

North Carolina

Corporation Income and Business Franchise Taxes

Statistics and Trends

Tax Year 2019

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INTRODUCTION

This report contains statistics concerning business franchise and income taxes imposed on corporations, limited liability companies and related businesses 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 returns with tax years beginning in 2019 (TY19)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 2021. 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 2019 or for a tax year beginning sometime in 2019. Short-year returns are included if their tax period begins in 2019.

The relevant 2019 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 2014 through tax year 2019; 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 TY19.

	C corporations	S corporations
Number of returns	83,360	176,144
Number of returns with nonzero net franchise tax	70,704	168,710
Amount of net franchise tax	\$705,392,962	\$84,226,957
Number of returns with nonzero net income tax	28,963	10,571
Amount of net income tax	\$682,262,224	\$116,344,423

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 2019 because they are reported on 2019 corporate income tax returns. However, they are technically tax year 2020 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 2019 (2020 for Franchise Tax). These descriptions are designed to highlight the general attributes of the taxes, as well as changes from prior years. They 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.) For tax years beginning on or after Jan. 1, 2020, certain corporations that own copyrights, patents, or trademarks that represent more than 80% of their total assets or receive more than 80% of their gross income from royalties and license fees are eligible to be a holding company.

A deduction from the investment in tangible property base for any indebtedness specifically incurred and existing solely for and as the result of the purchase of any real estate and any improvements made on the real estate was reinstated for taxable years beginning on or after Jan. 1, 2020.

For disaster declarations made on or after August 1, 2019, certain non-resident businesses that derived income in North Carolina solely from performing disaster-related work during a disaster response period at the request of a critical infrastructure company are exempt from franchise tax.

Effective for tax years beginning on or after Jan. 1, 2020, the apportionment of net worth for the franchise tax cannot be less than 2% if the corporation is a wholesale content distributor.

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

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 2018. The State also adopted lower limits on Section 179 expensing for TY19, 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.

Critical infrastructure disaster relief exception. For disaster declarations made on or after August 1, 2019, certain non-resident businesses that derived income in North Carolina solely from performing disaster-related work during a disaster response period at the request of a critical infrastructure company are exempt from franchise tax. However, a corporation subject to North Carolina income tax must include in its State taxable income payments to affiliates or subsidiaries that are exempt under the disaster relief provision.

Effective for tax years beginning on or after Jan. 1, 2019, a taxpayer may deduct amounts received as an economic incentive under the Job Maintenance and Capital Development Fund, the Jobs Development Investment Grant Program, or the One North Carolina Fund.

² In general, any expenses related to non-taxed income should be added back to N.C. 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 2.5%.⁴

Eligible tax credits. 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. A tax credit for income-producing mill rehabilitation was reenacted under the mill rehabilitation tax credit statute that had previously expired. Additional provisions were created for rehabilitation of certain railroad stations. With the exception of the credit for constructing a cogenerating power plant, these credits are also available to be used against franchise tax liabilities.

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 3.0% in Tax Years 2017 and 2018, 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.

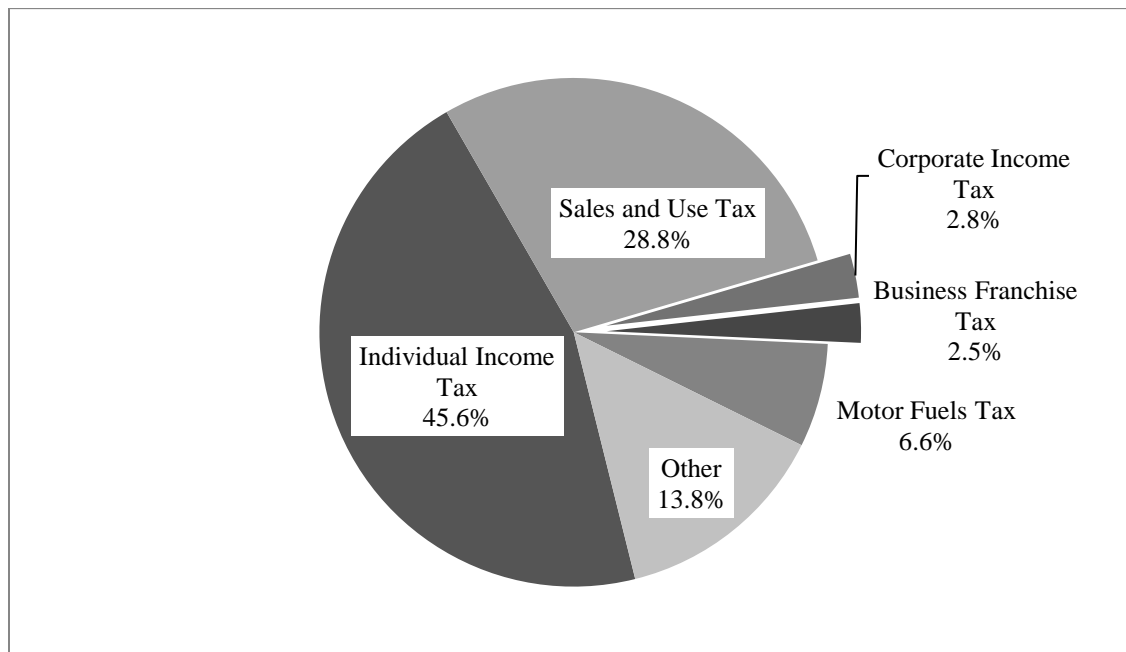
⁵ The tax rate applicable to S corporations is the individual income tax rate (5.25% in 2019), not the corporate income tax rate.

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 2019-20 were \$29.5 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 \$1.55 billion (5.25%) of the total.

The combined 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 2019-2020



Note: The “other” category includes motor vehicle licenses (3.0%), the highway use tax (2.8% of total), insurance premiums tax (2.3%), 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. Individual Income Tax, Corporate Income Tax and Franchise Tax amounts were adjusted from the Census amounts to include certain collections in July 2020 that were estimated to be paid as a result of the delay in the required payment and filing deadlines from April 15 through June 30, 2020, as relief related to the pandemic.

C CORPORATIONS

Overall, the net franchise tax liability for the C corporation returns in this report totaled \$705.4 million. (Net tax liability is the amount of tax liability after deducting tax credits.) After excluding filers that were not liable for franchise tax (12,641 returns), the average amount due from the remaining 70,719 returns was \$9,975. Sixty percent of these taxpayers owed \$200 or less; and 99% of taxpayers owed \$162,394 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 46.3% of the 2019 tax year returns, followed by investment in tangible property base (10.3%), and appraised values in property base (3.9%). Approximately 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 2019**

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	32,919	8,116	1,429	784	43,248
\$23,668-\$133,667	-	8,479	1,983	921	11,383
\$133,668-\$1,000,000	-	11,076	2,333	1,006	14,415
\$1,000,001-\$5,000,000	-	5,854	1,230	336	7,420
\$5,000,001-\$20,000,000	-	2,863	797	109	3,769
\$20,000,001-\$40,000,000	-	905	317	44	1,266
\$40,000,001-\$100,000,000	-	685	272	31	988
\$100,000,001+	-	631	211	29	871
Total	32,919	38,609	8,572	3,260	83,360

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 9,841 returns reporting that they were tax-exempt; of these, 8,680 reported no assets. There were 3,247 returns with a final return indicator, of which 2,745 reported no assets. (81 returns had both indicators.)

**SECTION I
FRANCHISE TAX**

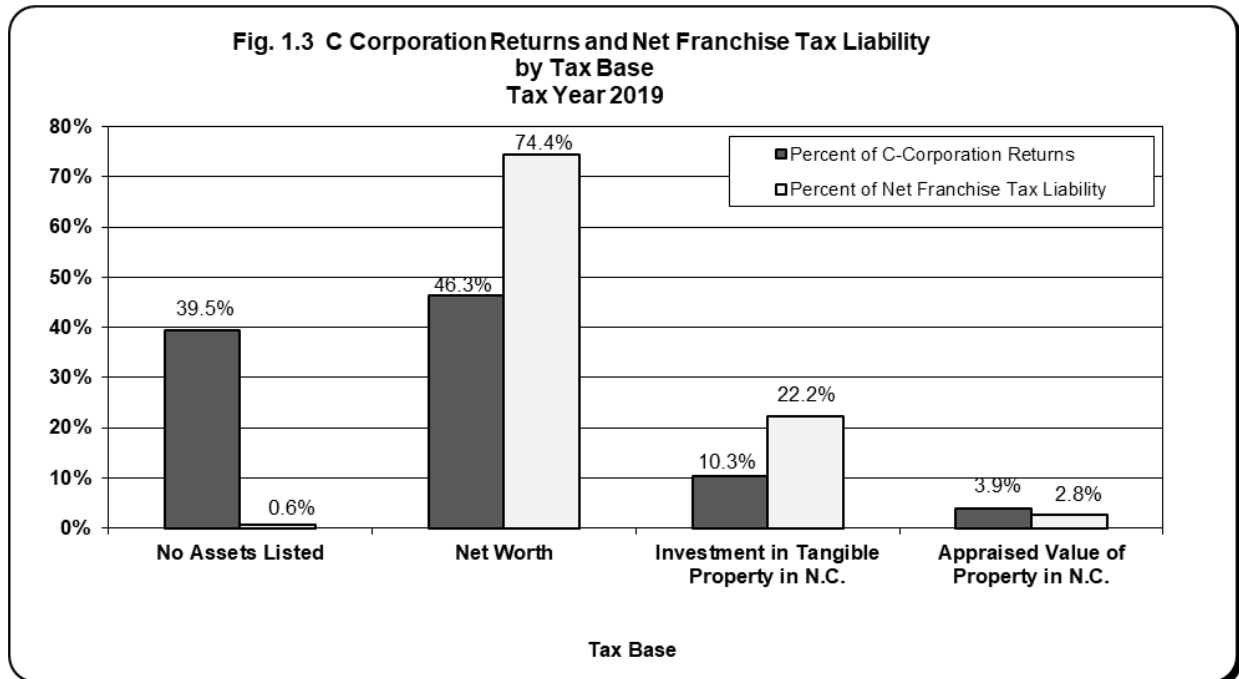
Table 1.2 compares the net franchise tax liability by tax base utilized. The greatest share of tax paid (74.4%) was under the net worth base. Taxpayers using the investment in tangible property base paid 22.2% of the franchise tax, while the appraised value in property base represented only 2.8% of the net tax liability.

**Table 1.2
C Corporation Net Franchise Tax Liability by Tax Base Utilized
Tax Year 2019**

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	4,195,698	1,533,067	272,925	151,665	6,153,355
\$23,668-\$133,667	-	1,593,204	385,226	180,909	2,159,339
\$133,668-\$1,000,000	-	6,665,627	1,347,915	591,181	8,604,723
\$1,000,001-\$5,000,000	-	20,312,086	4,293,761	1,010,997	25,616,844
\$5,000,001-\$20,000,000	-	42,176,480	12,097,701	1,568,158	55,842,339
\$20,000,001-\$40,000,000	-	37,535,151	12,815,585	1,687,251	52,037,987
\$40,000,001-\$100,000,000	-	63,467,536	24,137,951	2,667,105	90,272,592
\$100,000,001+	-	351,768,589	101,350,438	11,586,756	464,705,783
Total	4,195,698	525,051,740	156,701,502	19,444,022	705,392,962

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.



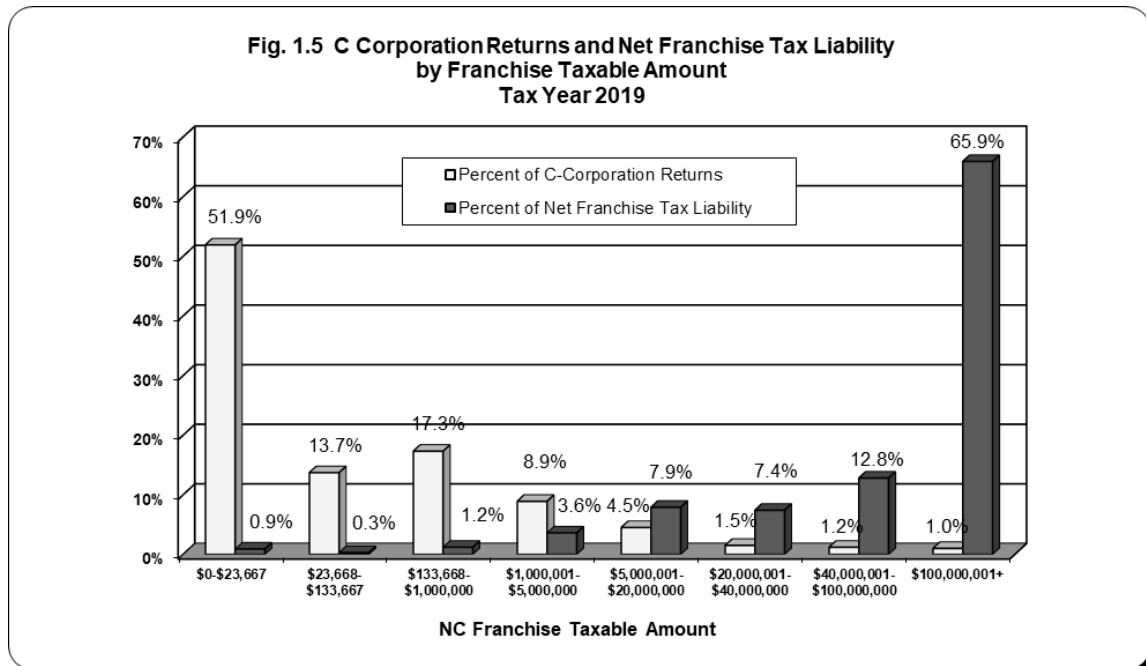
**SECTION I
FRANCHISE TAX**

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 78.7% of net franchise tax.

**Table 1.4
C Corporation Returns and Net Franchise Tax Liability by Franchise Taxable Amount
Tax Year 2019**

Franchise Taxable Amount	Number of Returns		Net Franchise Tax Liability (\$)	
	Number of Returns	Percent	Liability (\$)	Percent
\$0-\$23,667	43,248	51.9%	6,153,355	0.9%
\$23,668-\$133,667	11,383	13.7%	2,159,339	0.3%
\$133,668-\$1,000,000	14,415	17.3%	8,604,723	1.2%
\$1,000,001-\$5,000,000	7,420	8.9%	25,616,844	3.6%
\$5,000,001-\$20,000,000	3,769	4.5%	55,842,339	7.9%
\$20,000,001-\$40,000,000	1,266	1.5%	52,037,987	7.4%
\$40,000,001-\$100,000,000	988	1.2%	90,272,592	12.8%
\$100,000,001+	871	1.0%	464,705,783	65.9%
Total	83,360	100.0%	705,392,962	100.0%

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



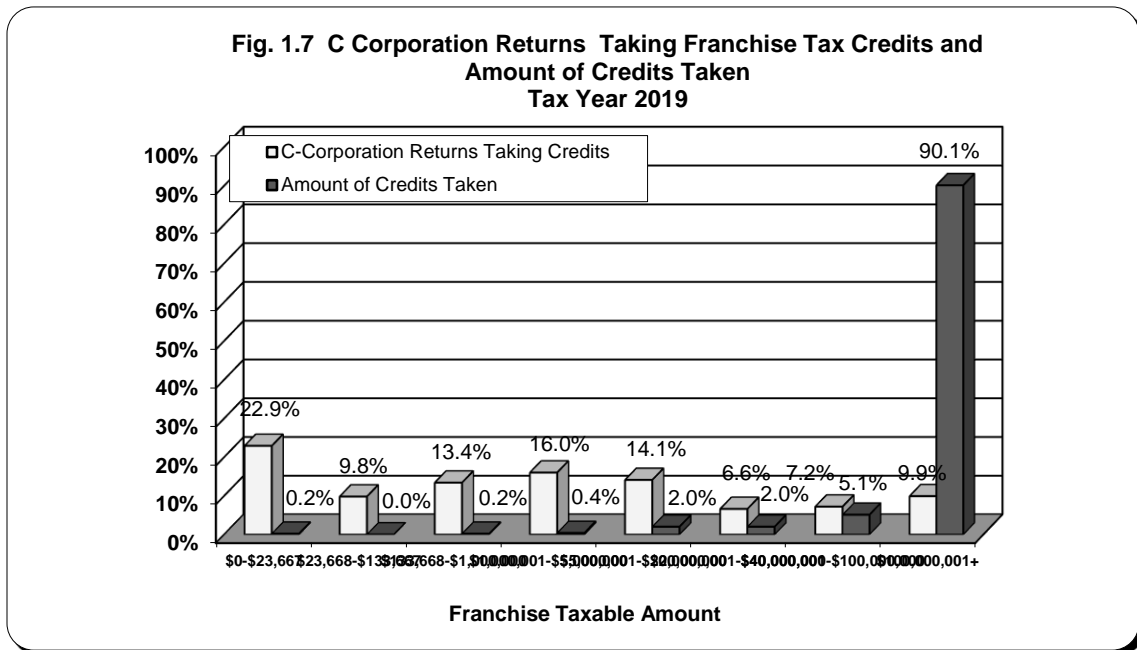
**SECTION I
FRANCHISE TAX**

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 1,049 (1.45%) 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 2019**

Franchise Taxable Amount	Number of Returns		Amount of Credits	
	Taking Credits	Percent	Taken (\$)	Percent
\$0-\$23,667	240	22.9%	146,845	0.2%
\$23,668-\$133,667	103	9.8%	17,262	0.0%
\$133,668-\$1,000,000	141	13.4%	118,507	0.2%
\$1,000,001-\$5,000,000	168	16.0%	263,135	0.4%
\$5,000,001-\$20,000,000	148	14.1%	1,266,145	2.0%
\$20,000,001-\$40,000,000	69	6.6%	1,253,655	2.0%
\$40,000,001-\$100,000,000	76	7.2%	3,231,463	5.1%
\$100,000,001+	104	9.9%	57,350,601	90.1%
Total	1,049	100.0%	63,647,613	100.0%

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



⁸ There were 23 returns with no tax liability but were claiming \$2,161 in refundable 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 8.7% of tax liability for taxpayers whose taxable amount was above \$5 million and 1.3% for those with lower taxable amounts.

**Table 1.8
C Corporation Franchise Tax Credits Taken by Credit Type and Franchise Taxable Amount
Tax Year 2019**

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	423	8,172,491	259	430,530	164	7,741,961	
+ Miscellaneous Credits Taken*	347	1,279,114	322	61,076	25	1,218,038	
+ Credits Subject to 50% Limit Taken	293	54,196,008	79	54,143	214	54,141,865	
= Credits Taken	1,049	63,647,613	652	545,749	397	63,101,864	

* Misc. credits include Renovating an Historic Mill Facility, Rehabilitating an Historic Property, Recycling Facilities, and Additional Annual Report Fee Paid.
All available credits may not have been taken if non-refundable credits exceeded tax liability for a given taxpayer.

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 50.9% of 2019 tax year returns, followed by investment in tangible property base (15.6%), and appraised values in property (9.2%). 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 169,822 S corporations with tax liability before tax credits were applied.⁹

**Table 1.9
S Corporation Returns by Tax Base Utilized
Tax Year 2019**

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	42,758	34,083	6,716	5,345	88,902
\$23,668-\$133,667	-	29,512	9,341	5,564	44,417
\$133,668-\$1,000,000	-	20,753	8,635	4,074	33,462
\$1,000,001-\$5,000,000	-	4,408	2,095	1,010	7,513
\$5,000,001-\$20,000,000	-	827	549	167	1,543
\$20,000,001-\$40,000,000	-	99	82	14	195
\$40,000,001+	-	45	56	11	112
Total	42,758	89,727	27,474	16,185	176,144

**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 (51.7%) was under the net worth base.

**Table 1.10
S Corporation Net Franchise Tax Liability by Tax Base Utilized
Tax Year 2019**

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	7,088,703	6,300,507	1,234,648	972,005	15,595,863
\$23,668-\$133,667	-	5,477,534	1,725,383	1,016,878	8,219,795
\$133,668-\$1,000,000	-	3,920,685	1,592,606	761,759	6,275,050
\$1,000,001-\$5,000,000	-	7,718,158	4,002,900	1,804,186	13,525,244
\$5,000,001-\$20,000,000	-	9,917,469	6,804,203	1,898,954	18,620,626
\$20,000,001-\$40,000,000	-	3,974,962	3,307,990	530,557	7,813,509
\$40,000,001+	-	6,203,139	6,612,782	1,360,949	14,176,870
Total	7,088,703	43,512,454	25,280,512	8,345,288	84,226,957

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

Note: Figures are based partially on unaudited returns.

⁹ In addition, 45 nontaxable returns claimed \$11,096 in refundable short-period tax credits. Taxpayers with no tax liability are those submitting a final return.

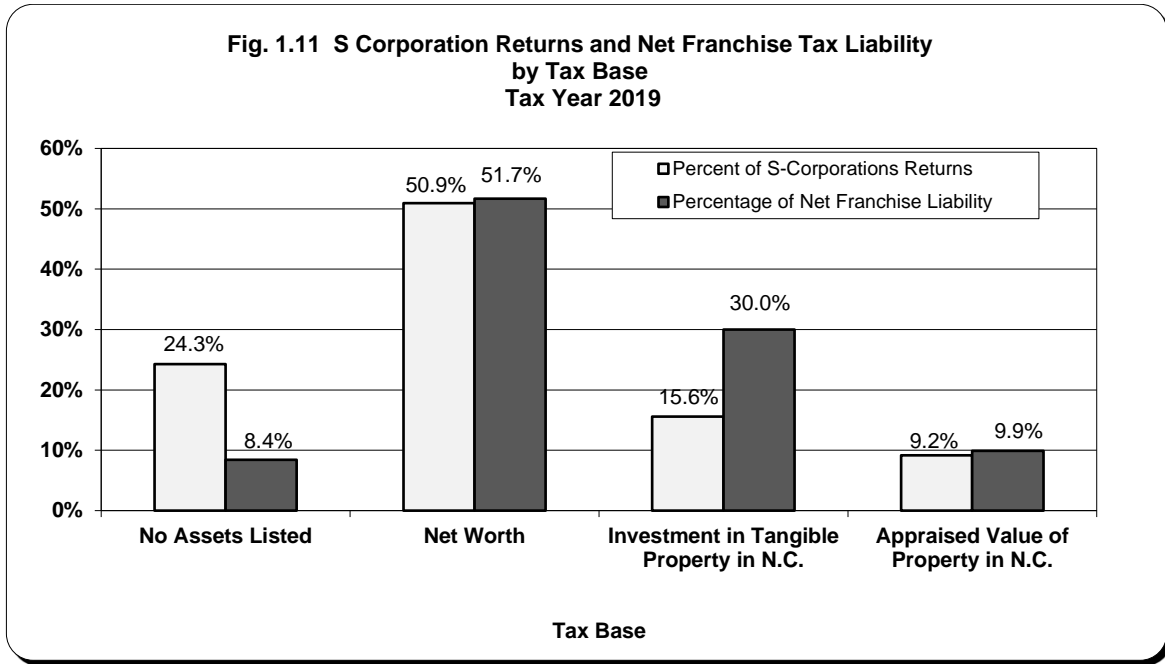


Table 1.12 and Figure 1.13 compare the distribution of S corporation returns and net franchise tax liability. The average tax was \$496 for taxable returns, although 94.5% of taxable returns had a tax liability of \$200 or less. Forty-five taxpayers had a net tax liability above \$100,000.

**Table 1.12
S Corporation Returns and Net Franchise Tax Liability by Franchise Taxable Amount
Tax Year 2019**

Franchise Taxable Amount	Number of Returns		Net Franchise Tax Liability (\$)	
	Number	Percent	Liability	Percent
\$0-\$23,667	88,902	50.5%	15,595,863	18.5%
\$23,668-\$133,667	44,417	25.2%	8,219,795	9.8%
\$133,668-\$1,000,000	33,462	19.0%	6,275,050	7.5%
\$1,000,001-\$5,000,000	7,513	4.3%	13,525,244	16.1%
\$5,000,001-\$20,000,000	1,543	0.9%	18,620,626	22.1%
\$20,000,001-\$40,000,000	195	0.1%	7,813,509	9.3%
\$40,000,001+	112	0.1%	14,176,870	16.8%
Total	176,144	100.0%	84,226,957	100.0%

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

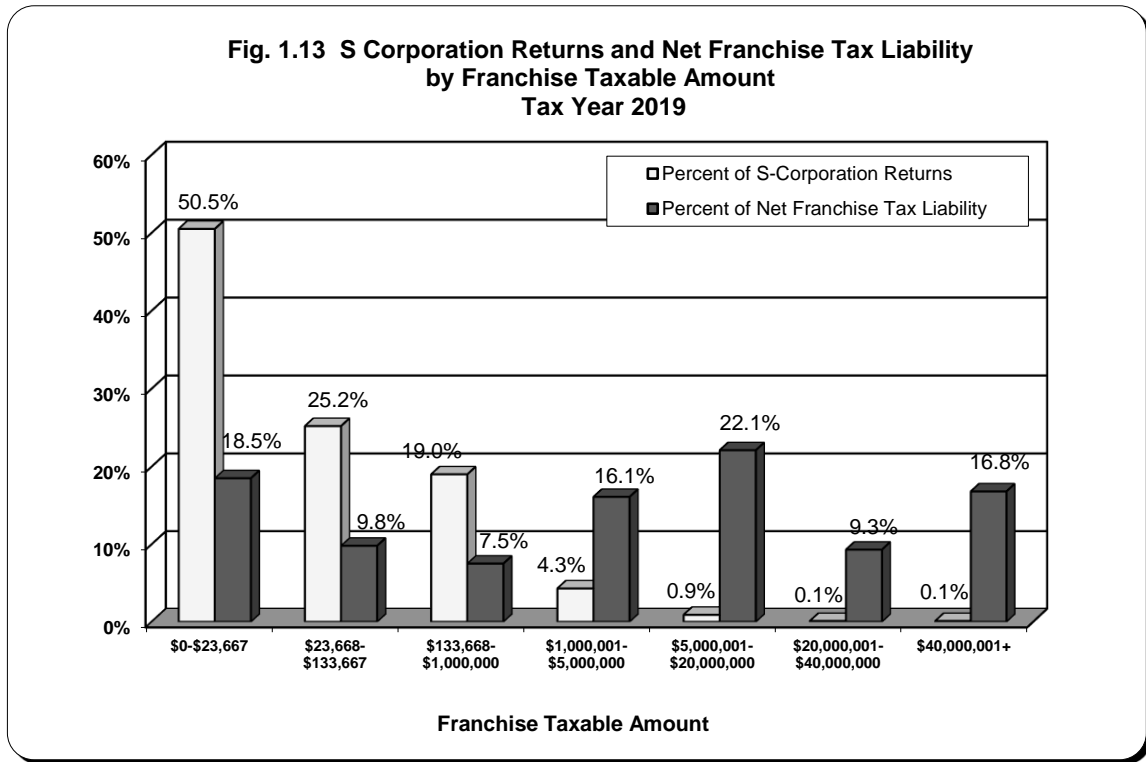


Table 1.14 and Figure 1.15 show the number of returns taking franchise tax credits and amount of credits taken. Returns with a franchise taxable amount greater than \$20 million comprised 0.2% of the returns taking credits and 29.7% of the credits taken.

**Table 1.14
S Corporation Returns Taking Franchise Tax Credits and Amount of Credits Taken
Tax Year 2019**

Franchise Taxable Amount	Number of Returns Taking Credits		Amount of Credits Taken (\$)	
		Percent		Percent
\$0-\$23,667	5,406	46.1%	965,337	31.7%
\$23,668-\$133,667	3,581	30.5%	629,405	20.7%
\$133,668-\$1,000,000	2,322	19.8%	408,553	13.4%
\$1,000,001-\$5,000,000	369	3.1%	96,166	3.2%
\$5,000,001-\$20,000,000	47	0.4%	42,956	1.4%
\$20,000,001+	12	0.2%	904,304	29.7%
Total	11,737	100.0%	3,046,721	100.0%

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

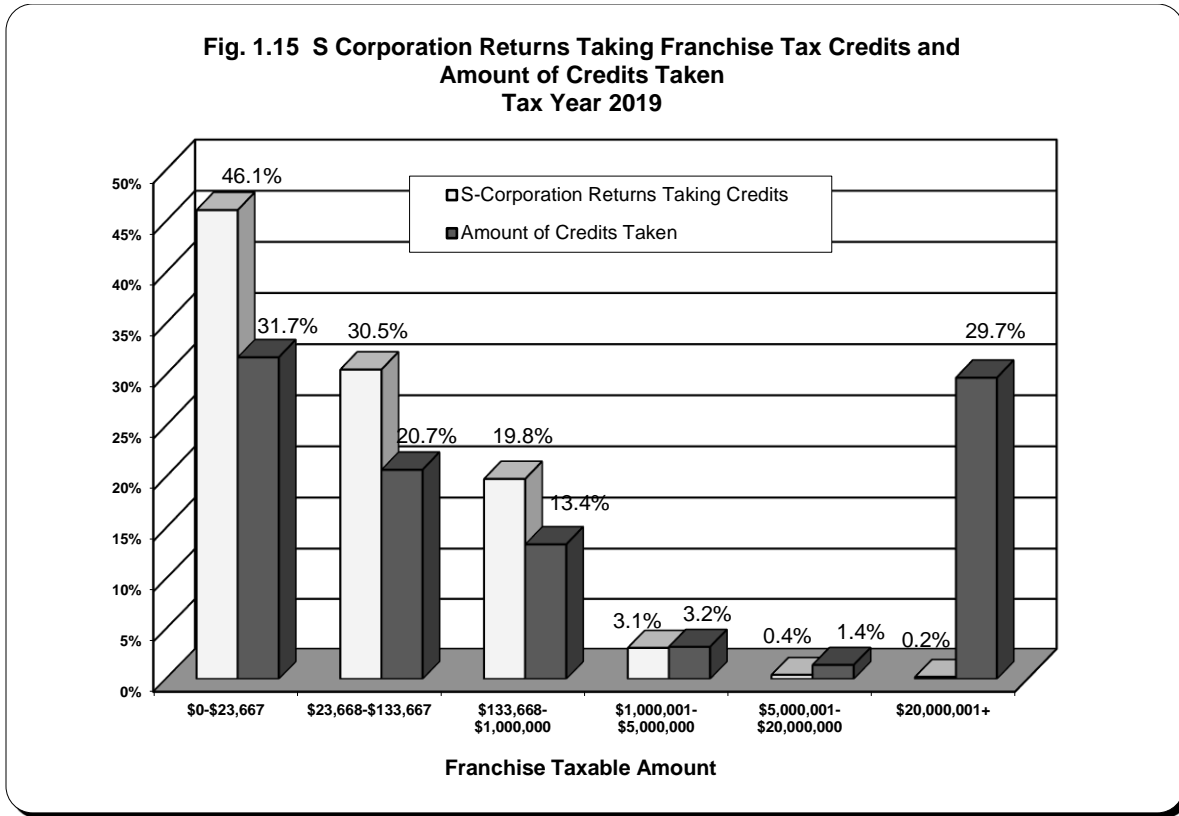


Table 1.16 shows the amount of franchise tax credits by credit type and franchise taxable amount.

**Table 1.16
S Corporation Franchise Tax Credits Taken by Credit Type and Franchise Taxable Amount
Tax Year 2019**

Income Tax Credits	All Returns	
	Number of Credits	Amount Claimed (\$)
Short Period Credit for Change in Income Year	192	60,529
+ Miscellaneous Credits Claimed*	11,586	2,527,633
- Misc. Credits Not Taken **	--	(320,212)
+ Credits Subject to 50% Limit Taken	32	778,771
= Credits Taken	11,737	3,046,721

* 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-nine 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 that reported assets.

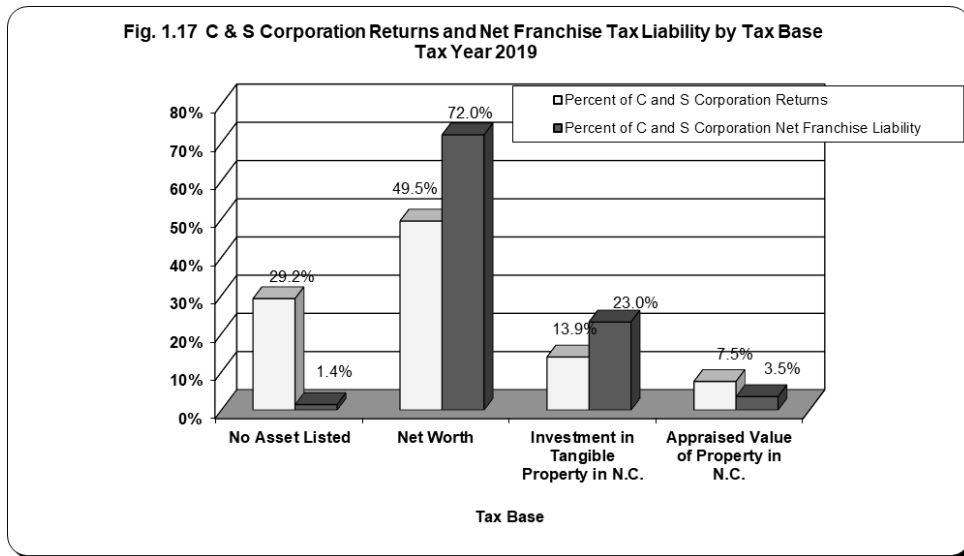


Figure 1.18 shows the number of C and S corporation returns and net franchise tax liability. Taxpayers with franchise taxable amount over \$20 million made up 1.3% of the returns, but incurred 79.7% of net franchise tax liability.

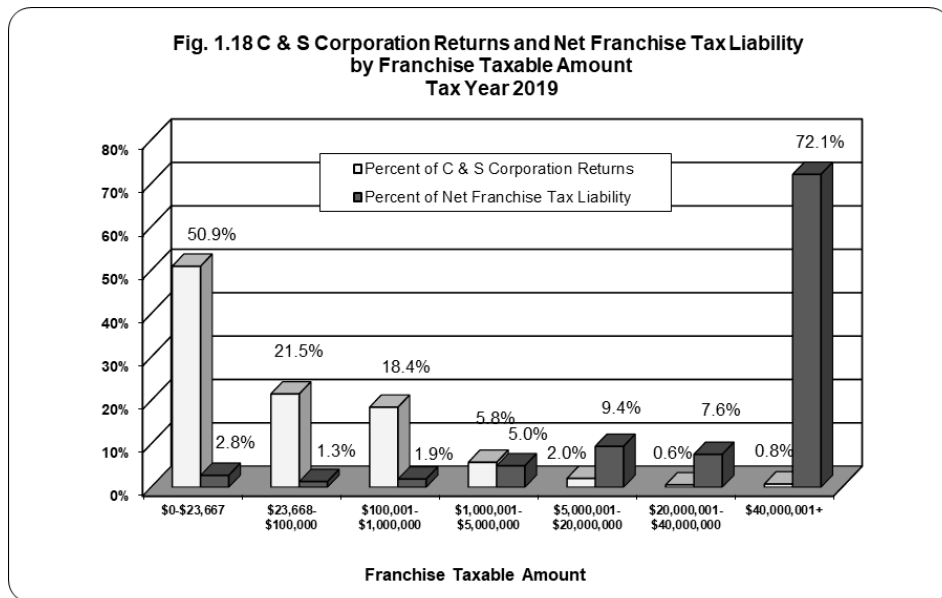
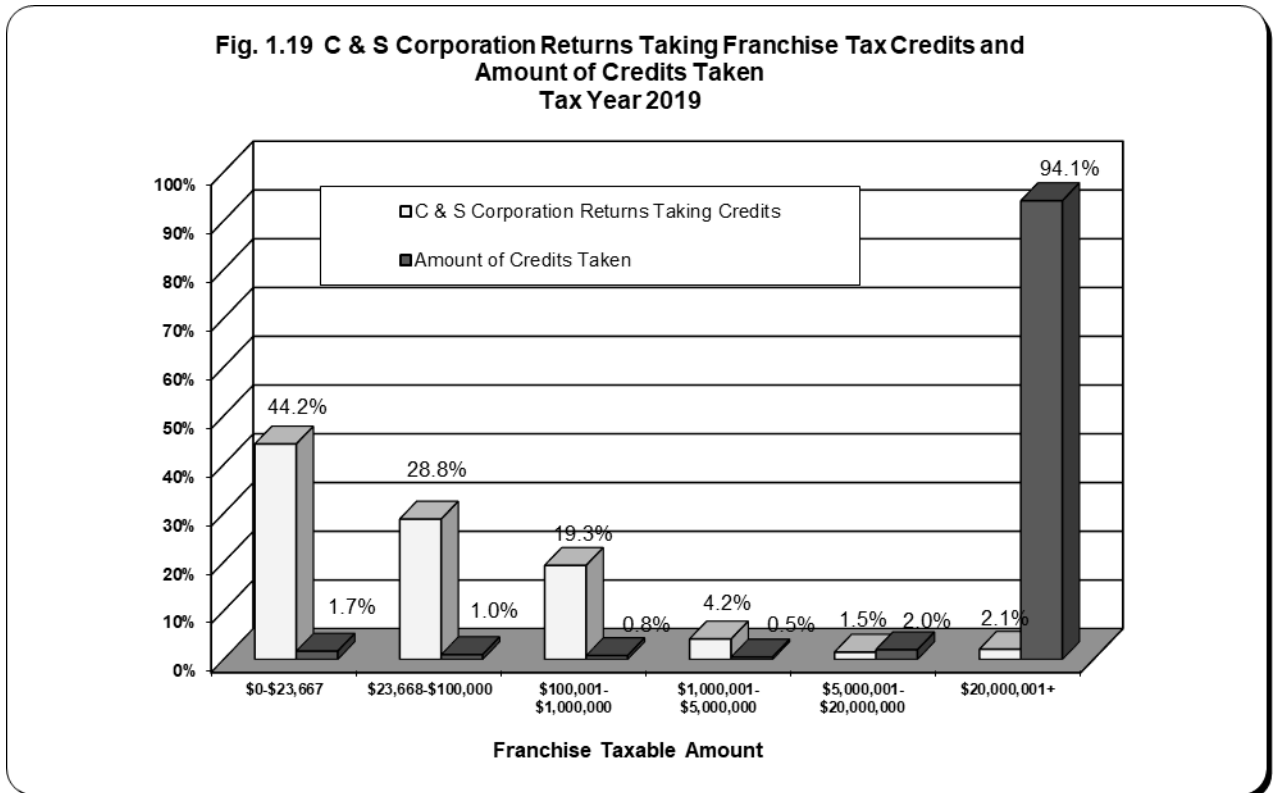


Figure 1.19 shows the distribution of C and S corporation returns that took franchise tax credits and the amount of credits taken. Only 12,718 of the 240,541 taxable corporations took credits in tax year 2019.¹⁰ Corporations with over \$20 million as their franchise tax base took over 94% of all credits.



¹⁰ The 240,542 taxable corporations include 38 C corporations and 1,157 S corporations that had zero net franchise tax because their tax credits exactly offset their tax liability. In addition, there were 68 nontaxable returns claiming the short-period tax credit.

C CORPORATIONS

Of the 83,360 tax returns that were filed for tax year 2019, only 28,963 (34.7%) of them had a net tax liability (i.e., a positive tax liability after credits were applied).

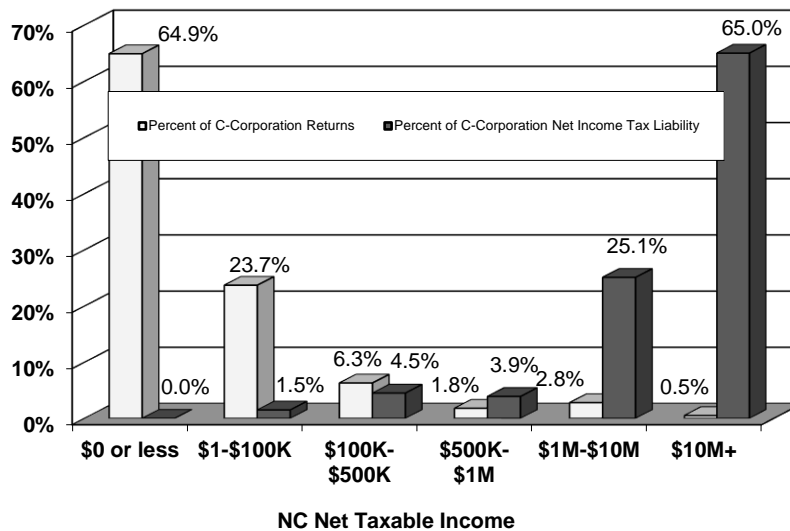
Table 2.1 and Figure 2.2 show the distribution of C corporation returns and net income tax liability by North Carolina net taxable income (as calculated on Line 25 of Form CD-405).

**Table 2.1
C Corporation Returns and Net Income Tax Liability by NC Net Taxable Income
Tax Year 2019**

NC Net Taxable Income	Number of Returns	Percent	Cumulative Percent	Net Income Tax Liability [\$]	Percent	Cumulative Percent
\$0 or less	54,090	64.9%	64.9%	0	--	--
\$1-\$15,000	11,335	13.6%	78.5%	1,273,275	0.2%	0.2%
\$15,001-\$30,000	3,137	3.8%	82.2%	1,698,854	0.2%	0.4%
\$30,001-\$50,000	2,340	2.8%	85.1%	2,283,577	0.3%	0.8%
\$50,001-\$100,000	2,924	3.5%	88.6%	5,235,369	0.8%	1.5%
\$100,001-\$500,000	5,291	6.3%	94.9%	30,852,691	4.5%	6.1%
\$500,001-\$1,000,000	1,504	1.8%	96.7%	26,520,766	3.9%	9.9%
\$1,000,001-\$10,000,000	2,302	2.8%	99.5%	171,208,569	25.1%	35.0%
\$10,000,001+	437	0.5%	100.0%	443,189,123	65.0%	100.0%
Total	83,360	100.0%	--	682,262,224	100.0%	--

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

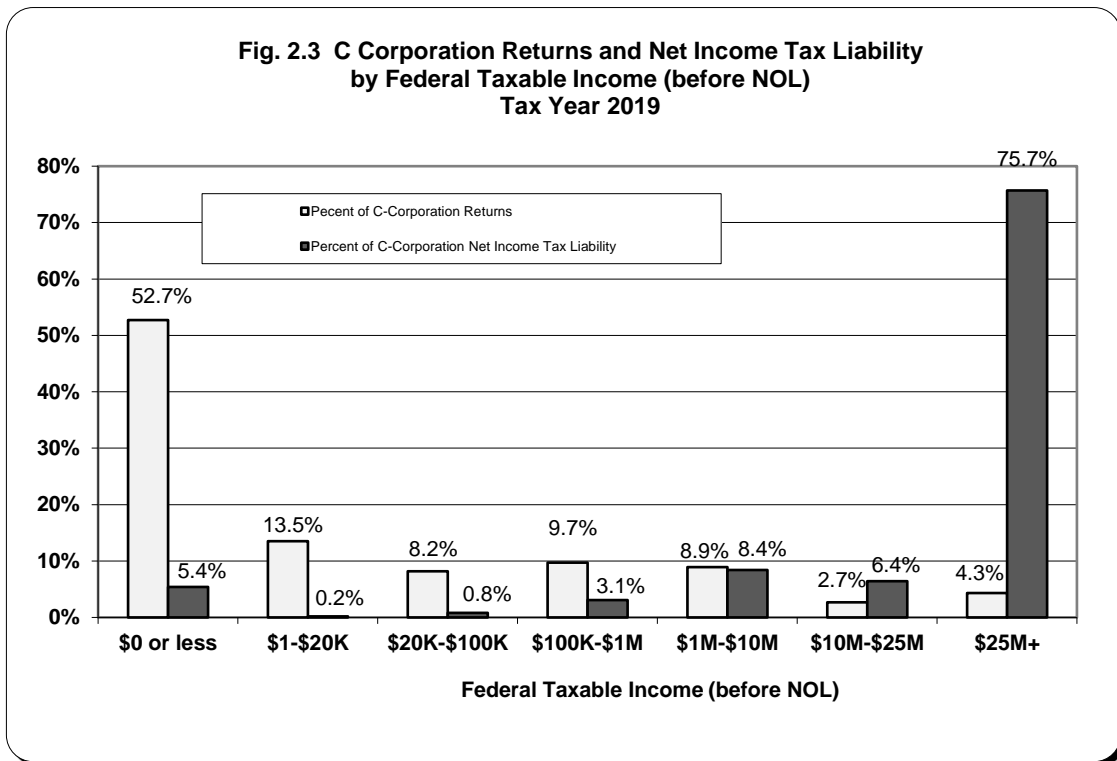
**Fig. 2.2 C Corporation Returns and Net Income Tax Liability
by NC Net Taxable Income
Tax Year 2019**



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 90% of the C corporation income tax liability, but made up 3.3% of the corporations filing returns. Approximately 65% of the total C corporation net income tax liability was attributable to the 437 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 (NOL) 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 sales are in North Carolina.

**Table 2.4
C Corporation Returns by Federal Taxable Income (Before NOL) and
Apportionment Percentage
Tax Year 2019**

Federal Taxable Income (before NOL)	NC Apportionment Percentage					Total
	<5%	5% - 24%	25% - 49%	50% - 99%	100%	
\$0 or less	15,135	2,429	499	677	25,212	43,952
\$1 - \$20,000	817	171	75	131	10,032	11,226
\$20,001 - \$100,000	1,381	340	125	244	4,729	6,819
\$100,001 - \$ 1,000,000	4,031	976	233	458	2,419	8,117
\$1,000,001 - \$10,000,000	5,535	1,119	180	222	362	7,418
\$10,000,001-\$25,000,000	1,895	280	32	38	20	2,265
\$25,000,001+	3,127	362	34	21	19	3,563
Total	31,921	5,677	1,178	1,791	42,793	83,360

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 2019**

Federal Taxable Income (before NOL)	NC Apportionment Percentage					Total
	<5% [\$]	5% - 24% [\$]	25% - 49% [\$]	50% - 99% [\$]	100% [\$]	
\$0 or less	22,854,549	6,565,104	928,352	3,304,482	3,277,103	36,929,590
\$1 - \$20,000	14,493	10,172	57,241	75,286	1,518,589	1,675,781
\$20,001 - \$100,000	99,605	124,948	90,485	282,922	4,806,131	5,404,091
\$100,001 - \$ 1,000,000	900,207	1,239,848	766,384	3,542,364	14,658,643	21,107,446
\$1,000,001 - \$10,000,000	8,786,323	10,075,190	5,231,012	12,908,045	20,220,464	57,221,034
\$10,000,001-\$25,000,000	12,301,713	10,084,905	3,645,698	10,910,314	6,534,134	43,476,764
\$25,000,001+	325,447,706	131,730,044	20,237,438	21,843,476	17,188,854	516,447,518
Total	370,404,596	159,830,211	30,956,610	52,866,889	68,203,918	682,262,224

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 51.3% of the returns filed for tax year 2019. However, these corporations accounted for only 10.0% 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-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.

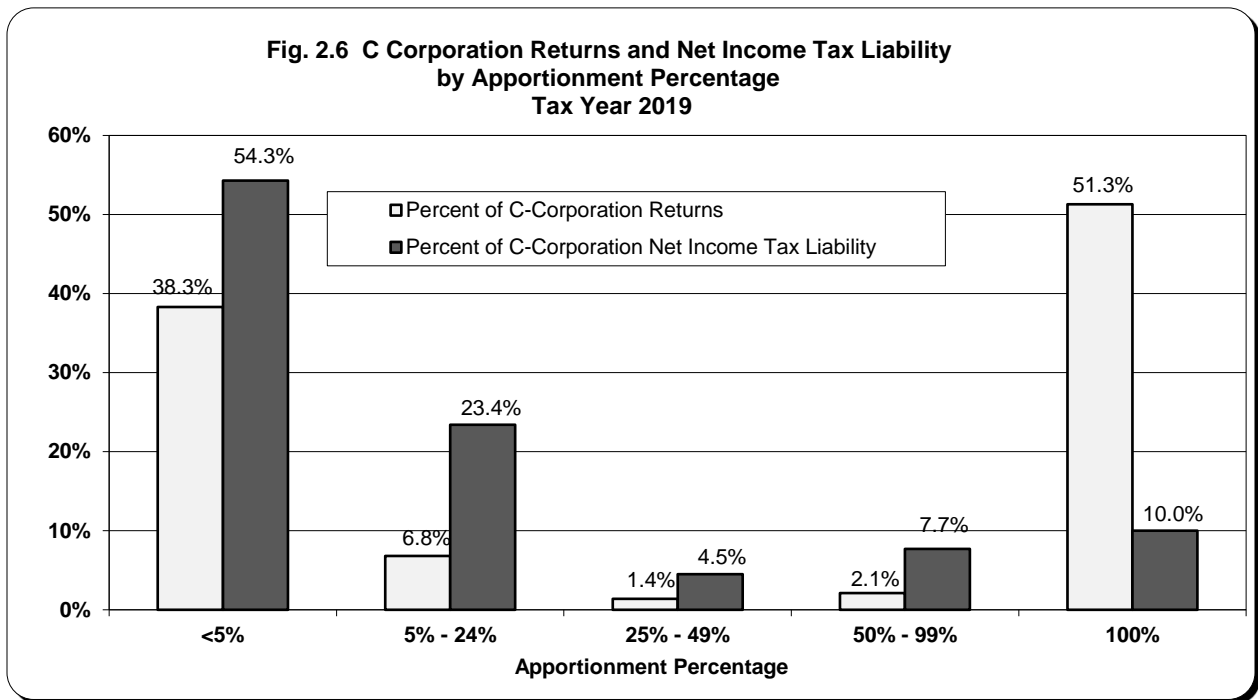


Table 2.7 on the next page shows statistics on the calculation of net tax liability at various steps, starting with federal taxable income. Returns are divided into taxable and nontaxable returns, where taxable returns are defined as those with a positive tax liability before credits are applied. The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

Out of 83,360 returns, 34.7% were taxable returns and 65.3% were nontaxable returns. Taxable returns with a federal taxable income over \$25 million made up 3.2% of the returns but accounted for 75.7% of the tax liability.

Of the 43,952 returns with federal taxable income of zero or less, 2,231 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 39,408 returns that did show a federal taxable income, 12,675 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 \$287.0 billion, there was a reduction of \$26.2 billion due to NC adjustments, a decrease of \$3.0 billion due to nonapportionable income, a reduction of \$252.8 billion due to apportioning income to North Carolina, and a reduction of \$5.4 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 2019**

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	2,231	(32,498,832,195)	82,314,601,557	244,963,086	427,222,519	47,482,082,496	1,661,501,261
\$1-\$20,000	7,325	45,645,301	79,109,938	309,722	1,478,800	52,453,684	70,513,033
\$20,001-\$100,000	4,761	236,039,832	179,002,487	1,505,203	3,713,900	178,104,581	231,718,635
\$100,001-\$1,000,000	5,380	2,041,035,867	785,511,564	12,139,667	86,469,188	1,838,716,479	889,222,097
\$1,000,001-\$10,000,000	5,024	18,993,481,338	6,481,973,492	100,277,336	673,233,796	22,313,179,690	2,388,764,008
\$10,000,001-\$25,000,000	1,611	25,942,797,212	5,655,812,627	112,620,738	487,490,625	29,193,369,248	1,805,129,228
\$25,000,001+	2,632	878,790,931,923	88,639,056,104	6,571,873,428	1,821,011,805	936,332,317,293	22,704,785,501
Total, Taxable	28,964	893,551,099,278	184,135,067,769	7,043,689,180	3,500,620,633	1,037,390,223,471	29,751,633,763
<u>Nontaxable Returns</u>							
\$0 or less	41,721	(434,511,865,547)	121,478,347,593	247,288,172	(357,778,898)	(300,894,675,181)	(12,028,352,047)
More than \$0	12,675	287,036,344,067	(26,205,224,382)	1,003,501,405	3,399,870,382	252,800,727,224	3,627,020,674
Total, Nontaxable	54,396	(147,475,521,480)	95,273,123,211	1,250,789,577	3,042,091,484	(48,093,947,957)	(8,401,331,373)

FTI of Corporation	(+) Nonapportionable Income Allocated to NC [\$]	(-) Percentage Depletion Over Cost Depletion [\$]	(-) State Net Loss [\$]	(-) Contributions to NC Donees [\$]	(=) Net Taxable Income [\$]	Computed Income Tax [\$]	(-) Tax Credits [\$]	(=) Net Tax Liability [\$]
<u>Taxable Returns</u>								
\$0 or less	**	**	203,969,357	5,118,617	1,502,365,049	37,559,174	629,584	36,929,590
\$1-\$20,000	**	**	3,621,599	268,036	67,026,183	1,675,781	-	1,675,781
\$20,001-\$100,000	**	**	16,931,718	1,003,192	216,224,708	**	**	5,404,091
\$100,001-\$1,000,000	**	**	56,261,975	4,479,515	846,637,952	**	**	21,107,446
\$1,000,001-\$10,000,000	**	**	148,749,829	6,587,437	2,303,234,425	57,580,927	359,893	57,221,034
\$10,000,001-\$25,000,000	**	**	69,717,880	3,886,707	1,775,922,483	44,398,095	921,331	43,476,764
\$25,000,001+	**	**	581,480,103	109,780,174	22,049,112,316	551,227,823	34,780,305	516,447,518
Total, Taxable	**	**	1,080,732,461	131,123,678	28,760,523,116	719,013,511	36,751,287	682,262,224
<u>Nontaxable Returns</u>								
\$0 or less	**	**	3,914,810,502	6,345,418	(16,127,717,755)	-	-	-
More than \$0	**	**	5,390,383,969	66,725,981	(2,358,489,128)	-	-	-
Total, Nontaxable	**	**	9,305,194,471	73,071,399	(18,486,206,883)	-	-	-

**Not shown to maintain taxpayer confidentiality due to the low number of taxpayers claiming depletion adjustments and tax credits. Amounts for suppressed tax and credits 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 28,964 returns with positive tax liability before credits did not take any income tax credits. Over eighty-two percent of the 141 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 81.8% of the total credits taken.

**Table 2.8
Number of C Corporation Taxable Returns Taking Credits as a Percentage of Tax Liability
Tax Year 2019**

NC Taxable Income	No Tax Credits	Income Tax Credits as a Percentage of Tax				Total w/ credits
		0.1% -9.9%	10% -19.9%	20% -39.9%	40% +	
\$1-\$100,000	19,406	0	0	**	**	24
\$100,001-\$500,000	5,265	**	**	**	**	26
\$500,001-\$1,000,000	1,492	0	0	**	**	12
\$1,000,001-\$10,000,000	2,258	**	**	**	34	44
\$10,000,001+	402	**	**	**	24	398
Total	28,823	**	**	10	116	141

**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.

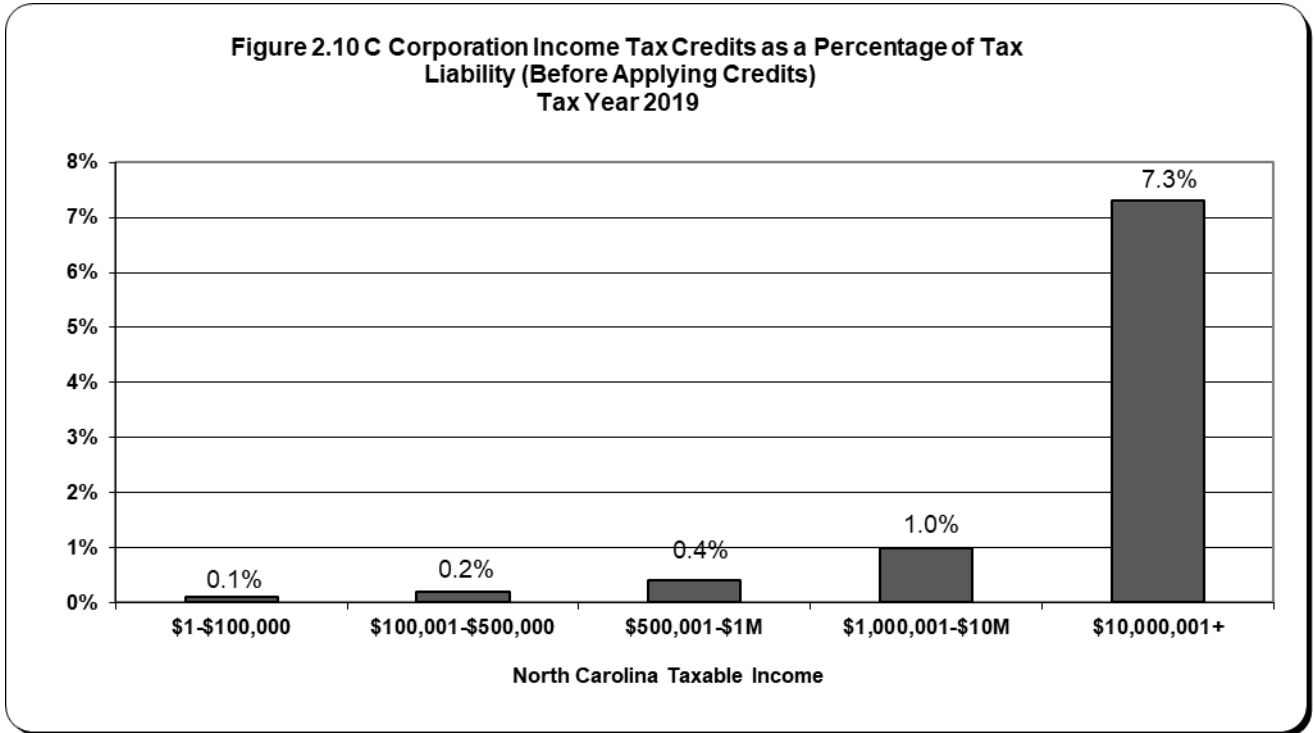
**Table 2.9
Amount of C Corporation Tax Credits Taken as a Percentage of Tax Liability
Tax Year 2019**

NC Taxable Income	Income Tax Credits as a Percentage of Tax				
	0.1% -9.9% [\$]	10% -19.9% [\$]	20% -39.9% [\$]	40% + [\$]	Total [\$]
\$1-\$100,000	0	0	**	**	10,952
\$100,001-\$500,000	**	**	**	**	73,737
\$500,001-\$1,000,000	0	0	**	**	97,774
\$1,000,001-\$10,000,000	**	**	**	1,590,070	1,812,682
\$10,000,001+	**	**	**	28,283,887	34,756,142
Total	**	**	2,723,451	30,048,756	36,751,287

**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, for all taxpayers within that group whether they claimed credits or not. 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 2019**

Income Tax Credits	All Returns	
	Number of Credits*	Amount (\$)
Non-Limited Credits and Carryforwards Tax Credit Subject to 50% of Tax Limit	11	12,287,076
	131	25,385,874
C-Corporation adjustment**	136	(921,663)
Credits Taken	141	36,751,287

*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 61.5% of the tax liability, but only 1.8% of returns.

The total net tax liability of \$116.3 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 2019**

NC Taxable Income*	Number of Returns	Percent	Number With Tax Due for Nonresidents	Net Tax Liability [\$]	Percent
\$0 or less	56,151	31.9%	0	0	0.0%
\$1-\$15,000	31,857	18.1%	4,354	1,818,684	1.6%
\$15,001-30,000	17,669	10.0%	1,256	1,372,216	1.2%
\$30,001-\$50,000	15,602	8.9%	940	1,807,404	1.6%
\$50,001-\$100,000	20,983	11.9%	1,206	4,200,120	3.6%
\$100,001-\$500,000	26,751	15.2%	1,964	21,783,457	18.7%
\$500,001-\$1,000,000	3,876	2.2%	432	13,863,139	11.9%
\$1,000,001-\$10,000,000	3,111	1.8%	394	44,252,368	38.0%
\$10,000,001+	144	0.1%	25	27,247,035	23.4%
Total	176,144	100.0%	10,571	116,344,423	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.

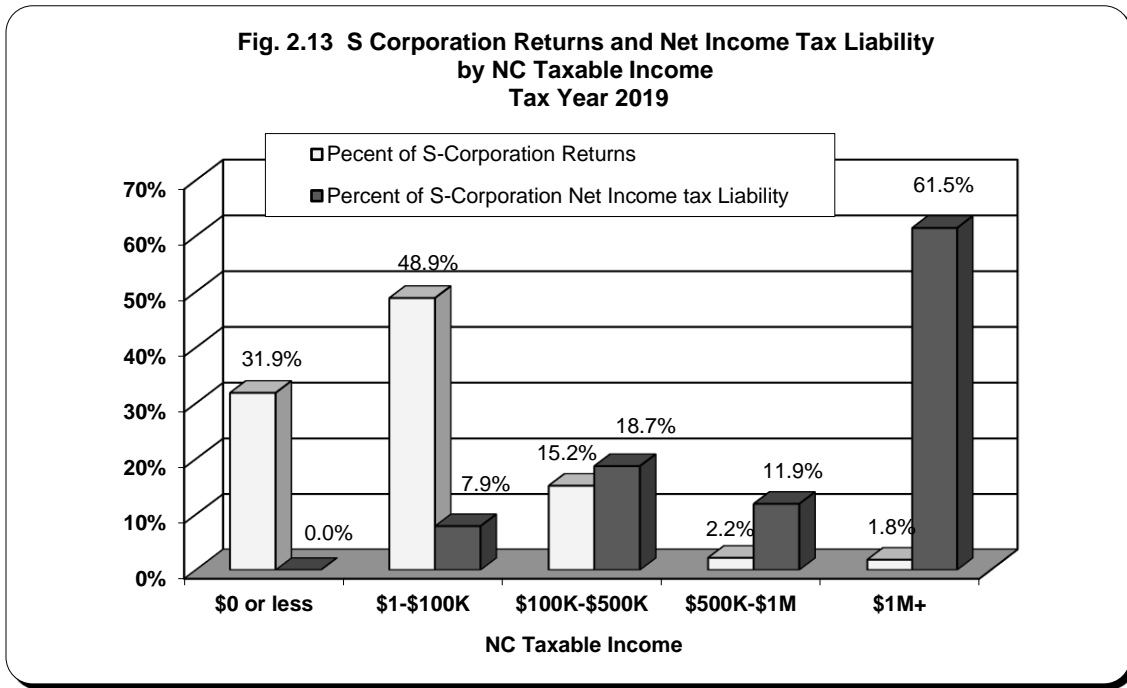
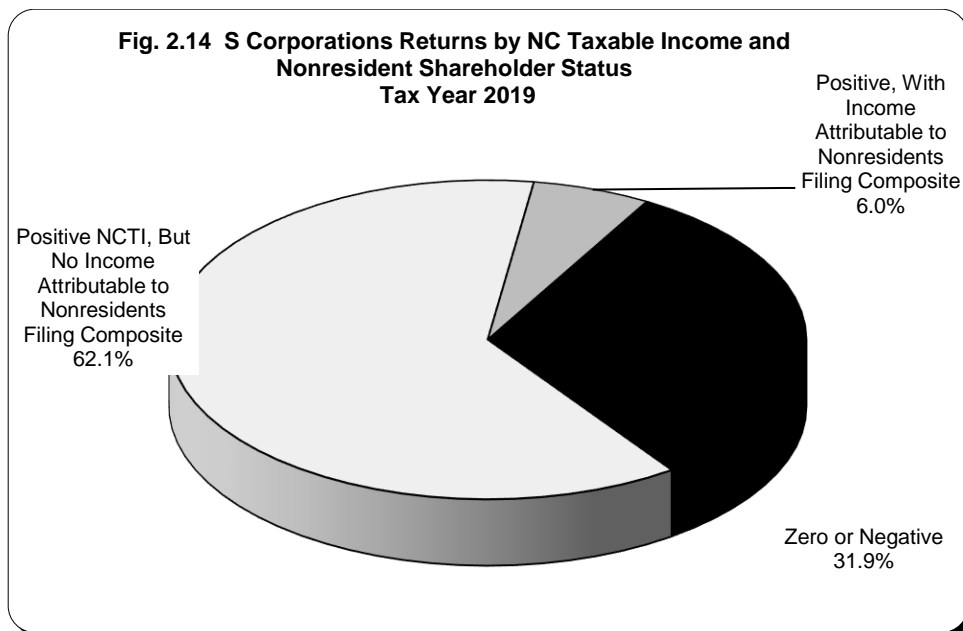


Figure 2.14 illustrates the distribution of returns by North Carolina taxable income and nonresident shareholder filing status. Only 6.0% of S corporation returns had a tax liability attributable to nonresidents who chose to allow the S corporation to file a composite return on their behalf.



**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 2019**

		(+)	(+)	(-)	(-)	(=)	(+)
NC Taxable Income	Number of Returns	Federal Corporation Income [\$]	Adjustments to Federal Income [\$]	Nonapportion- able Income [\$]	Reduction Due To Apportionment [\$]	Income Apportioned to NC [\$]	Nonapportion- able Income Allocated to NC [\$]
Zero or Negative	56,151	11,784,020,020	1,684,097,604	1,696,146,142	13,802,766,878	(2,030,795,396)	(14,863,511)
Positive, But No Income Attributable to Nonresidents Filing Composite	109,408	47,699,725,601	4,103,712,780	1,437,181,384	31,672,181,086	18,694,075,911	183,164,292
Positive, With Income Attributable to Nonresidents Filing Composite	10,585	64,457,738,473	10,002,866,754	2,046,331,114	69,953,813,585	2,460,460,528	47,149,635
Total	176,144	123,941,484,094	15,790,677,138	5,179,658,640	115,428,761,549	19,123,741,043	215,450,416

	(=)	(+)	(=)			(-)	(=)
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	(2,045,658,907)	1,913,890,641	(131,768,266)	**	-	-	-
Positive, But No Income Attributable to Nonresidents Filing Composite	18,877,240,203	(18,877,240,203)	-	1,821,675	95,642	-	95,642
Positive, With Income Attributable to Nonresidents Filing Composite	2,507,610,163	(308,524,864)	2,199,085,299	**	**	**	116,248,781
Total	19,339,191,459	(17,271,874,426)	2,067,317,033	9,680,586	**	**	116,344,423

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

Note: Figures are based partially on unaudited returns.

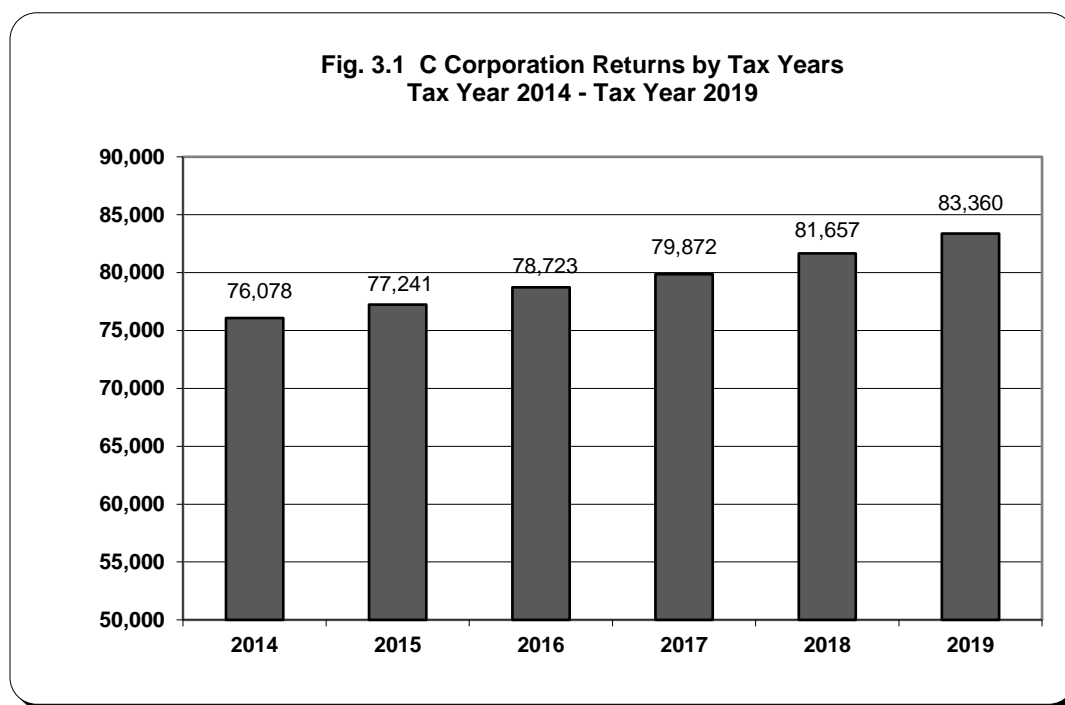
Due to the small number of S corporations claiming income tax credits, no statistics on these can be provided.

C CORPORATIONS

In this section, data on corporate returns are presented for tax years 2014 through 2019. 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 The average increase has been slightly higher in 2018 and 2019 than in the prior 4 years, which may be due to some businesses changing their status to C corporations since the federal tax reform in 2017, which lowered the tax rate on corporations.

The number of first-time filers, as reported on the tax form, was 6,244 in 2019 and 6,036 in 2018. 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.

Figure 3.2 shows the net tax liability for both the franchise tax and the corporation income tax from 2014 through 2019 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%. And the tax rate in 2019 was 2.5%.

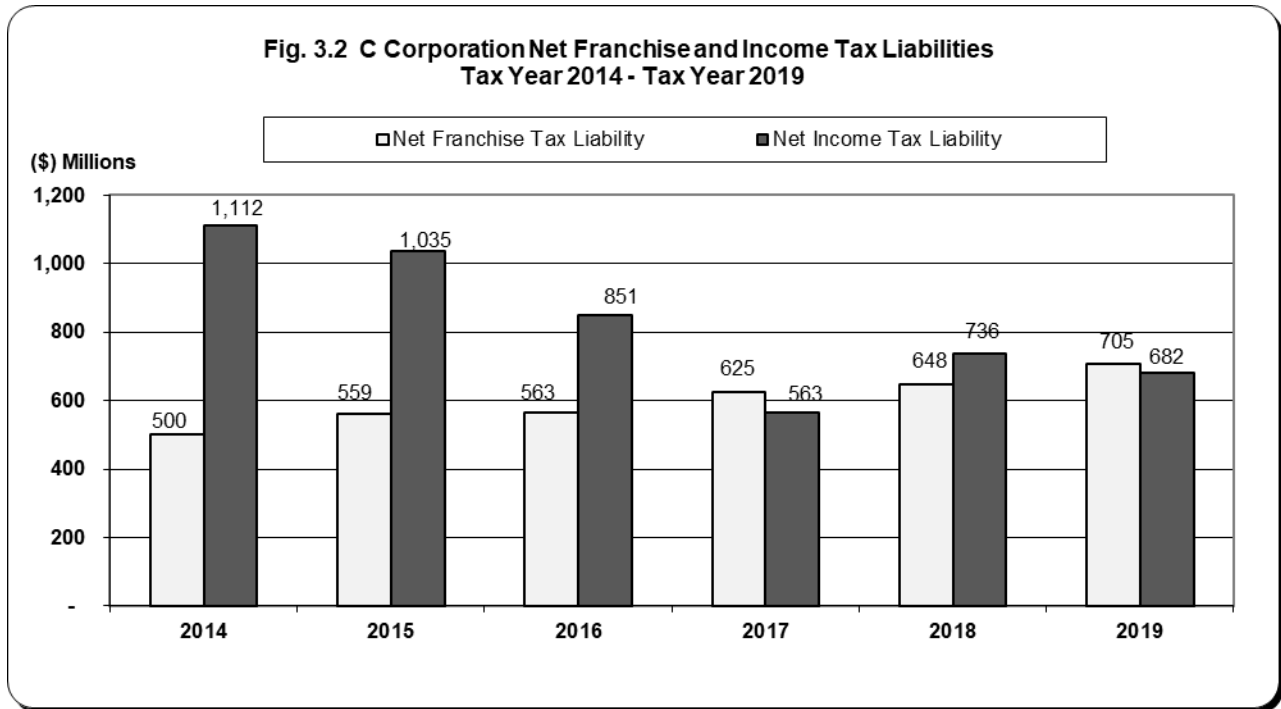


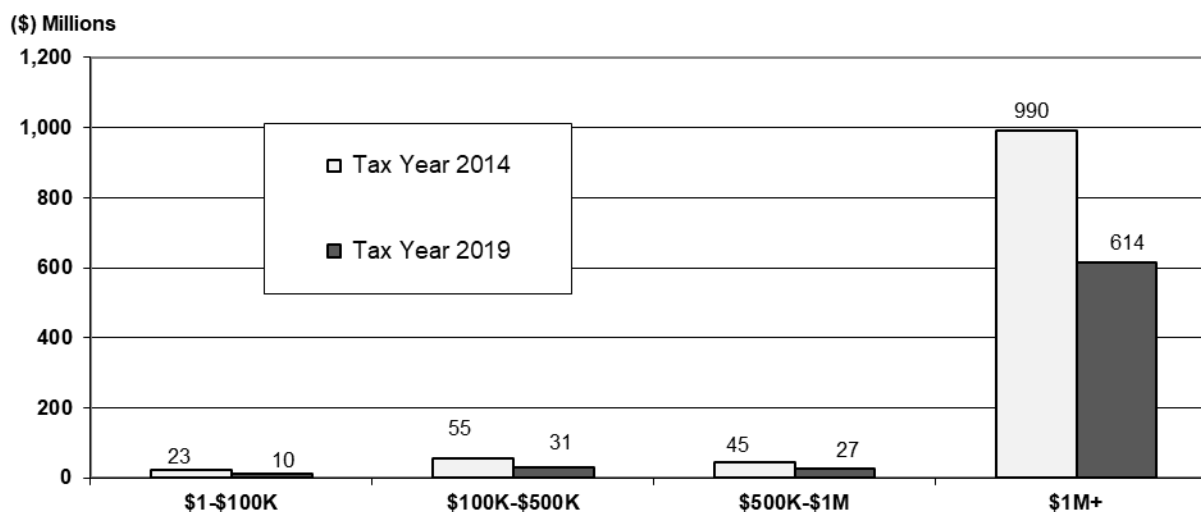
Table 3.3 and Figure 3.4 compare the net income tax liability of C corporations in tax year 2014 and tax year 2019 by NC taxable income brackets. Each taxable income bracket has experienced a decrease in tax liability due to the decline in the tax rate.

**Table 3.3
C Corporation Net Income Tax Liability by NC Taxable Income
Tax Year 2014 & Tax Year 2019**

NC Taxable Income	Net Income Tax Liability TY 2014	Net Income Tax Liability TY 2019	% Difference
\$0 or less	-	-	--
\$1-\$15,000	2,942,680	1,273,275	-56.7%
\$15,001-\$30,000	3,754,005	1,698,854	-54.7%
\$30,001-\$50,000	5,125,867	2,283,577	-55.4%
\$50,001-\$100,000	10,724,800	5,235,369	-51.2%
\$100,001-\$500,000	54,635,200	30,852,691	-43.5%
\$500,001-\$1,000,000	44,779,705	26,520,766	-40.8%
\$1,000,001-\$10,000,000	281,937,129	171,208,569	-39.3%
\$10,000,001+	708,005,916	443,189,123	-37.4%
Total	1,111,905,302	682,262,224	-38.6%

Note: The tax rate in 2014 was 6.0% and the tax rate in 2019 was 2.5%.

**Fig. 3.4 C Corporation Net Income Tax Liability by NC Taxable Income
Tax Year 2014 & Tax Year 2019**



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

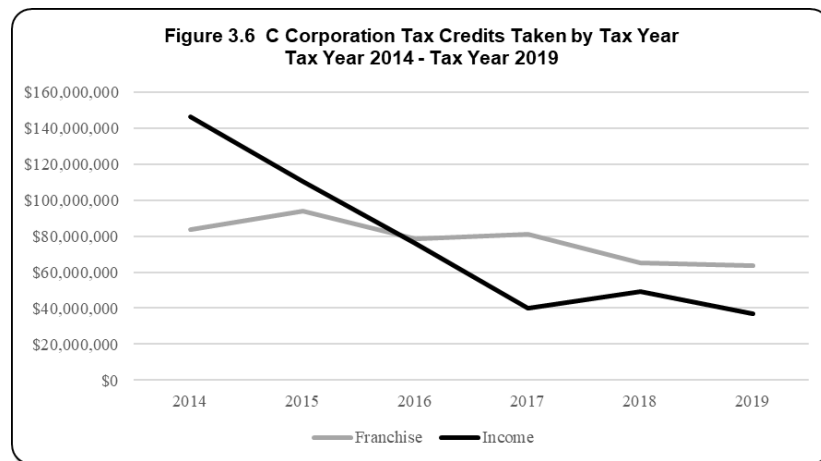
**A taxpayer can claim a credit for expenses occurring before Jan. 1, 2015

***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 2014 through 2019. 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.¹⁴



¹⁴ 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 2014 through 2019. 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. The number of returns increased 16.1% between tax years 2014 and 2019. This is equivalent to an annualized rate of growth of 3.0%.

In Tax Year 2019, there were 11,338 taxpayers that indicated that they were first-time filers. In the prior year, there had been 11,139.

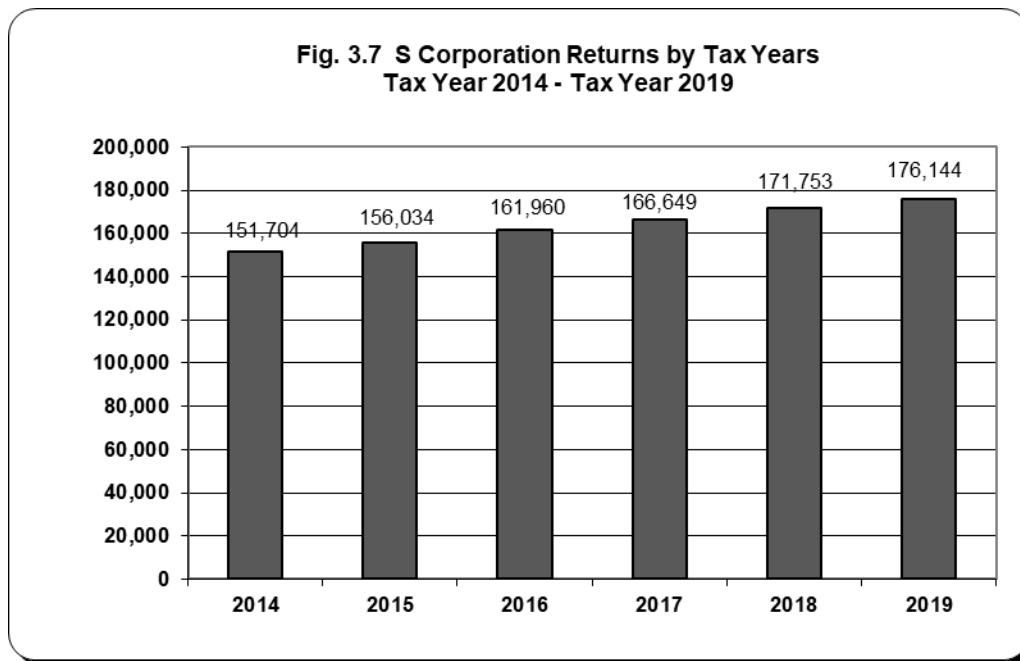


Figure 3.8 on the next page illustrates the relative amounts of net tax liabilities for 2014 through 2019 for S corporations. As discussed in Section II, the income tax liability for S corporations only includes taxes paid for nonresident shareholders filing a composite return. Therefore, comparisons 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 2019, the tax rate was 5.25%.

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.

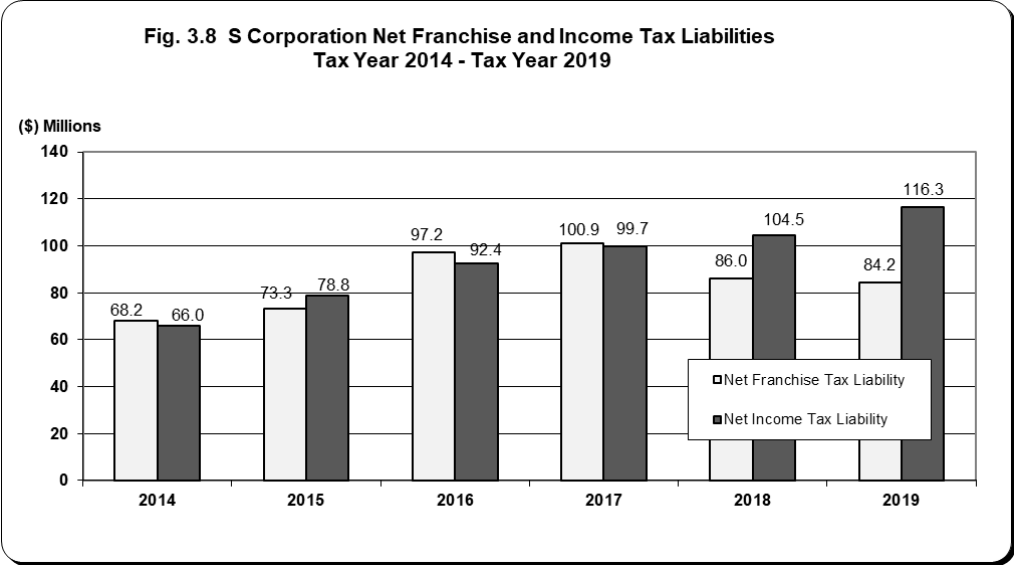
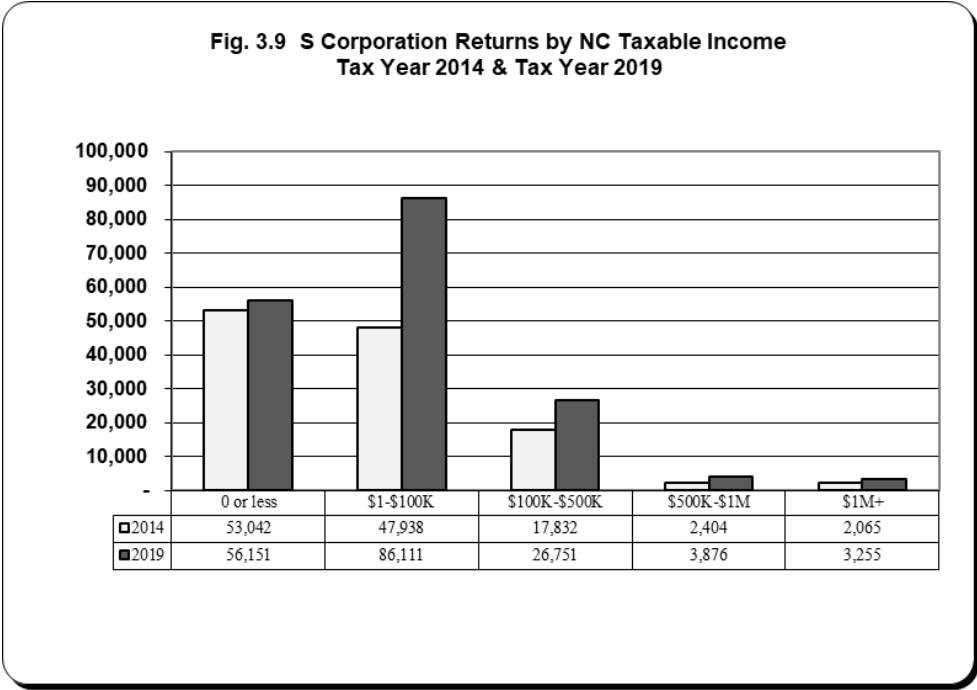


Figure 3.9 compares the number of S corporation returns in tax years 2014 and 2019 by NC taxable income brackets. The total number of returns has grown in each bracket, with the smallest increase for those with zero or negative taxable income. The percentage growth has been greatest in the \$1 to \$100,000 taxable income bracket. There has been a small shift by larger businesses to C corporation status in 2018 and 2019.



**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 78.1% of full-year returns and 72.9% of all returns. Their net franchise tax liability was 73.3% of the total, and their net income tax liability made up 71.1% of the total.

**Table 4.1
C Corporation Statistics by Fiscal Year Start Month
Tax Year 2019**

Tax Year Start Month	All Returns	Franchise Tax		Income Tax	
	Number of returns	Number	Amount (\$)	Number	Amount (\$)
January	60,790	50,294	517,178,204	20,539	485,219,550
February	1,088	1,042	31,212,543	418	33,731,423
March	595	564	2,821,731	245	2,215,927
April	3,128	3,005	25,486,826	1,333	32,291,287
May	874	816	6,881,204	383	8,847,143
June	876	789	7,026,993	363	12,430,839
July	3,993	3,348	24,672,228	1,484	22,936,473
August	835	763	8,685,259	365	16,658,679
September	798	750	5,297,053	324	5,441,456
October	3,098	2,861	28,922,882	1,273	27,996,390
November	1,099	1,047	8,785,658	446	8,671,170
December	657	623	5,783,228	268	4,479,179
Short-period returns	5,529	4,802	32,639,153	1,522	21,342,708
Total	83,360	70,704	705,392,962	28,963	682,262,224

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 94.0% of the 176,144 returns and 98.8% of the 167,568 full-year returns. They represented 91.2% of net franchise tax liabilities and 91.1% of the net corporation income tax liabilities. There were 8,576 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 26.2% of the total amount. Other sectors with relatively high shares of tax liability include finance and insurance; information; retail; professional, scientific, and technical services; real estate, rental & leasing; and wholesale.

**Table 5.1
C Corporation Franchise Tax and Income Tax Liability by Industry Sector
Tax Year 2019**

Industry Sector	All Returns	Franchise Tax		Income Tax	
	Number of returns	Number	Amount (\$)	Number	Amount (\$)
Agriculture, Forestry, Fishing and Hunting	1,084	1,045	4,124,527	368	2,476,363
Mining	160	154	3,360,723	55	1,819,466
Utilities	227	205	42,865,146	58	3,829,802
Construction	6,076	5,872	14,474,195	2,584	24,169,985
Manufacturing	8,173	7,933	196,850,536	3,379	166,424,423
Wholesale	5,920	5,722	45,647,290	2,790	44,083,302
Retail	5,459	5,239	49,125,073	2,177	62,895,664
Transportation	2,198	2,126	10,107,572	896	14,606,809
Couriers and Warehousing	199	192	2,846,862	85	1,528,418
Information	2,709	2,582	61,725,591	804	55,682,355
Finance and Insurance	7,645	6,911	118,990,601	2,637	156,969,670
Real Estate and Rental & Leasing	11,491	6,914	51,088,032	2,759	41,622,506
Professional, Scientific and Technical Services	11,426	10,913	47,584,488	3,838	56,595,926
Management of Companies / see note	2,487	2,380	26,360,818	789	13,231,533
Administration & Support and Waste Management & Remediation Services	3,325	2,688	7,566,142	1,200	11,263,142
Educational Services	464	416	778,087	146	935,290
Health Care and Social Assistance	2,715	2,530	8,930,601	937	10,442,024
Arts, Entertainment and Recreation	902	771	2,253,460	331	1,222,364
Accommodations and Food Services	2,208	2,105	6,449,373	996	7,195,331
Other Services	4,830	2,795	3,223,832	1,375	3,774,209
Unidentifiable	3,662	1,211	1,040,013	759	1,493,642
Total	83,360	70,704	705,392,962	28,963	682,262,224

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 Tax Research & Equity Division, mainly for four of the industry sectors: manufacturing; retail; information; and finance and insurance.) In addition, all 58 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 2019**

	Total	Construction	Manufacturing	Wholesale	Retail	Information	Finance & Insurance	Real Estate, Rental & Leasing	Professional Services
Taxable Returns									
Number of returns	28,964	2,584	3,380	2,790	2,177	804	2,637	2,759	3,838
Federal Taxable Income, Before NOL	893,551,099,278	8,579,077,707	241,218,629,333	55,747,837,268	55,522,217,067	98,955,542,591	249,988,625,574	21,831,032,505	74,127,564,427
(+) Adjustments to Federal Income	184,135,067,769	-679,787,026	32,376,149,803	2,882,921,248	30,250,648,530	26,082,671,396	38,984,542,333	21,103,187,393	12,753,644,588
(-) Contributions to Donees Outside NC	7,043,689,180	-41,242,331	2,545,866,296	409,608,299	1,213,119,799	**	1,084,531,003	85,129,671	354,125,975
(-) Nonapportionable Income	3,500,620,633	-13,524,564	210,874,751	693,963,572	3,509,822	**	1,151,035,563	105,675,295	90,722,703
(-) Reduction Due to Apportionment	1,037,390,223,471	6,939,741,942	263,788,104,828	55,705,667,853	81,803,567,401	120,776,248,616	279,343,528,313	40,997,329,138	84,002,855,636
(=) Income Apportioned to NC	29,751,633,763	1,014,315,634	7,049,933,261	1,821,518,792	2,752,668,575	2,375,073,899	7,394,073,028	1,746,085,794	2,433,504,701
(+) Nonapportionable Income Allocated to NC	**	2,925,666	23,492,949	8,225,258	**	**	**	**	1,242,475
(-) Percentage Depletion Over Cost Depletion	**	0	0	0	**	**	**	**	0
(-) State Net Loss	1,080,732,461	45,304,075	189,716,566	55,661,055	160,138,197	38,496,451	225,320,132	98,679,518	138,769,111
(-) Contributions to NC Donees	131,123,678	3,584,924	10,138,309	1,648,382	46,641,554	6,462,671	53,246,943	675,458	1,999,203
(=) Net Taxable Income	28,760,523,116	968,352,301	6,873,571,335	1,772,434,613	2,546,446,645	2,327,501,538	7,256,628,893	1,665,133,893	2,293,978,862
Computed Income Tax	719,013,511	**	171,839,347	**	**	**	181,415,760	**	57,349,511
(-) Tax Credits	36,751,287	**	5,414,924	**	**	**	24,446,090	**	753,585
(=) Net Tax Liability	682,262,224	24,169,985	166,424,423	44,083,302	62,895,664	55,682,355	156,969,670	41,622,506	56,595,926
Non-Taxable Returns									
Number of returns	54,396	3,492	4,793	3,130	3,282	1,905	5,008	8,732	7,588
Federal Taxable Income, Before NOL	-147,475,521,480	508,089,405	-7,070,335,829	-14,554,713,551	-16,437,019,836	-26,586,285,304	6,592,018,820	-2,513,031,472	-28,040,348,141
(+) Adjustments to Federal Income	95,273,123,211	2,417,554,522	27,002,718,096	9,646,774,475	4,268,720,731	7,883,355,699	8,941,142,102	-6,104,514,229	7,775,313,816
(-) Contributions to Donees Outside NC	1,250,789,577	14,683,039	867,222,086	28,990,082	72,602,019	28,995,484	55,143,501	4,918,693	75,959,722
(-) Nonapportionable Income	3,042,091,484	22,524,370	581,453,172	85,916,296	-758,571	491,432,359	1,152,687,804	265,418,297	389,322,251
(-) Reduction Due to Apportionment	-197,954,602,414	2,944,363,503	19,989,469,792	-4,509,644,500	-11,577,824,035	-18,789,575,442	14,612,030,282	-8,373,721,678	-18,912,311,302
(=) Income Apportioned to NC	-8,401,331,373	-55,926,985	-1,505,762,783	-513,200,954	-662,318,518	-433,782,006	-286,700,665	-514,161,013	-1,818,004,996
(+) Nonapportionable Income Allocated to NC	**	**	**	**	**	-26,191,705	**	**	**
(-) Percentage Depletion Over Cost Depletion	**	**	**	**	**	0	**	**	**
(-) State Net Loss	9,305,194,471	751,193,615	2,272,301,497	324,238,357	451,533,514	**	654,094,995	204,463,633	917,459,909
(-) Contributions to NC Donees	73,071,399	45,576	30,490,482	**	47,321	**	**	**	**
(=) Net Taxable Income	-18,486,206,883	-807,241,354	-3,808,822,950	-835,281,045	-1,114,483,319	-2,480,795,735	-1,102,190,616	-720,329,760	-2,736,386,672
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 2019**

Industry Sector	All Returns	Franchise Tax		Income Tax	
	Number of returns	Number	Amount (\$)	Number	Amount (\$)
Agriculture, Mining & Utilities	4,235	4,095	3,349,462	96	1,089,157
Construction	27,315	26,502	10,937,005	1,343	14,377,408
Manufacturing	7,358	7,052	10,003,964	978	20,958,379
Wholesale	6,869	6,561	6,498,250	853	11,679,644
Retail	16,706	15,920	13,020,633	477	7,760,878
Transportation	5,323	5,095	1,899,284	283	4,647,051
Couriers and Warehousing	521	486	242,713	27	470,242
Information	2,536	2,390	1,714,297	269	3,182,533
Finance and Insurance	7,114	6,812	3,093,330	587	3,874,584
Real Estate and Rental & Leasing	19,360	18,469	9,998,187	756	6,151,900
Professional, Scientific and Technical Services	28,852	27,531	7,203,003	2,275	13,923,902
Management of Companies	1,194	1,141	1,225,159	348	3,462,161
Administration & Support and Waste Management & Remediation Services	7,837	7,498	2,175,160	613	6,275,147
Educational Services	1,299	1,233	366,971	70	1,044,947
Health Care and Social Assistance	11,766	11,309	3,328,621	133	825,278
Arts, Entertainment and Recreation	4,255	3,983	2,172,334	450	1,589,511
Accommodations and Food Services	8,963	8,587	3,673,502	175	2,220,758
Other Services	12,967	12,436	2,954,379	219	877,532
Unidentifiable	1,674	1,610	370,703	38	126,732
Total	176,144	168,710	84,226,957	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-nine (29) 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 2019 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) retail; (4) manufacturing; (5) health care and social assistance; and (6) real estate and rental & leasing.

**Table 5.4
S Corporation NC Net Taxable Income by Industry Sector
Tax Year 2019**

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 Tax Research & Equity Division.)

**SECTION V
INDUSTRY SECTORS**

Table 5.5 shows the North Carolina net taxable income of S corporations in tax year 2019 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) retail; (4) manufacturing; (4) retail; (5) real estate and rental & leasing; and (6) health care and social assistance.

**Table 5.5
S Corporation NC Net Taxable Income (Positive Values Only) by Industry Sector
Tax Year 2019**

Industry Sector	Net Taxable Income (Positive Values Only)		
	Number	Amount (\$)	Share of total amount
Agriculture, Forestry, Fishing and Hunting	2,379	422,144,099	2.0%
Mining	81	21,219,901	0.1%
Utilities	99	19,170,395	0.1%
Construction	19,046	3,858,363,321	18.0%
Manufacturing	4,677	1,850,853,602	8.7%
Wholesale	4,747	1,362,591,509	6.4%
Retail	10,841	1,872,115,824	8.8%
Transportation	3,461	496,273,861	2.3%
Couriers and Warehousing	343	64,806,854	0.3%
Information	1,585	319,461,248	1.5%
Finance and Insurance	5,058	1,249,857,243	5.8%
Real Estate and Rental & Leasing	12,609	1,720,224,573	8.0%
Professional, Scientific and Technical Services	20,033	2,880,098,339	13.5%
Management of Companies	705	444,967,150	2.1%
Administration & Support and Waste Management & Remediation Services	5,532	872,461,570	4.1%
Educational Services	842	88,486,967	0.4%
Health Care and Social Assistance	9,061	1,699,122,721	7.9%
Arts, Entertainment and Recreation	2,781	268,380,976	1.3%
Accommodations and Food Services	5,888	1,082,226,202	5.1%
Other Services	9,355	726,558,075	3.4%
Unidentifiable	800	66,290,193	0.3%
Total	119,923	21,385,674,623	

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-nine (29) 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 Tax Research & Equity Division.)