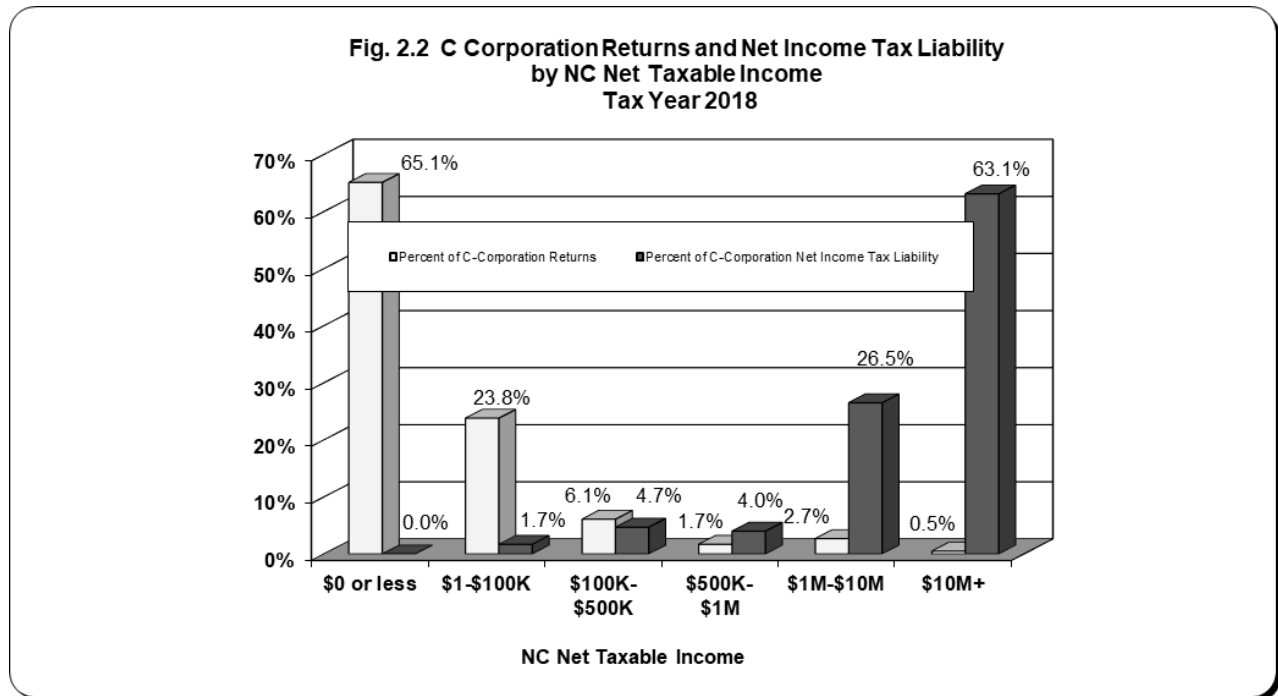
Of the 81,657 tax returns that were filed for tax year 2018, only 28,136 (34.5%) of them had a net tax liability (i.e., a positive tax liability after credits were applied).

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

**Table 2.1
C Corporation Returns and Net Income Tax Liability by NC Net Taxable Income
Tax Year 2018**

NC Net Taxable Income	Number of Returns	Percent	Cumulative Percent	Net Income Tax Liability [\$]	Percent	Cumulative Percent
\$0 or less	53,137	65.1%	65.1%	0	--	--
\$1-\$15,000	11,204	13.7%	78.8%	1,527,554	0.2%	0.2%
\$15,001-30,000	3,159	3.9%	82.7%	2,056,055	0.3%	0.5%
\$30,001-\$50,000	2,325	2.8%	85.5%	2,712,101	0.4%	0.9%
\$50,001-\$100,000	2,814	3.4%	89.0%	6,035,267	0.8%	1.7%
\$100,001-\$500,000	4,983	6.1%	95.1%	34,423,927	4.7%	6.4%
\$500,001-\$1,000,000	1,395	1.7%	96.8%	29,384,215	4.0%	10.3%
\$1,000,001-\$10,000,000	2,242	2.7%	99.5%	195,196,554	26.5%	36.9%
\$10,000,001+	398	0.5%	100.0%	464,692,124	63.1%	100.0%
Total	81,657	100.0%	--	736,027,797	100.0%	--

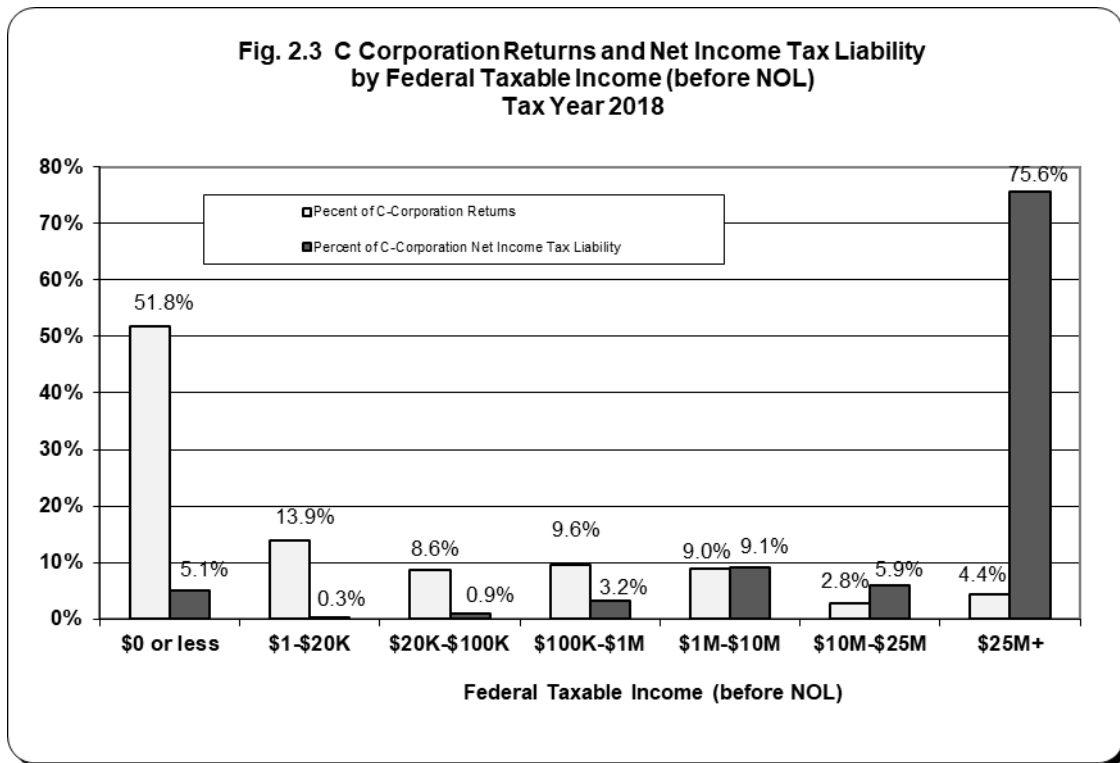
Note: Figures are partially based on unaudited returns. Breakout percentages may not add to totals due to rounding.



As shown in Table 2.1 and Figure 2.2 on the previous page, C corporations with a North Carolina Taxable Income of over \$1 million were liable for 89.7% of the C corporation income tax liability, but made up 3.2% of the corporations filing returns. Approximately 63% of the total C corporation net income tax liability was attributable to the 398 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-five 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 2018**

Federal Taxable Income (before NOL)	NC Apportionment Percentage					Total
	<5%	5% - 24%	25% - 49%	50% - 99%	100%	
\$0 or less	13,692	2,194	507	641	25,230	42,264
\$1 - \$20,000	851	202	62	175	10,048	11,338
\$20,001 - \$100,000	1,366	345	128	286	4,881	7,006
\$100,001 - \$1,000,000	3,940	939	234	458	2,305	7,876
\$1,000,001 - \$10,000,000	5,503	1,093	172	201	364	7,333
\$10,000,001-\$25,000,000	1,910	284	24	23	22	2,263
\$25,000,001+	3,144	366	25	23	19	3,577
Total	30,406	5,423	1,152	1,807	42,869	81,657

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 2018**

Federal Taxable Income (before NOL)	NC Apportionment Percentage					Total
	<5% [\$]	5% - 24% [\$]	25% - 49% [\$]	50% - 99% [\$]	100% [\$]	
\$0 or less	23,655,154	6,038,651	1,424,021	4,614,554	1,545,259	37,277,639
\$1 - \$20,000	18,216	18,988	10,833	55,239	1,757,076	1,860,352
\$20,001 - \$100,000	66,425	102,137	74,877	556,625	5,544,244	6,344,308
\$100,001 - \$1,000,000	1,500,426	1,406,481	942,485	4,008,119	15,783,710	23,641,221
\$1,000,001 - \$10,000,000	12,194,905	12,077,464	6,565,646	14,179,525	21,701,249	66,718,789
\$10,000,001-\$25,000,000	14,318,518	11,968,248	3,295,596	6,912,918	7,043,676	43,538,956
\$25,000,001+	344,091,745	156,731,811	19,512,636	24,860,808	11,449,532	556,646,532
Total	395,845,389	188,343,780	31,826,094	55,187,788	64,824,746	736,027,797

Note: Figures are based partially on unaudited returns.

SECTION II INCOME TAX

C corporations that operated exclusively within North Carolina, and so apportion all of their income to the state, made up 52.5% of the returns filed for tax year 2018. However, these corporations accounted for only 8.8% 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. Sixty-eight 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.

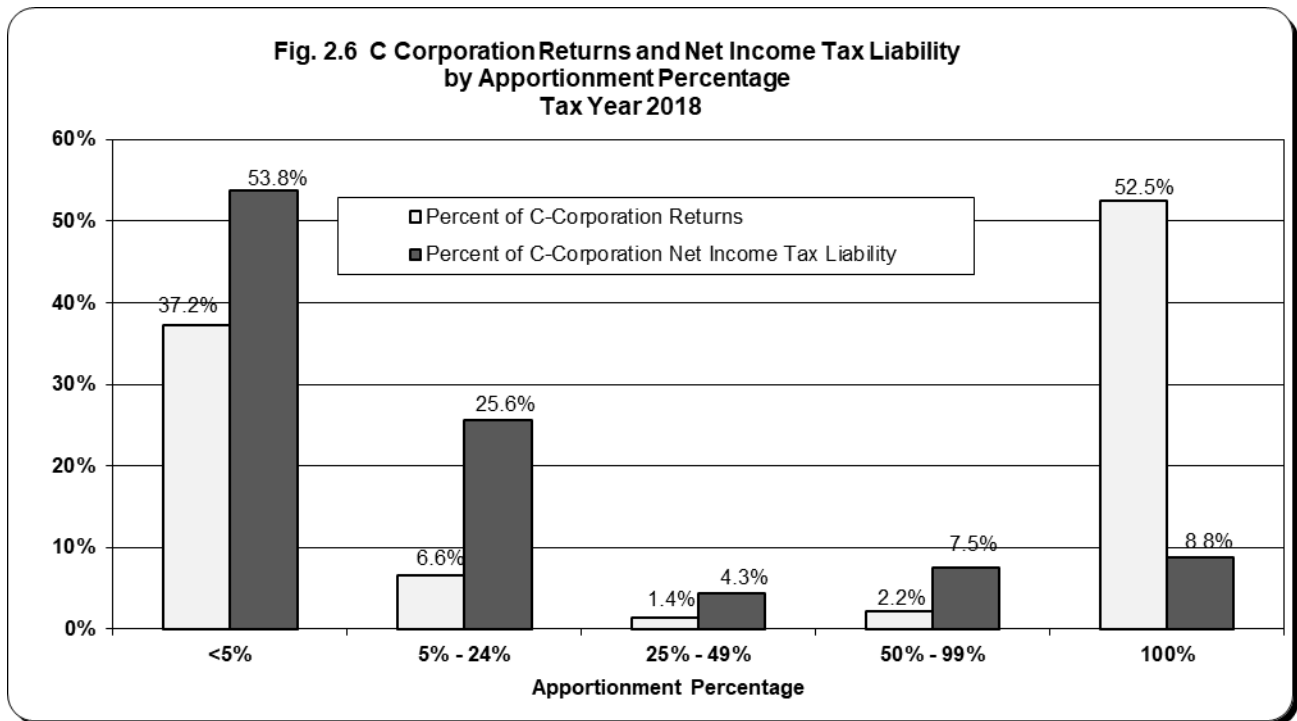


Table 2.7 on the next page shows statistics on the calculation of net tax liability at various steps, starting with federal taxable income. Returns are divided into taxable and nontaxable returns, where taxable returns are defined as those with a positive tax liability before credits are applied. The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

Out of 81,657 returns, 34.5% were taxable returns and 65.5% were nontaxable returns. Taxable returns with a federal taxable income over \$25 million made up 3.2% of the returns but accounted for 75.6% of the tax liability.

Of the 42,264 returns with federal taxable income of zero or less, 1,860 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 39,393 returns that did show a federal taxable income, 13,115 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 \$377.3 billion, there was a reduction of \$97.1 billion due to NC adjustments, a decrease of \$2.7 billion due to nonapportionable income, a reduction of \$272.6 billion due to apportioning income to North Carolina, and a reduction of \$6.0 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 2018 was for the bonus depreciation allowances at the federal level. 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 \$49.0 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 2018**

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	1,860	(32,927,343,191)	82,670,704,215	144,985,556	(467,010,034)	48,691,214,101	1,374,171,401
\$1-\$20,000	7,267	47,286,296	47,131,483	219,920	(2,512,198)	30,978,292	65,731,765
\$20,001-\$100,000	4,802	234,402,117	91,349,546	1,046,950	4,454,847	93,400,628	226,849,238
\$100,001-\$1,000,000	5,134	1,943,933,911	1,111,528,362	9,834,293	94,010,447	2,121,990,030	829,627,503
\$1,000,001-\$10,000,000	4,916	18,735,513,515	13,684,349,177	351,894,020	577,409,928	29,190,967,756	2,299,590,988
\$10,000,001-\$25,000,000	1,561	24,823,603,902	5,618,826,953	113,381,073	445,209,882	28,366,705,933	1,517,133,967
\$25,000,001+	2,598	841,333,371,716	54,987,363,793	5,567,960,025	2,987,106,155	866,283,815,044	21,481,854,285
Total, Taxable	28,138	854,190,768,266	158,211,253,529	6,189,321,837	3,638,669,027	974,779,071,784	27,794,959,147
Nontaxable Returns							
\$0 or less	40,404	(347,151,302,120)	106,767,687,130	148,764,079	(1,227,103,170)	(229,826,498,972)	(9,478,776,927)
More than \$0	13,115	377,267,753,888	(97,078,543,839)	1,934,143,011	2,687,888,707	272,633,245,195	2,933,933,136
Total, Nontaxable	53,519	30,116,451,768	9,689,143,291	2,082,907,090	1,460,785,537	42,806,746,223	(6,544,843,791)

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	**	**	140,055,469	2,066,916	1,260,104,248	37,803,146	525,507	37,277,639
\$1-\$20,000	**	**	3,911,652	257,759	62,010,521	**	**	1,860,352
\$20,001-\$100,000	**	**	16,051,604	1,105,914	211,623,873	**	**	6,344,308
\$100,001-\$1,000,000	**	**	52,546,050	4,562,816	790,328,542	23,709,906	68,685	23,641,221
\$1,000,001-\$10,000,000	**	**	114,882,545	6,812,243	2,250,588,682	67,517,671	798,882	66,718,789
\$10,000,001-\$25,000,000	**	**	70,467,425	4,625,651	1,466,218,196	43,986,557	447,601	43,538,956
\$25,000,001+	**	**	1,286,541,717	97,028,388	20,127,234,616	603,817,068	47,170,536	556,646,532
Total, Taxable	**	**	1,684,456,462	116,459,687	26,168,108,678	776,834,348	49,011,211	736,027,797
Nontaxable Returns								
\$0 or less	**	**	4,859,178,593	35,677,617	(13,830,697,291)	-	-	-
More than \$0	**	**	5,993,555,378	1,279,605	(3,102,019,366)	-	-	-
Total, Nontaxable	**	**	10,852,733,971	36,957,222	(16,932,716,657)	-	-	-

**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 28,138 returns with positive tax liability before credits did not take any income tax credits. Over eighty-one percent of the 175 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 97.3% of the total credits taken.

**Table 2.8
Number of C Corporation Taxable Returns Taking Credits as a Percentage of Tax Liability
Tax Year 2018**

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-\$100,000	19,085	**	**	**	**	19,120
\$100,001-\$500,000	4,957	**	**	**	**	4,983
\$500,001-\$1,000,000	1,383	**	**	**	**	1,395
\$1,000,001-\$10,000,000	2,181	**	**	**	48	2,242
\$10,000,001+	357	**	**	**	30	398
Total	27,963	19	**	**	143	28,138

**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.

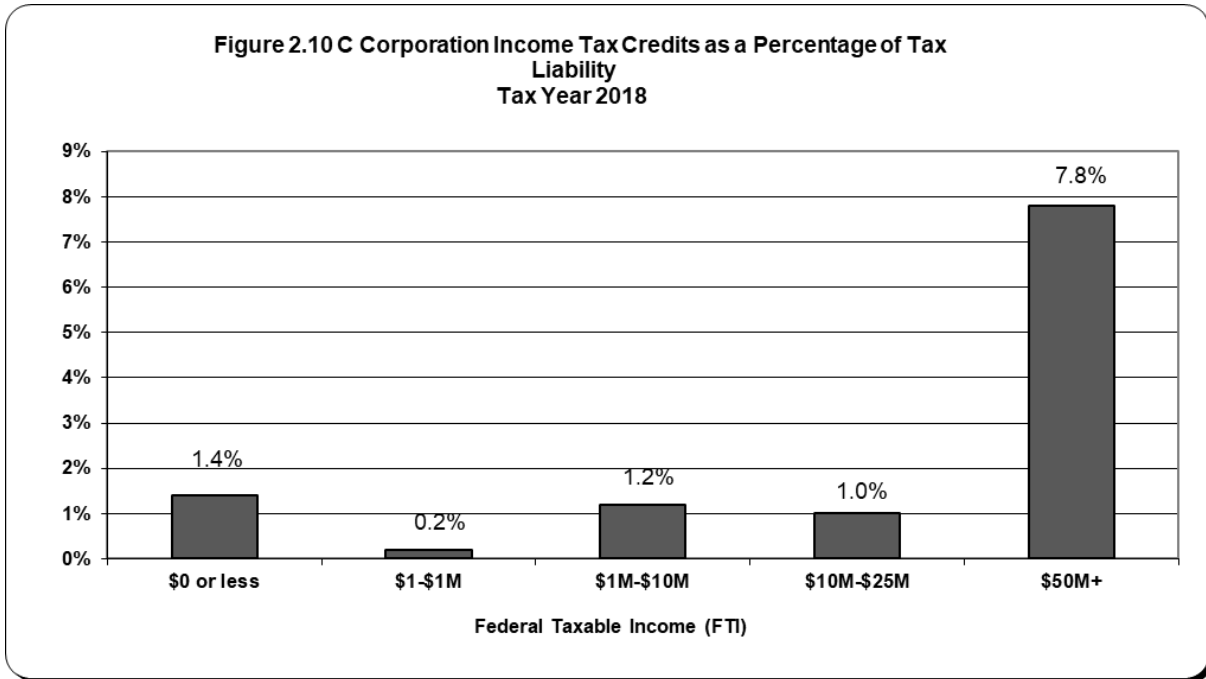
**Table 2.9
Amount of C Corporation Tax Credits Taken as a Percentage of Tax Liability
Tax Year 2018**

NC Taxable Income	Income Tax Credits as a Percentage of Tax				Total
	0.1% -9.9%	10% -19.9%	20% -39.9%	40% +	
	[\$]	[\$]	[\$]	[\$]	[\$]
\$1-\$100,000	**	**	**	**	17,474
\$100,001-\$500,000	**	**	**	**	90,739
\$500,001-\$1,000,000	**	**	**	**	121,292
\$1,000,001-\$10,000,000	**	**	**	2,456,782	2,653,193
\$10,000,001+	**	**	**	45,036,405	46,132,938
Total	523,505	**	**	47,704,819	49,015,636

**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
C Corporation Income Tax Credits by Credit Type
Tax Year 2018**

Income Tax Credits	All Returns	
	Number of Credits*	Amount (\$)
Non-Limited Credits and Carryforwards	21	17,113,936
Tax Credit Subject to 50% of Tax Limit	166	33,352,695
C-Corporation adjustment**	168	(1,450,995)
Credits Taken	175	49,015,636

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

** Most C corporation income tax credits are reduced due to NCGS § 105-130.5(a)(10).

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 59.5% of the tax liability, but only 1.7% 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 2018**

NC Taxable Income*	Number of Returns	Percent	Number With Tax Due for Nonresidents	Net Tax Liability [\$]	Percent
\$0 or less	55,542	32.3%	0	0	0.0%
\$1-\$15,000	32,414	18.9%	4,187	1,052,414	1.0%
\$15,001-30,000	17,270	10.1%	1,162	1,323,947	1.3%
\$30,001-\$50,000	15,268	8.9%	903	1,820,568	1.7%
\$50,001-\$100,000	19,951	11.6%	1,127	4,089,109	3.9%
\$100,001-\$500,000	24,861	14.5%	1,844	21,003,709	20.1%
\$500,001-\$1,000,000	3,514	2.0%	389	13,097,347	12.5%
\$1,000,001-\$10,000,000	2,797	1.6%	349	38,426,949	36.8%
\$10,000,001+	136	0.1%	29	23,723,701	22.7%
Total	171,753	100.0%	9,990	104,537,744	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.

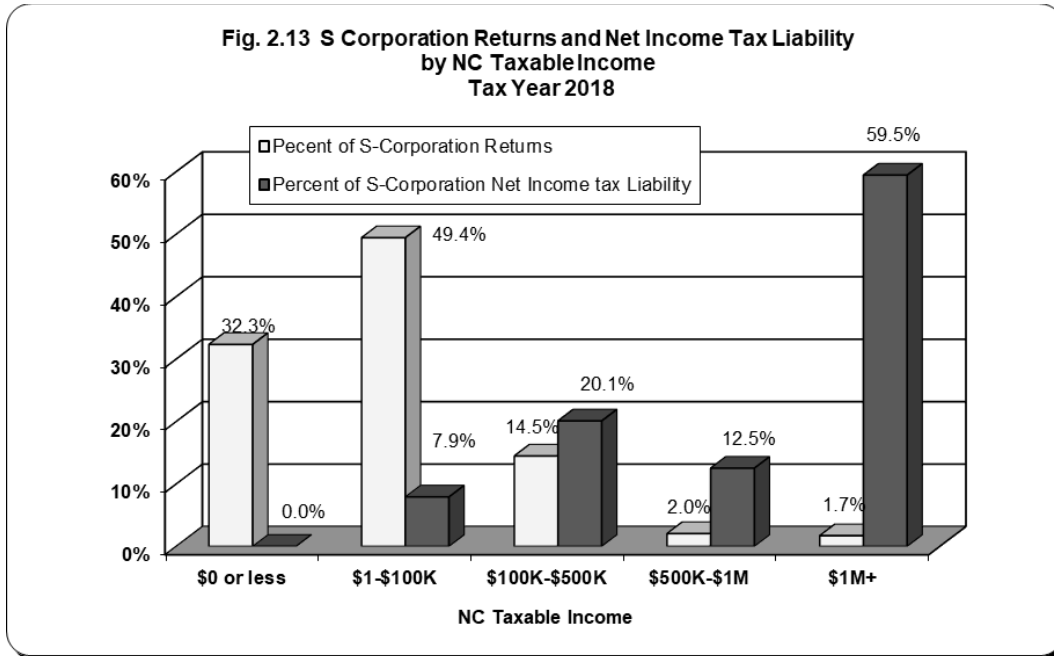
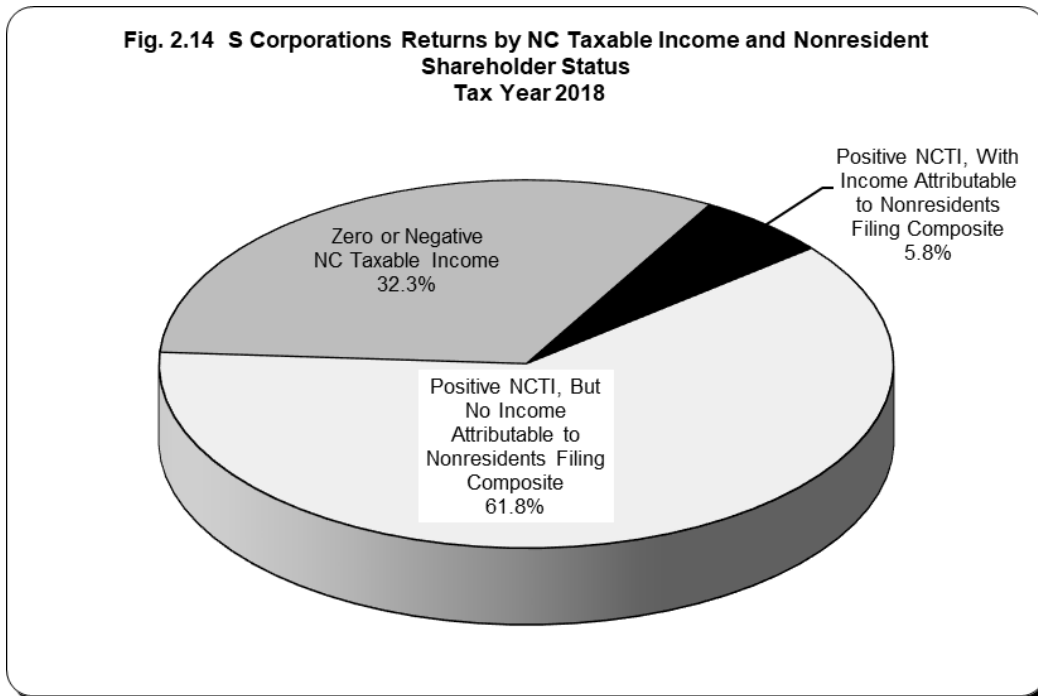


Figure 2.14 illustrates the distribution of returns by North Carolina taxable income and nonresident shareholder filing status. Only 5.8% of S corporation returns had a tax liability attributable to nonresidents who chose to allow the S corporation to file a composite return on their behalf.



**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 2018**

		(+)	(+)	(-)	(-)	(=)	(+)
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	55,542	7,496,245,188	600,092,978	1,107,878,788	9,008,599,586	(2,020,140,208)	(12,953,629)
Positive, But No Income Attributable to Nonresidents Filing Composite	106,176	51,028,414,163	3,156,869,709	2,544,137,518	34,108,039,380	17,533,106,974	395,587,563
Positive, With Income Attributable to Nonresidents Filing Composite	10,035	58,326,095,957	5,397,675,027	1,724,201,864	59,745,084,048	2,254,485,072	62,252,685
Total	171,753	116,850,755,308	9,154,637,714	5,376,218,170	102,861,723,014	17,767,451,838	444,886,619

	(=)	(+)	(=)			(-)	(=)
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)	1,711,939,996	(147,046,011)	265,964	-	-	-
Positive, But No Income Attributable to Nonresidents Filing Composite	16,397,267,917	(16,397,267,917)	-	1,871,976	103,074	-	103,074
Positive, With Income Attributable to Nonresidents Filing Composite	2,191,443,702	(294,110,308)	1,897,333,394	11,819,128	105,000,482	565,812	104,434,670
Total	16,729,725,612	(14,979,438,229)	1,750,287,383	13,957,068	105,103,556	565,812	104,537,744

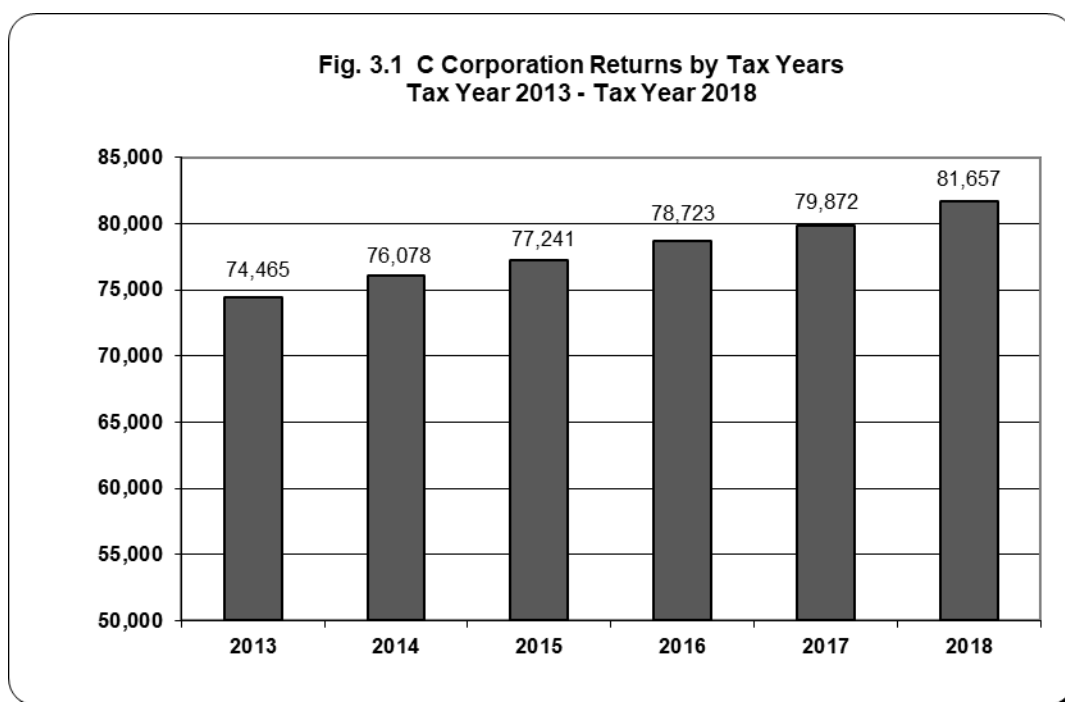
Note: Figures are based partially on unaudited returns.

C CORPORATIONS

In this section, data on corporate returns are presented for tax years 2013 through 2018. Similar information for earlier years can be found in previous 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 6,036 in 2018 and 5,432 in 2017. 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 2013 through 2018 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 and 2018, the tax rate was 3.0%.

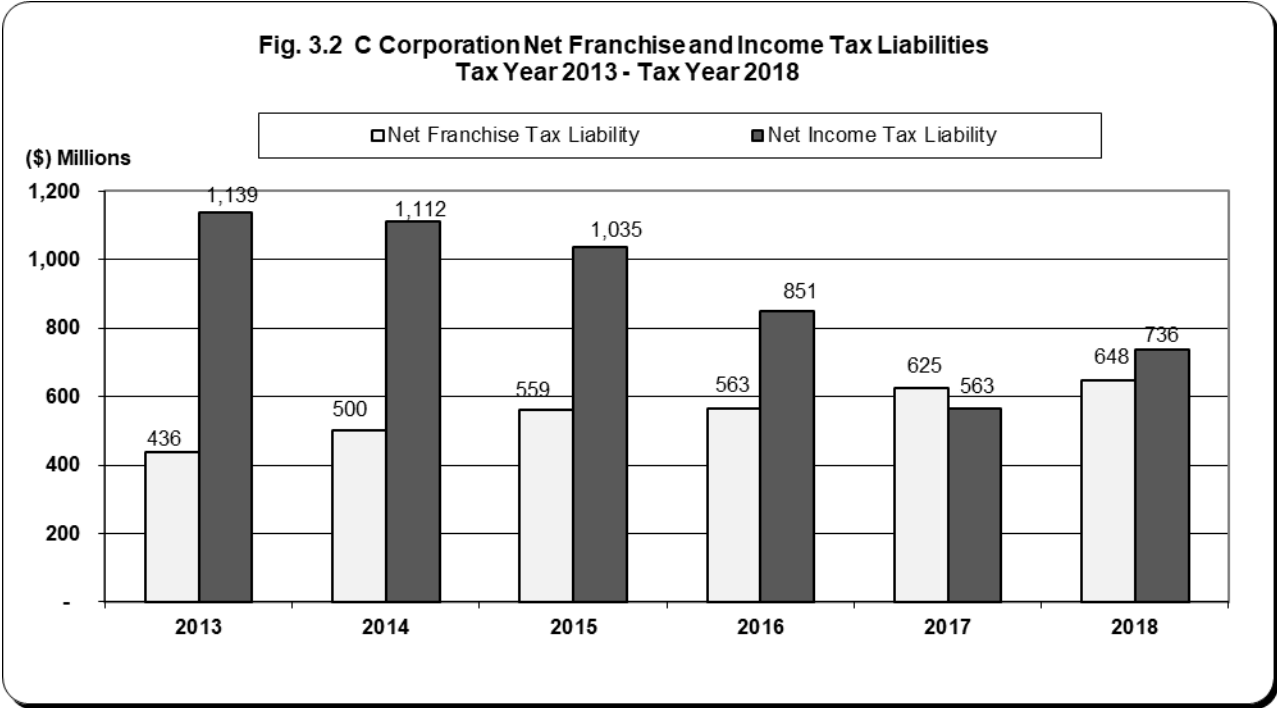


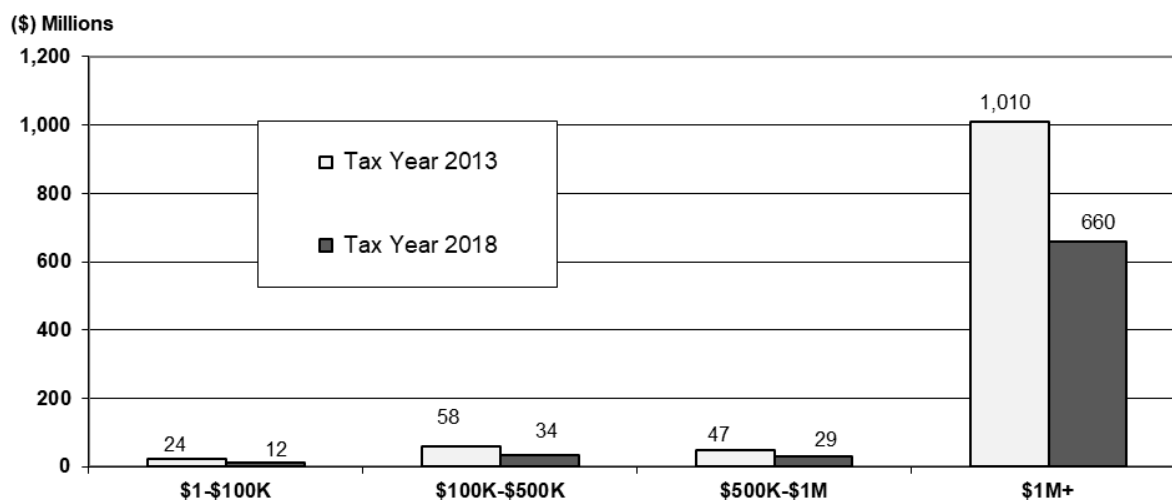
Table 3.3 and Figure 3.4 compare the net income tax liability of C corporations in tax year 2013 and tax year 2018 by NC taxable income brackets. Each taxable income bracket has experienced a decrease in tax liability due to the decline in the tax rate.

Table 3.3
C Corporation Net Income Tax Liability by NC Taxable Income
Tax Year 2013 & Tax Year 2018

NC Taxable Income	Net Income Tax Liability TY 2013	Net Income Tax Liability TY 2018	% Difference
\$0 or less	-	-	--
\$1-\$15,000	3,285,969	1,527,554	-53.5%
\$15,001-\$30,000	3,960,694	2,056,055	-48.1%
\$30,001-\$50,000	5,315,741	2,712,101	-49.0%
\$50,001-\$100,000	11,280,918	6,035,267	-46.5%
\$100,001-\$500,000	58,432,293	34,423,927	-41.1%
\$500,001-\$1,000,000	46,905,514	29,384,215	-37.4%
\$1,000,001-\$10,000,000	291,915,821	195,196,554	-33.1%
\$10,000,001+	717,759,993	464,692,124	-35.3%
Total	1,138,856,943	736,027,797	-35.4%

Note: The tax rate in 2013 was 6.9% and the tax rate in 2018 was 3.0%.

Fig. 3.4 C Corporation Net Income Tax Liability by NC Taxable Income
Tax Year 2013 & Tax Year 2018



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

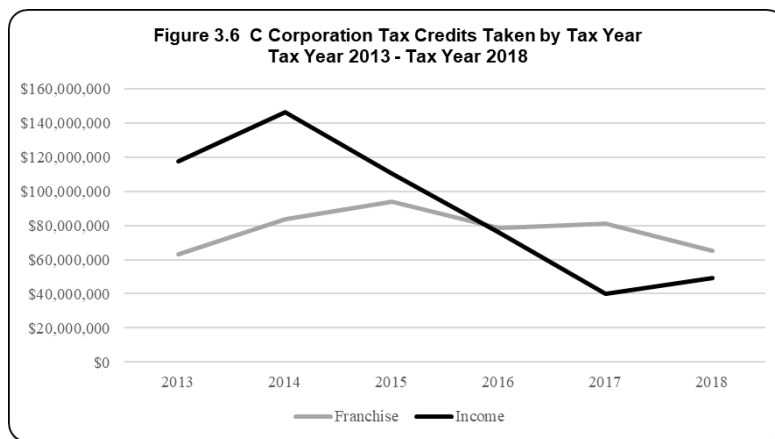
**A taxpayer can claim a credit for expenses occurring before Jan. 1, 2015

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

(The Article 3H credit was re-enacted for an eligible railroad station in 2019 for the 2021 and 2022 tax years.)

****A taxpayer can claim a credit for expenses occurring before Jan. 1, 2024

Figure 3.6 shows the amount of credits taken by C corporations against the franchise and corporate income tax for tax years 2013 through 2018. 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 2013 through 2018. 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 15.7% between tax years 2013 and 2018. This is equivalent to an annualized rate of growth of 3.0%.

In Tax Year 2018, there were 11,139 taxpayers that indicated that they were first-time filers. In the prior year, there had been 11,014.

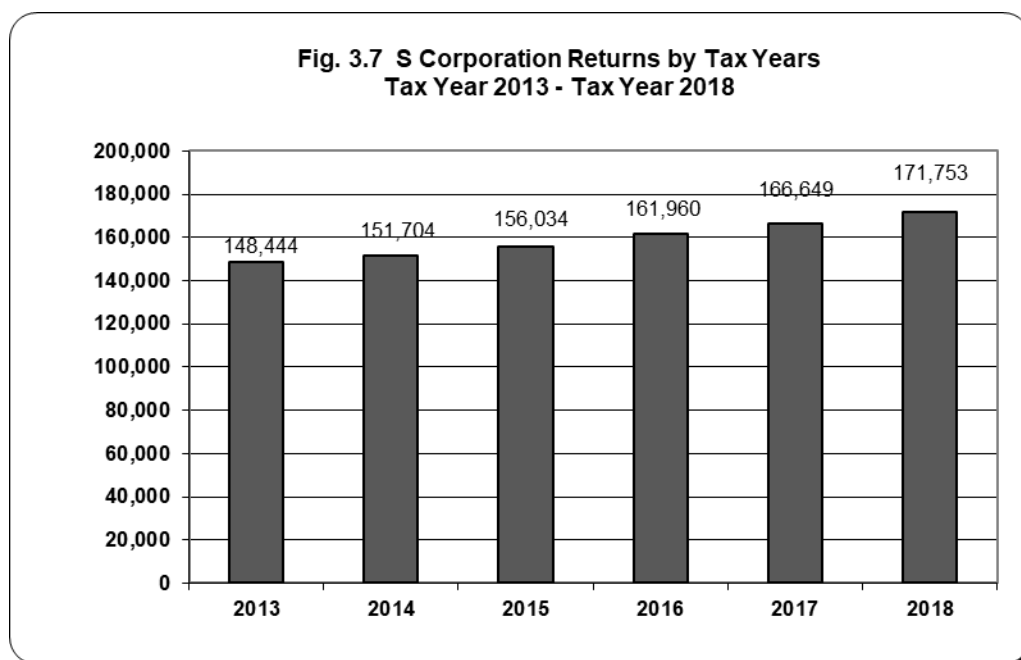


Figure 3.8 on the next page illustrates the relative amounts of net tax liabilities for 2013 through 2018 for S corporations. As discussed in Section II, the income tax liability for S corporations only includes taxes paid for nonresident shareholders filing a composite return. Therefore, comparisons 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 and 2018, 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. The decline in Tax Year 2018 is mainly due to the reduction in the tax on the first \$1 million of taxable assets.

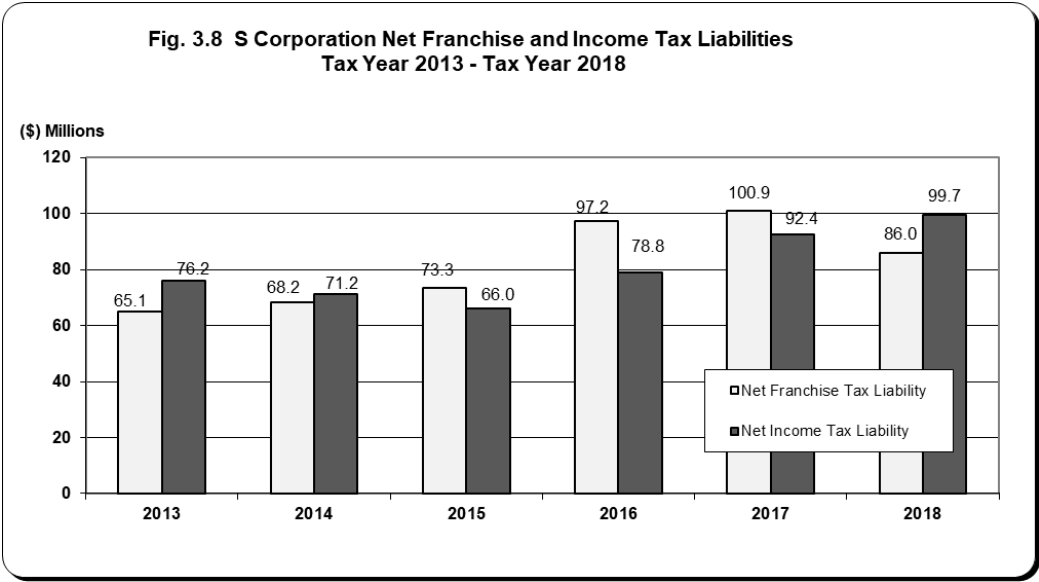
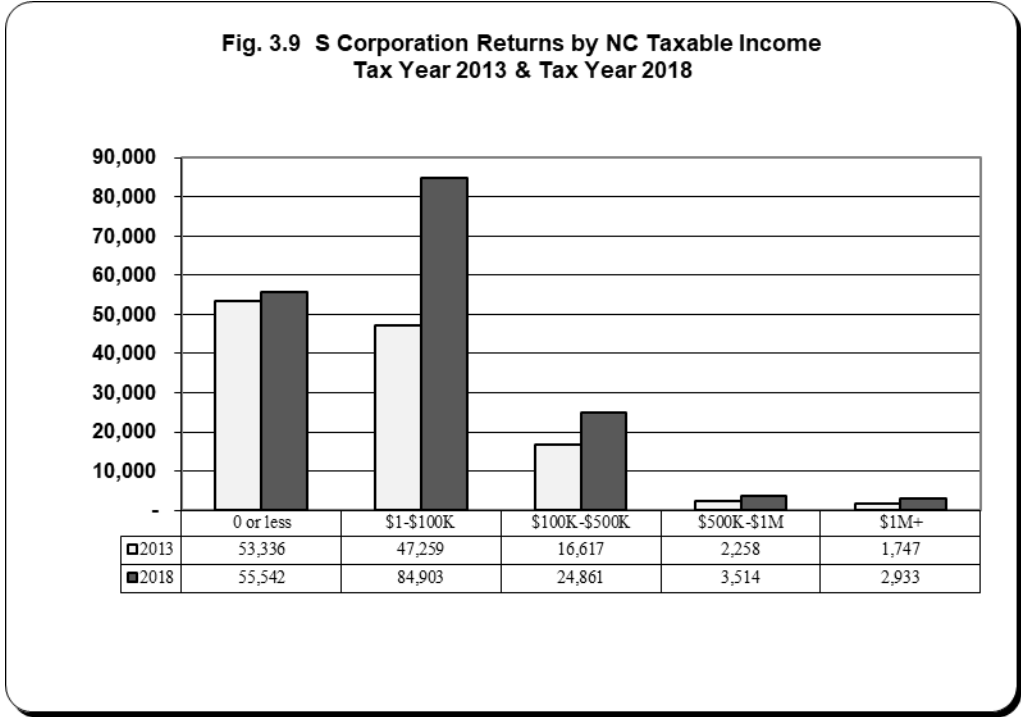


Figure 3.9 compares the number of S corporation returns in tax years 2013 and 2018 by NC taxable income brackets. The total number of returns has grown in each bracket, with the smallest increase for those with zero or negative taxable income. The percentage growth has been greatest in the largest NC taxable income bracket. However, the returns are still predominantly those with less than \$100,000 in taxable income.



**SECTION IV
FISCAL YEAR STATISTICS**

Fiscal Year Filing 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 corporation returns by the month in which their fiscal year begins, as well as for short-period returns. Calendar year returns comprised 77.2% of full-year returns and 72.7% of all returns. Their net franchise tax liability was 73.4% of the total, and their net income tax liability made up 67.5% of the total.

**Table 4.1
C Corporation Statistics by Fiscal Year Start Month
Tax Year 2018**

Tax Year Start Month	All Returns	Franchise Tax		Income Tax	
	Number of returns	Number	Amount (\$)	Number	Amount (\$)
January	58,450	48,229	475,707,291	19,370	496,557,580
February	1,056	1,020	30,790,943	421	36,090,396
March	603	582	2,847,153	241	2,871,051
April	3,115	2,978	24,661,753	1,349	30,513,749
May	923	852	5,459,282	390	11,115,042
June	910	807	5,569,142	398	12,975,810
July	4,017	3,384	19,152,165	1,549	26,415,122
August	849	784	6,350,573	367	20,482,164
September	839	784	4,494,252	368	6,332,913
October	3,147	2,902	26,733,836	1,298	33,574,232
November	1,113	1,070	7,250,072	457	9,063,027
December	698	664	6,538,193	296	5,259,559
Short-period returns	5,937	5,102	32,675,741	1,632	44,777,152
Total	81,657	69,158	648,230,396	28,136	736,027,797

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 93.7% of the 171,753 returns and 98.7% of the 163,089 full-year returns. They represented 87.2% of net franchise tax liabilities and 87.9% of the net corporation income tax liabilities. There were 8,664 short-period returns included in the S corporation returns.

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 26.5% of the total amount. Other sectors with relatively high shares of tax liability include finance and insurance; retail; information; real estate, rental & leasing; professional, scientific, and technical services; and wholesale.

**Table 5.1
C Corporation Franchise Tax and Income Tax Liability by Industry Sector
Tax Year 2018**

Industry Sector	All Returns	Franchise Tax		Income Tax	
	Number of returns	Number	Amount (\$)	Number	Amount (\$)
Agriculture, Forestry, Fishing and Hunting	1,105	1,064	3,165,464	344	2,440,680
Mining	161	154	3,041,858	59	2,381,328
Utilities	233	206	37,855,196	55	6,103,222
Construction	6,012	5,822	15,372,994	2,448	27,655,735
Manufacturing	8,005	7,798	184,010,905	3,314	182,383,466
Wholesale	5,814	5,639	42,908,977	2,683	51,364,768
Retail	5,404	5,185	46,474,808	2,109	73,974,108
Transportation	2,142	2,068	9,570,864	924	17,314,992
Couriers and Warehousing	186	184	887,849	68	1,476,849
Information	2,569	2,433	52,827,444	772	61,828,505
Finance and Insurance	7,485	6,622	103,198,739	2,561	155,765,201
Real Estate and Rental & Leasing	11,658	6,891	54,351,168	2,668	42,440,586
Professional, Scientific and Technical Services	10,890	10,388	42,729,346	3,779	53,920,170
Management of Companies / see note	2,374	2,260	25,115,664	758	17,768,229
Administration & Support and Waste Management & Remediation Services	3,204	2,632	7,157,118	1,120	11,227,010
Educational Services	458	414	697,830	152	848,383
Health Care and Social Assistance	2,795	2,575	7,632,185	927	10,393,585
Arts, Entertainment and Recreation	922	794	1,690,936	342	1,092,283
Accommodations and Food Services	2,166	2,050	5,889,367	1,043	10,344,366
Other Services	4,625	2,828	2,642,919	1,337	3,980,151
Unidentifiable	3,449	1,151	1,008,765	673	1,324,180
Total	81,657	69,158	648,230,396	28,136	736,027,797

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-nine (129) 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 2018**

	Total	Construction	Manufacturing	Wholesale	Retail	Information	Finance & Insurance	Real Estate, Rental & Leasing	Professional Services
Taxable Returns									
Number of returns	28,138	1,448	3,316	2,683	2,109	772	2,561	2,668	3,779
Federal Taxable Income, Before NOL	854,190,768,266	6,726,171,231	271,767,469,313	49,620,890,632	64,151,660,726	109,590,131,267	193,252,327,897	20,106,584,733	68,534,574,841
(+) Adjustments to Federal Income	158,211,253,529	1,375,610,197	691,268,816	9,277,869,132	24,074,493,206	18,819,914,560	50,441,852,985	23,367,763,107	6,834,101,841
(-) Contributions to Donees Outside NC	6,189,321,837	54,382,916	2,130,817,973	429,841,195	1,137,396,229	**	1,166,484,433	115,593,929	384,299,158
(-) Nonapportionable Income	3,638,669,027	21,171,982	286,689,254	896,332,867	16,288,379	**	709,424,887	53,646,663	163,859,425
(-) Reduction Due to Apportionment	974,779,071,784	7,077,922,915	262,999,643,780	55,798,700,560	84,500,988,189	125,455,872,478	235,340,101,391	41,830,636,119	72,836,499,479
(=) Income Apportioned to NC	27,794,959,147	948,303,615	7,041,587,122	1,773,885,142	2,571,481,135	2,354,053,467	6,478,170,171	1,474,471,129	1,984,018,620
(+) Nonapportionable Income Allocated to NC	**	**	26,562,194	7,191,190	**	**	101,079,506	**	1,912,448
(-) Percentage Depletion Over Cost Depletion	**	**	0	0	**	**	0	**	0
(-) State Net Loss	1,684,456,462	23,451,413	679,646,537	53,659,740	42,086,631	246,869,223	189,677,588	84,336,744	158,303,480
(-) Contributions to NC Donees	116,459,687	2,860,332	12,391,840	1,755,073	32,654,831	4,061,471	52,514,501	556,773	1,734,230
(=) Net Taxable Income	26,168,108,678	923,013,056	6,376,110,939	1,725,661,519	2,499,594,065	2,100,846,700	6,337,057,588	1,415,792,836	1,825,893,358
Computed Income Tax	785,043,433	**	191,283,349	**	**	**	190,111,749	**	54,776,827
(-) Tax Credits	49,015,636	**	8,899,883	**	**	**	34,346,548	**	856,657
(=) Net Tax Liability	736,027,797	27,655,735	182,383,466	51,364,768	73,974,108	61,828,505	155,765,201	42,440,586	53,920,170
Non-Taxable Returns									
Number of returns	53,519	3,564	4,689	3,131	3,295	1,797	4,924	8,990	7,111
Federal Taxable Income, Before NOL	30,116,451,768	1,719,207,076	81,927,741,806	-10,013,276,846	-12,333,030,927	-15,285,415,556	44,625,228,412	-14,092,030,165	-3,615,902,866
(+) Adjustments to Federal Income	9,689,143,291	2,101,937,705	-19,342,834,965	3,580,884,081	7,360,043,102	21,999,251,423	-24,077,023,588	9,024,957,778	-337,207,981
(-) Contributions to Donees Outside NC	2,082,907,090	12,563,278	1,398,647,503	36,289,390	151,096,431	79,469,438	139,239,260	5,528,160	75,551,319
(-) Nonapportionable Income	1,460,785,537	3,334,841	609,836,300	-211,745,356	21,939,833	466,904,683	-218,672,939	281,418,448	264,561,721
(-) Reduction Due to Apportionment	-197,954,602,414	3,823,928,817	61,272,408,486	-5,995,841,336	-4,759,693,337	6,538,669,020	20,892,461,942	-5,128,817,029	-2,909,955,287
(=) Income Apportioned to NC	-6,544,843,791	-18,682,155	-695,985,448	-261,095,463	-386,330,752	-371,207,274	-264,823,433	-225,201,966	-1,383,268,600
(+) Nonapportionable Income Allocated to NC	**	**	**	**	**	-26,228,382	-96,783,994	**	716,658
(-) Percentage Depletion Over Cost Depletion	**	**	**	**	**	0	0	**	0
(-) State Net Loss	10,852,733,971	745,923,438	3,229,025,532	412,024,036	504,784,698	**	**	**	**
(-) Contributions to NC Donees	36,957,222	29,231	876,857	32,979	64,876	**	**	**	**
(=) Net Taxable Income	-16,932,716,657	-764,390,065	-3,908,901,182	-690,885,523	-891,210,611	-2,677,297,488	-985,466,253	-682,579,714	-2,253,235,889
Computed Income Tax	0	0	0	0	0	0	0	0	0
(-) Tax Credits	0	0	0	0	0	0	0	0	0
(=) Net Tax Liability	0	0	0	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) manufacturing; and (4) real estate and rental & leasing.

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 2018**

Industry Sector	All Returns	Franchise Tax		Income Tax	
	Number of returns	Number	Amount (\$)	Number	Amount (\$)
Agriculture, Mining & Utilities	4,180	4,063	3,261,901	96	1,089,157
Construction	26,381	25,526	11,118,849	1,343	14,377,408
Manufacturing	7,309	7,017	10,078,980	978	20,958,379
Wholesale	6,784	6,494	6,449,725	853	11,679,644
Retail	16,544	15,686	12,507,259	477	7,760,878
Transportation	5,099	4,873	1,772,994	283	4,647,051
Couriers and Warehousing	481	464	241,687	27	470,242
Information	2,513	2,354	1,310,636	269	3,182,533
Finance and Insurance	7,010	6,732	4,095,512	587	3,874,584
Real Estate and Rental & Leasing	18,720	17,842	9,858,921	756	6,151,900
Professional, Scientific and Technical Services	27,902	26,575	7,189,260	2,275	13,923,902
Management of Companies	1,161	1,091	1,105,662	348	3,462,161
Administration & Support and Waste Management & Remediation Services	7,615	7,269	2,123,960	613	6,275,147
Educational Services	1,257	1,193	365,705	70	1,044,947
Health Care and Social Assistance	11,517	11,040	4,807,890	133	825,278
Arts, Entertainment and Recreation	4,111	3,851	2,656,061	450	1,589,511
Accommodations and Food Services	8,681	8,269	3,732,261	175	2,220,758
Other Services	12,605	12,071	2,933,681	219	877,532
Unidentifiable	1,883	1,800	428,522	38	126,732
Total	171,753	164,210	86,039,466	9,990	104,537,744

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." Twenty-eight (28) 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 2018 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) wholesale; (5) retail; (6) real estate and rental & leasing; and (7) health care and social assistance..

**Table 5.4
S Corporation NC Net Taxable Income by Industry Sector
Tax Year 2018**

Industry Sector	Net Taxable Income		
	Number of returns	Amount (\$)	Share of total amount
Agriculture, Forestry, Fishing and Hunting	3,721	260,708,602	1.4%
Mining	116	21,815,289	0.1%
Utilities	151	9,715,989	0.1%
Construction	24,028	2,924,929,351	16.1%
Manufacturing	6,597	1,639,429,751	9.0%
Wholesale	6,240	1,494,782,556	8.2%
Retail	15,745	1,480,410,509	8.1%
Transportation	4,711	763,336,820	4.2%
Couriers and Warehousing	442	51,866,320	0.3%
Information	2,256	496,027,088	2.7%
Finance and Insurance	6,065	1,001,637,768	5.5%
Real Estate and Rental & Leasing	17,297	1,356,880,213	7.5%
Professional, Scientific and Technical Services	25,230	2,493,180,612	13.7%
Management of Companies	974	390,525,024	2.1%
Administration & Support and Waste Management & Remediation Services	6,944	746,114,831	4.1%
Educational Services	1,194	71,348,408	0.4%
Health Care and Social Assistance	11,024	1,280,303,673	7.0%
Arts, Entertainment and Recreation	3,814	322,816,533	1.8%
Accommodations and Food Services	8,242	751,918,948	4.1%
Other Services	12,137	598,016,933	3.3%
Unidentifiable	1,369	56,573,239	0.3%
Total	158,297	18,212,338,457	

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." Twenty-eight (28) 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 2018 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) wholesale; (6) real estate and rental & leasing; and (7) health care and social assistance.

**Table 5.5
S Corporation NC Net Taxable Income (Positive Values Only) by Industry Sector
Tax Year 2018**

Industry Sector	Net Taxable Income (Positive Values Only)		
	Number	Amount (\$)	Share of total amount
Agriculture, Forestry, Fishing and Hunting	2,233	375,573,145	1.9%
Mining	81	23,757,067	0.1%
Utilities	107	11,938,276	0.1%
Construction	18,074	3,256,069,338	16.1%
Manufacturing	4,572	1,839,143,749	9.1%
Wholesale	4,683	1,587,285,691	7.8%
Retail	10,599	1,747,768,958	8.6%
Transportation	3,365	815,171,815	4.0%
Couriers and Warehousing	316	58,929,974	0.3%
Information	1,572	517,744,962	2.6%
Finance and Insurance	4,974	1,065,608,199	5.3%
Real Estate and Rental & Leasing	11,982	1,558,088,448	7.7%
Professional, Scientific and Technical Services	19,579	2,660,179,637	13.1%
Management of Companies	720	431,897,431	2.1%
Administration & Support and Waste Management & Remediation Services	5,346	791,322,646	3.9%
Educational Services	836	80,036,144	0.4%
Health Care and Social Assistance	8,800	1,412,072,505	7.0%
Arts, Entertainment and Recreation	2,679	393,520,213	1.9%
Accommodations and Food Services	5,720	880,352,623	4.3%
Other Services	9,031	674,309,991	3.3%
Unidentifiable	895	65,008,464	0.3%
Total	116,164	20,245,779,276	

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." Twenty-eight (28) 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.)