

North Carolina

**Corporation Income and Business
Franchise Taxes**

Statistics and Trends

Tax Year 2021

June 2024



NCDOR

Tax Processing, Research & Equity Division

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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 2021(TY21)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 2023. 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 2021 or for a tax year beginning sometime in 2021. Short-year returns are included if their tax period begins in 2021.

The relevant 2021 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 2016 through tax year 2021; 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 TY21.

| | TY 2021 | |
|--|-----------------|----------------|
| | C corporations | S corporations |
| Number of returns | 89,725 | 184,752 |
| Number of returns with nonzero net franchise tax | 76,009 | 176,409 |
| Amount of net franchise tax | \$822,834,407 | \$95,326,171 |
| Number of returns with nonzero net income tax | 31,581 | 12,199 |
| Amount of net income tax | \$1,040,208,445 | \$247,797,735 |

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 2021 because they are reported on 2021 corporate income tax returns. However, they are technically tax year 2022 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 2021 (2022 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, whose franchise tax liability from the net worth tax base is capped at \$150,000.

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.

Beginning for taxable year on or after Jan. 1, 2021, the addition of affiliated indebtedness for the net worth base includes debt that creates net interest expense but does not create qualified interest expense.

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.

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

Provisions related to recent federal legislation. North Carolina does not require an addback of income for expenses that were related to the forgiveness of a loan related to the Paycheck Protection Program and other pandemic-related assistance.³ North Carolina decoupled from the provision to increase the limit on deductions for business interest income from 30% to 50% of a taxpayer's adjusted taxable income for tax years 2019 and 2020.⁴ For taxable years beginning on or after Jan. 1, 2020, North Carolina allows a deduction from federal taxable income for amounts that were not allowed because a federal employee retention tax credit was claimed.

Deduction for certain pandemic-related or economic incentive grants. North Carolina allows a deduction from federal taxable income for amounts received under the State's Business Recovery Grant Program, the ReTOOLNC grant program and certain rent and utility assistance for taxable years beginning on or after Jan. 1, 2020.⁵ Effective for tax years beginning on or after Jan. 1, 2019, a taxpayer may deduct

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

³ This provision was included in S.L. 2021-180, ratified on Nov. 18, 2021.

⁴ The additions to taxable income under this provision can be deducted in equal annual installments beginning in 2021.

⁵ See G.S. 105-130.5(b)(31a), and S.L. 2021-180, S.L. 2022-6 and S.L. 2023-46 for related legislation.

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.

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. Since 2017, taxpayers may deduct 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.⁶ For taxable years beginning on or after Jan. 1, 2020, sales in the state are derived using **market-based sourcing**. Special rules apply to wholesale content distributors and banks. Alternative apportionment formulas apply to interstate carriers, railroads, air and water transportation companies, pipeline companies and electric power companies.

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%.⁷

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 mill and historic rehabilitation tax credits. 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 NC G.S. 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. As a result, information concerning the income and tax liabilities of S corporations is included in this report.

⁶ 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.

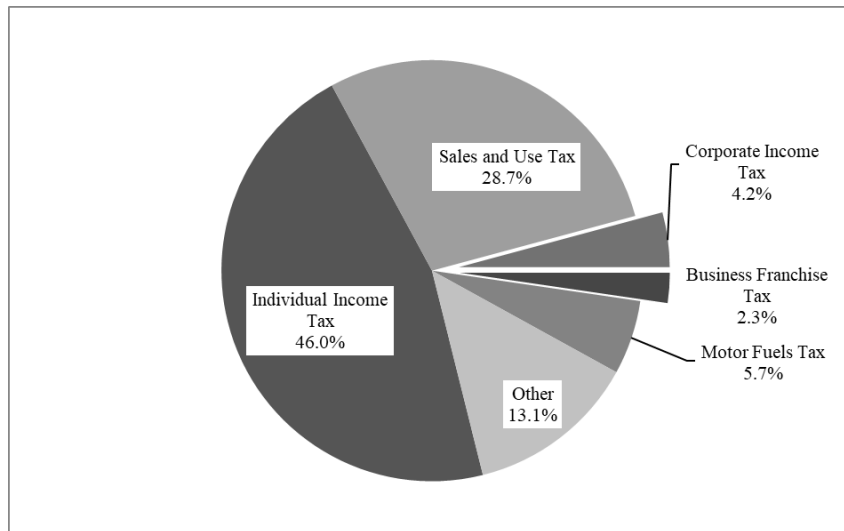
⁷ The corporate income tax rate was 2.5% in Tax Years 2020 and 2019, 3.0% in Tax Years 2017 and 2018, 4.0% in Tax Year 2016, 5.0% in Tax Year 2015, 6.0% in Tax Year 2014, and 6.9% in prior tax years.

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 2021-22 were \$38.45 billion. (Licenses and fees are included in this amount, but unemployment insurance contributions are not.)⁸ Net collections for the corporation income tax and the business franchise tax accounted for \$2.5 billion (6.5%) of the total.

The combined corporation taxes included in this report comprise the third largest category of revenues for the State government, surpassing motor fuels taxes, highway use taxes, motor vehicle licenses, the insurance gross premium tax, alcoholic beverage taxes and tobacco products taxes. Only the individual income tax and the sales & use tax generated more revenue.

Composition of Net State Tax Revenues by Tax Category, Fiscal Year 2021-22



Note: The “other” category includes the highway use tax (2.9% of total), motor vehicle licenses (2.6%), insurance premiums tax (2.6%), alcoholic beverage tax (1.5%), and tobacco products tax (0.8%), among others. Unemployment insurance contributions are not included in this graph.

⁸ Source: U.S. Census Bureau, Annual Survey of State Government Tax Collections. Additional information was prepared by the N.C. Department of Revenue.

C CORPORATIONS

Overall, the net franchise tax liability for the C corporation returns in this report totaled \$822.8 million. (Net tax liability is the amount of tax liability after deducting tax credits.) After excluding filers that were not liable for franchise tax (13,715 returns), the average amount due from the remaining 76,010 returns was \$10,826. Fifty-eight percent of these taxpayers owed \$200 or less; and 99% of taxpayers owed \$183,773 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 48.8% of the 2021 tax year returns, followed by investment in tangible property base (8.4%), and appraised values in property base (2.9%). Approximately forty 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.⁹

**Table 1.1
C Corporation Returns by Tax Base Utilized
Tax Year 2021**

| 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 | 35,846 | 7,851 | 1,211 | 574 | 45,482 |
| \$23,668-\$133,667 | - | 9,536 | 1,501 | 670 | 11,707 |
| \$133,668-\$1,000,000 | - | 12,763 | 1,989 | 807 | 15,559 |
| \$1,000,001-\$5,000,000 | - | 7,108 | 1,174 | 317 | 8,599 |
| \$5,000,001-\$20,000,000 | - | 3,715 | 802 | 106 | 4,623 |
| \$20,000,001-\$40,000,000 | - | 1,126 | 329 | 46 | 1,501 |
| \$40,000,001-\$100,000,000 | - | 911 | 290 | 24 | 1,225 |
| \$100,000,001+ | - | 757 | 236 | 36 | 1,029 |
| Total | 35,846 | 43,767 | 7,532 | 2,580 | 89,725 |

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.

⁹ There were 10,178 returns reporting that they were tax-exempt; of these, 8,949 reported no assets. There were 3,749 returns with a final return indicator, of which 3,516 reported no assets. (82 of these returns had both indicators.)

**SECTION I
FRANCHISE TAX**

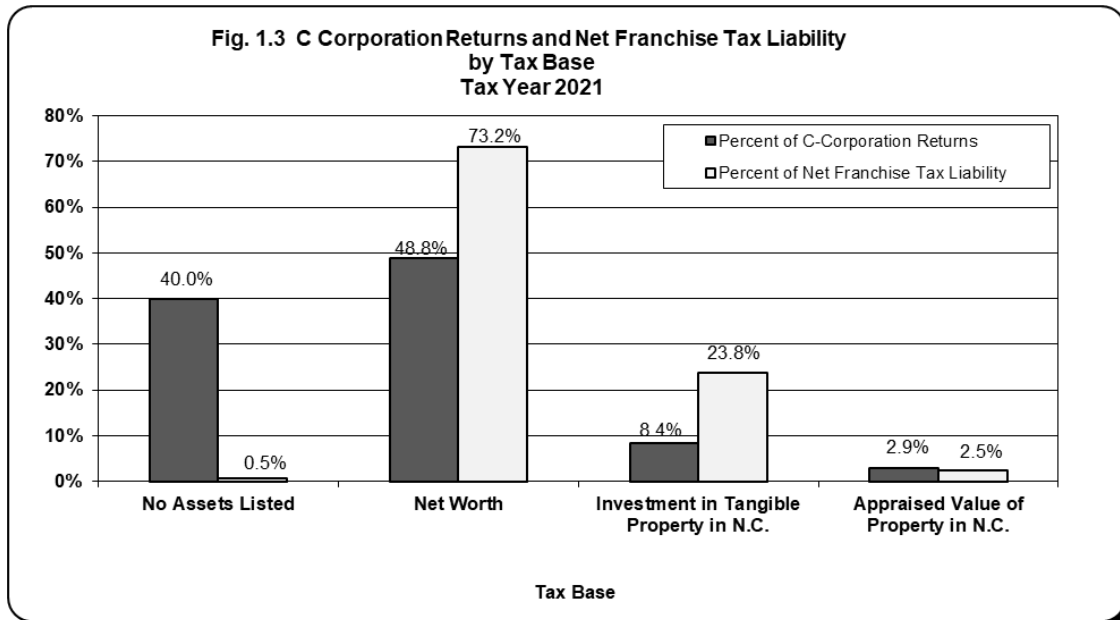
Table 1.2 compares the net franchise tax liability by tax base utilized. The greatest share of tax paid (73.2%) was under the net worth base. Taxpayers using the investment in tangible property base paid 23.8% of the franchise tax, while the appraised value in property base represented only 2.5% of the net tax liability.

**Table 1.2
C Corporation Net Franchise Tax Liability by Tax Base Utilized
Tax Year 2021**

| 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 | 4,506,273 | 1,500,048 | 223,627 | 111,200 | 6,341,148 |
| \$23,668-\$133,667 | - | 1,802,147 | 290,848 | 129,920 | 2,222,915 |
| \$133,668-\$1,000,000 | - | 7,794,452 | 1,194,158 | 483,288 | 9,471,898 |
| \$1,000,001-\$5,000,000 | - | 24,825,202 | 4,117,393 | 994,239 | 29,936,834 |
| \$5,000,001-\$20,000,000 | - | 56,013,347 | 12,516,585 | 1,763,768 | 70,293,700 |
| \$20,000,001-\$40,000,000 | - | 47,167,482 | 13,482,131 | 1,927,644 | 62,577,257 |
| \$40,000,001-\$100,000,000 | - | 84,221,333 | 26,186,114 | 2,265,390 | 112,672,837 |
| \$100,000,001+ | - | 378,649,076 | 137,785,051 | 12,883,691 | 529,317,818 |
| Total | 4,506,273 | 601,973,087 | 195,795,907 | 20,559,140 | 822,834,407 |

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.



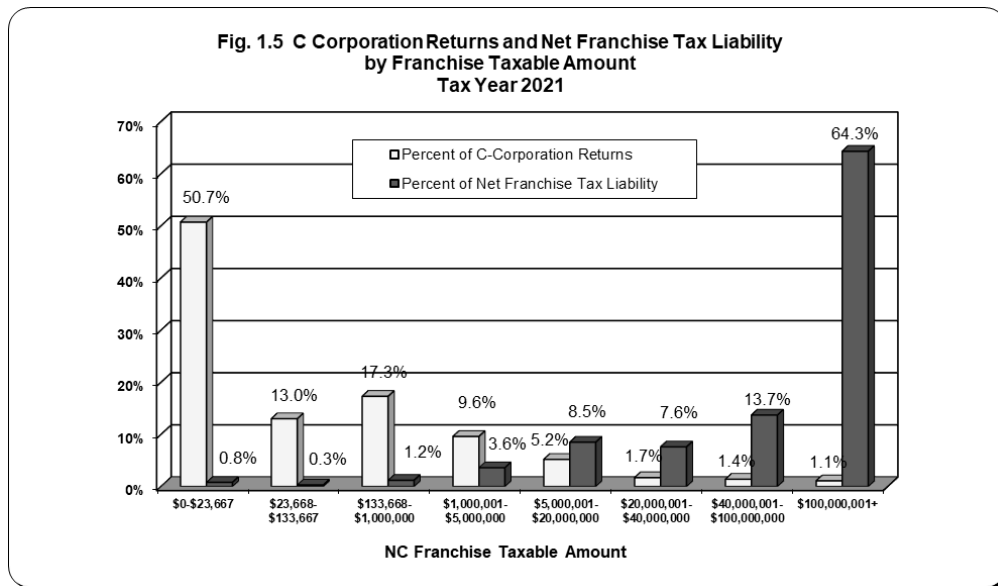
**SECTION I
FRANCHISE TAX**

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 2.5% of the returns and paid 78.0% of net franchise tax.

**Table 1.4
C Corporation Returns and Net Franchise Tax Liability by Franchise Taxable Amount
Tax Year 2021**

| Franchise Taxable Amount | Number of | | Net Franchise Tax | |
|----------------------------|-----------|---------|-------------------|---------|
| | Returns | Percent | Liability (\$) | Percent |
| \$0-\$23,667 | 45,482 | 50.7% | 6,341,148 | 0.8% |
| \$23,668-\$133,667 | 11,707 | 13.0% | 2,222,915 | 0.3% |
| \$133,668-\$1,000,000 | 15,559 | 17.3% | 9,471,898 | 1.2% |
| \$1,000,001-\$5,000,000 | 8,599 | 9.6% | 29,936,834 | 3.6% |
| \$5,000,001-\$20,000,000 | 4,623 | 5.2% | 70,293,700 | 8.5% |
| \$20,000,001-\$40,000,000 | 1,501 | 1.7% | 62,577,257 | 7.6% |
| \$40,000,001-\$100,000,000 | 1,225 | 1.4% | 112,672,837 | 13.7% |
| \$100,000,001+ | 1,029 | 1.1% | 529,317,818 | 64.3% |
| Total | 89,725 | 100.0% | 822,834,407 | 100.0% |

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



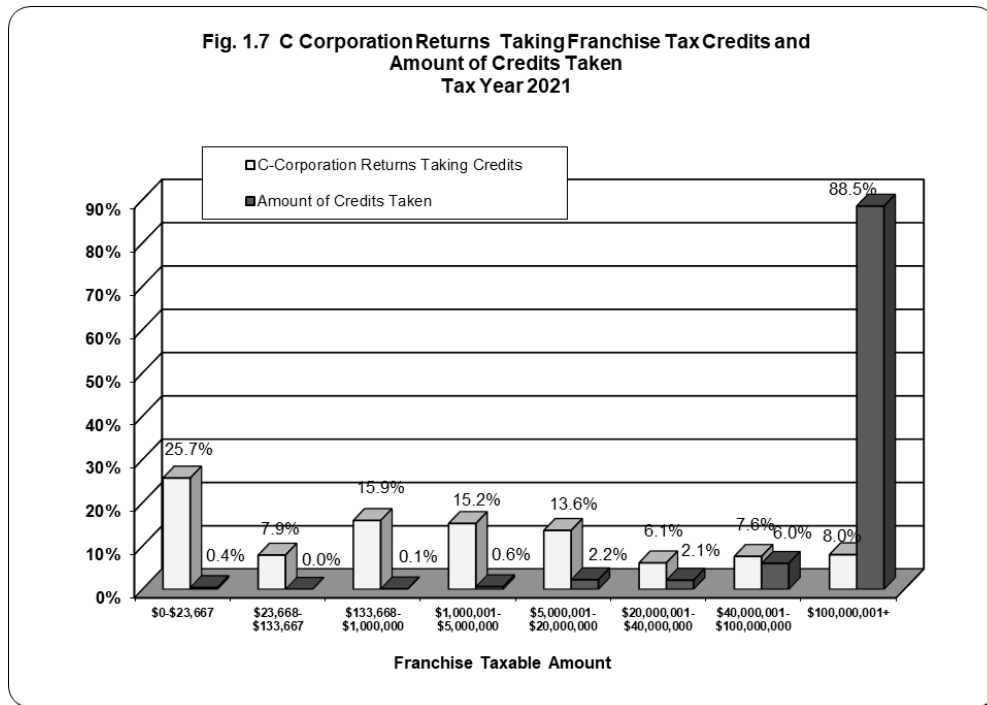
**SECTION I
FRANCHISE TAX**

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 893 (1.2%) of the taxable returns took credits.¹⁰ Returns with franchise taxable amount greater than \$100 million comprised only 8.0% of the returns taking credits, but these taxpayers had 88.5% of the credit amount taken.

**Table 1.6
C Corporation Returns Taking Franchise Tax Credits and Amount of Credits Taken
Tax Year 2021**

| Franchise Taxable Amount | Number of Returns | | Amount of Credits | |
|----------------------------|-------------------|---------------|-------------------|---------------|
| | Taking Credits | Percent | Taken (\$) | Percent |
| \$0-\$23,667 | 237 | 25.7% | 203,052 | 0.4% |
| \$23,668-\$133,667 | 73 | 7.9% | 12,885 | 0.0% |
| \$133,668-\$1,000,000 | 146 | 15.9% | 69,963 | 0.1% |
| \$1,000,001-\$5,000,000 | 140 | 15.2% | 306,456 | 0.6% |
| \$5,000,001-\$20,000,000 | 125 | 13.6% | 1,077,127 | 2.2% |
| \$20,000,001-\$40,000,000 | 56 | 6.1% | 1,001,723 | 2.1% |
| \$40,000,001-\$100,000,000 | 70 | 7.6% | 2,949,816 | 6.0% |
| \$100,000,001+ | 74 | 8.0% | 43,238,429 | 88.5% |
| Total | 921 | 100.0% | 48,859,451 | 100.0% |

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



¹⁰ There were 28 returns with no tax liability but were claiming \$13,665 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 5.9% of tax liability for taxpayers whose taxable amount was above \$5 million and 1.2% for those with lower taxable amounts.

**Table 1.8
C Corporation Franchise Tax Credits Taken by Credit Type and Franchise Taxable Amount
Tax Year 2021**

| 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 | 419 | 5,264,684 | 250 | 494,241 | 169 | 4,770,443 | |
| + Miscellaneous Credits Taken* | 333 | 890,896 | 309 | 64,524 | 24 | 826,372 | |
| + Credits Subject to 50% Limit Taken | 186 | 42,703,871 | 49 | 33,591 | 137 | 42,670,280 | |
| = Credits Taken | 921 | 48,859,451 | 596 | 592,356 | 325 | 48,267,095 | |

* 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 55.7% of 2021 tax year returns, followed by investment in tangible property base (13.2%), and appraised values in property (7.2%). Nearly 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 177,739 S corporations with tax liability before tax credits were applied.¹¹

**Table 1.9
S Corporation Returns by Tax Base Utilized
Tax Year 2021**

| 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 | 44,183 | 32,586 | 5,699 | 3,904 | 86,372 |
| \$23,668-\$133,667 | - | 34,361 | 8,248 | 4,445 | 47,054 |
| \$133,668-\$1,000,000 | - | 28,420 | 7,870 | 3,707 | 39,997 |
| \$1,000,001-\$5,000,000 | - | 6,270 | 1,968 | 976 | 9,214 |
| \$5,000,001-\$20,000,000 | - | 1,138 | 442 | 180 | 1,760 |
| \$20,000,001-\$40,000,000 | - | 146 | 52 | 21 | 219 |
| \$40,000,001+ | - | 66 | 57 | 13 | 136 |
| Total | 44,183 | 102,987 | 24,336 | 13,246 | 184,752 |

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. The amounts in the table include tax returns that had no tax liability before tax credits were applied.

Table 1.10 and Figure 1.11 provide net franchise tax liability by tax base utilized. The greatest share of tax paid (60.8%) was under the net worth base.

**Table 1.10
S Corporation Net Franchise Tax Liability by Tax Base Utilized
Tax Year 2021**

| 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 | 7,179,267 | 5,913,930 | 1,025,740 | 689,967 | 14,808,904 |
| \$23,668-\$133,667 | - | 6,251,144 | 1,486,088 | 786,209 | 8,523,441 |
| \$133,668-\$1,000,000 | - | 5,223,258 | 1,421,502 | 685,649 | 7,330,409 |
| \$1,000,001-\$5,000,000 | - | 11,235,101 | 3,649,860 | 1,755,444 | 16,640,405 |
| \$5,000,001-\$20,000,000 | - | 13,994,277 | 5,568,231 | 2,010,692 | 21,573,200 |
| \$20,000,001-\$40,000,000 | - | 5,872,784 | 2,044,935 | 768,554 | 8,686,273 |
| \$40,000,001+ | - | 9,431,310 | 6,552,738 | 1,779,891 | 17,763,939 |
| Total | 7,179,267 | 57,921,804 | 21,749,094 | 8,476,406 | 95,326,571 |

**Not shown to maintain taxpayer confidentiality. These amounts are included in the totals.
Note: Figures are based partially on unaudited returns.

¹¹ In addition, 52 nontaxable returns claimed \$8,570 in refundable short-period tax credits. Taxpayers with no tax liability are those submitting a final return, for which no tax would be due.

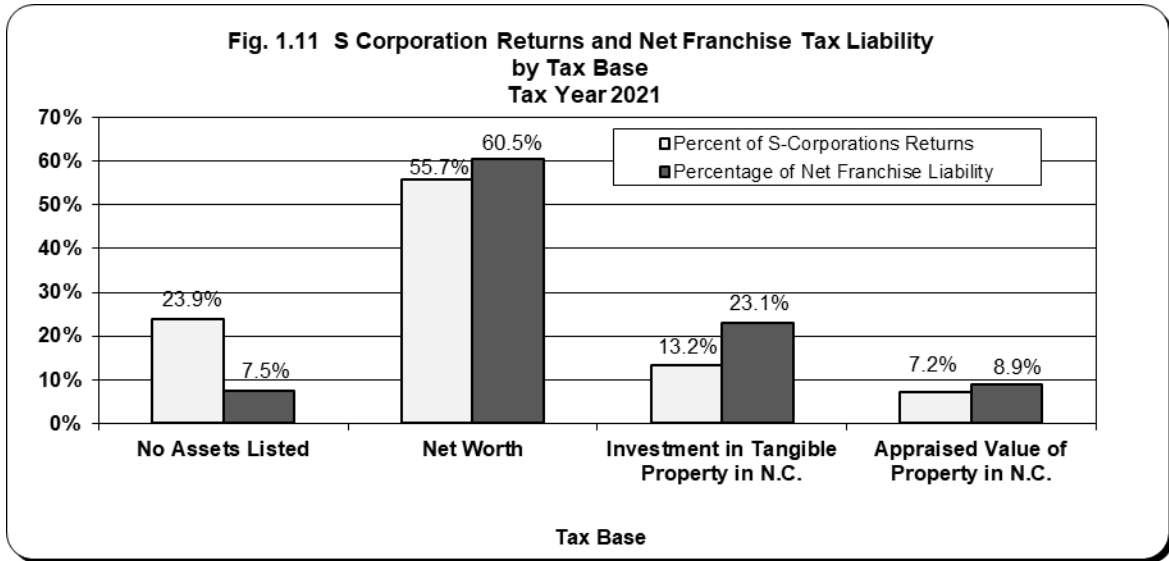


Table 1.12 and Figure 1.13 compare the distribution of S corporation returns and net franchise tax liability. The average tax was \$536 for taxable returns, and 93.7% of taxable returns had a tax liability of \$200 or less. Sixty-one (61) taxpayers had a net tax liability above \$100,000.

**Table 1.12
S Corporation Returns and Net Franchise Tax Liability by Franchise Taxable Amount
Tax Year 2021**

| Franchise Taxable Amount | Number of Returns | | Net Franchise Tax Liability (\$) | |
|---------------------------|-------------------|---------------|----------------------------------|---------------|
| | Number | Percent | Liability (\$) | Percent |
| \$0-\$23,667 | 86,372 | 46.8% | 14,808,904 | 15.5% |
| \$23,668-\$133,667 | 47,054 | 25.5% | 8,523,441 | 8.9% |
| \$133,668-\$1,000,000 | 39,997 | 21.6% | 7,330,409 | 7.7% |
| \$1,000,001-\$5,000,000 | 9,214 | 5.0% | 16,640,405 | 17.5% |
| \$5,000,001-\$20,000,000 | 1,760 | 1.0% | 21,573,200 | 22.6% |
| \$20,000,001-\$40,000,000 | 219 | 0.1% | 8,686,273 | 9.1% |
| \$40,000,001+ | 136 | 0.1% | 17,763,939 | 18.6% |
| Total | 184,752 | 100.0% | 95,326,571 | 100.0% |

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

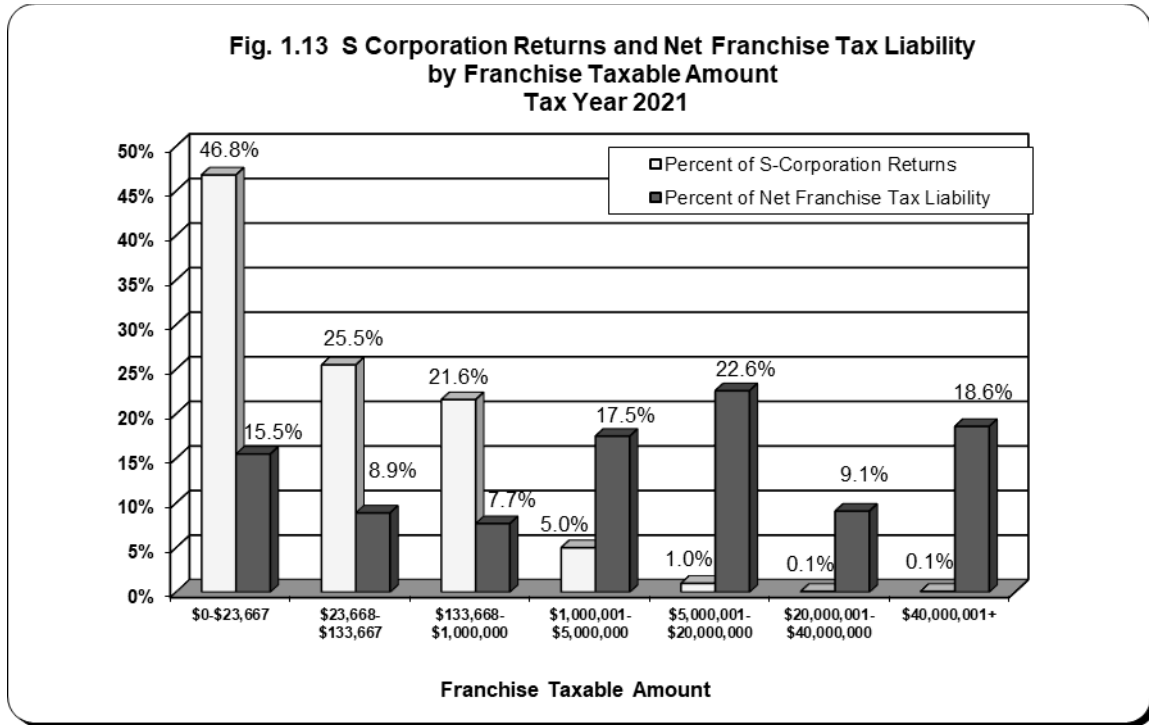


Table 1.14 and Figure 1.15 show the number of returns taking franchise tax credits and amount of credits taken. Returns with a franchise taxable amount greater than \$20 million comprised 0.1% of the returns taking credits and 25.5% of the credits taken.

**Table 1.14
S Corporation Returns Taking Franchise Tax Credits and Amount of Credits Taken
Tax Year 2021**

| Franchise Taxable Amount | Number of Returns Taking Credits | | Amount of Credits Taken (\$) | |
|---------------------------------|----------------------------------|---------------|------------------------------|---------------|
| | Number | Percent | Amount | Percent |
| \$0-\$23,667 | 6,379 | 40.9% | 1,122,096 | 29.5% |
| \$23,668-\$133,667 | 4,799 | 30.8% | 845,559 | 22.2% |
| \$133,668-\$1,000,000 | 3,728 | 23.9% | 655,404 | 17.2% |
| \$1,000,001-\$5,000,000 | 606 | 3.9% | 126,594 | 3.3% |
| \$5,000,001-\$20,000,000 | 79 | 0.5% | 94,032 | 2.5% |
| \$20,000,001+ | 12 | 0.1% | 965,102 | 25.3% |
| Total | 15,603 | 100.0% | 3,808,787 | 100.0% |

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

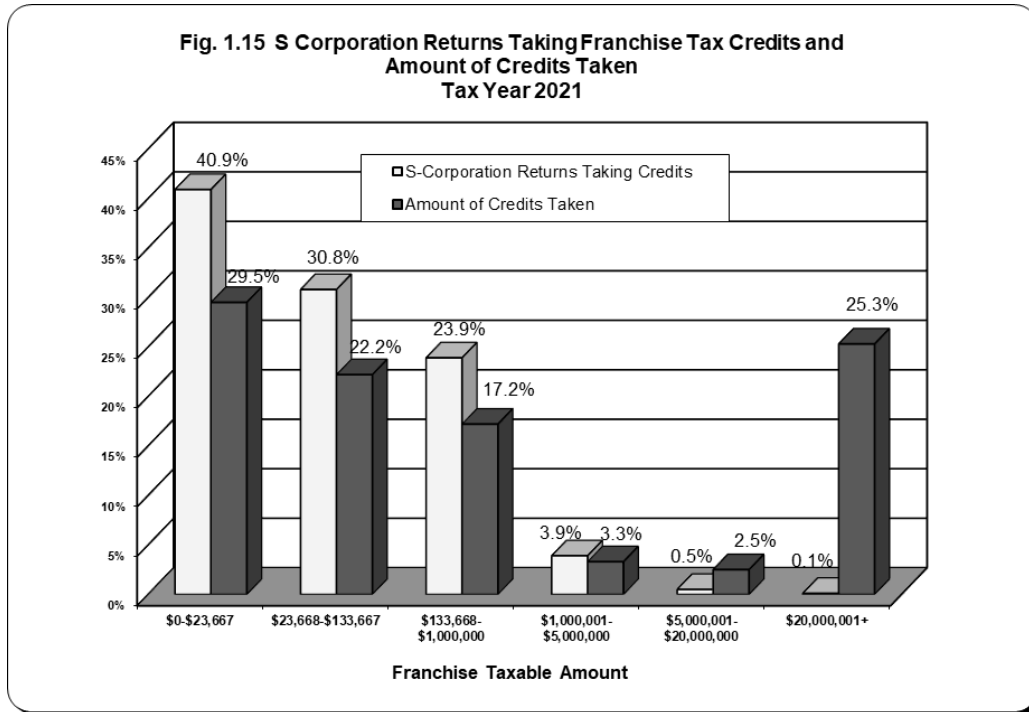


Table 1.16 shows the amount of franchise tax credits by credit type and franchise taxable amount.

**Table 1.16
S Corporation Franchise Tax Credits Taken by Credit Type and Franchise Taxable Amount
Tax Year 2021**

| Income Tax Credits | All Returns | |
|---|-------------------|---------------------|
| | Number of Credits | Amount Claimed (\$) |
| Short Period Credit for Change in Income Year | 218 | 249,602 |
| + Miscellaneous Credits Claimed* | 15,507 | 3,214,987 |
| - Misc. Credits Not Taken ** | -- | (371,779) |
| + Credits Subject to 50% Limit Taken | 22 | 715,977 |
| = Credits Taken | 15,603 | 3,808,787 |

* 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. Approximately 29.2% 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. The net worth base was used by the largest number of corporations that reported assets.

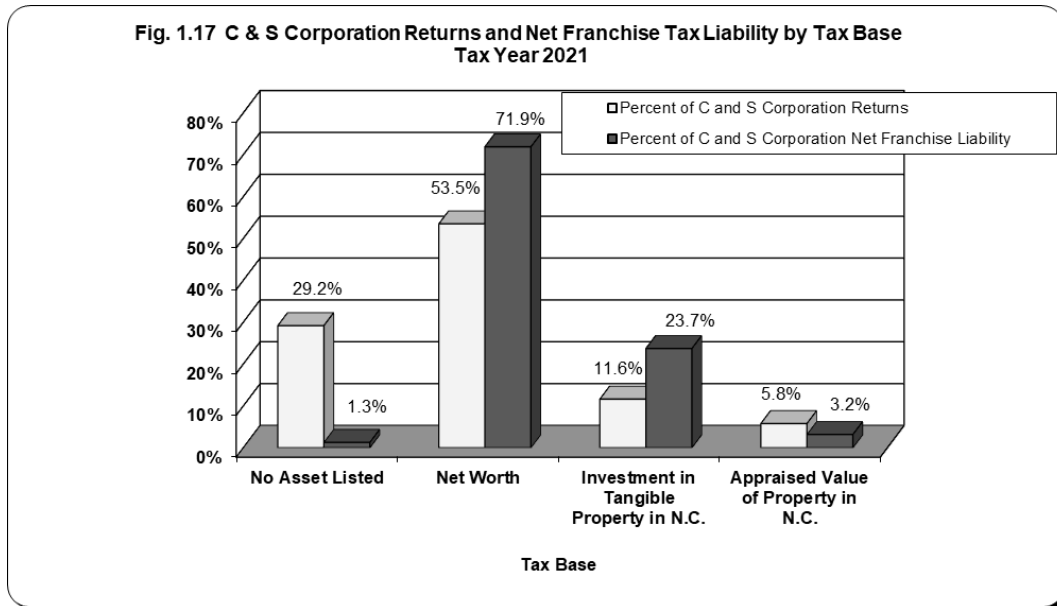


Figure 1.18 shows the number of C and S corporation returns and net franchise tax liability. Taxpayers with franchise taxable amount over \$20 million made up 1.5% of the returns, but incurred 79.6% of net franchise tax liability.

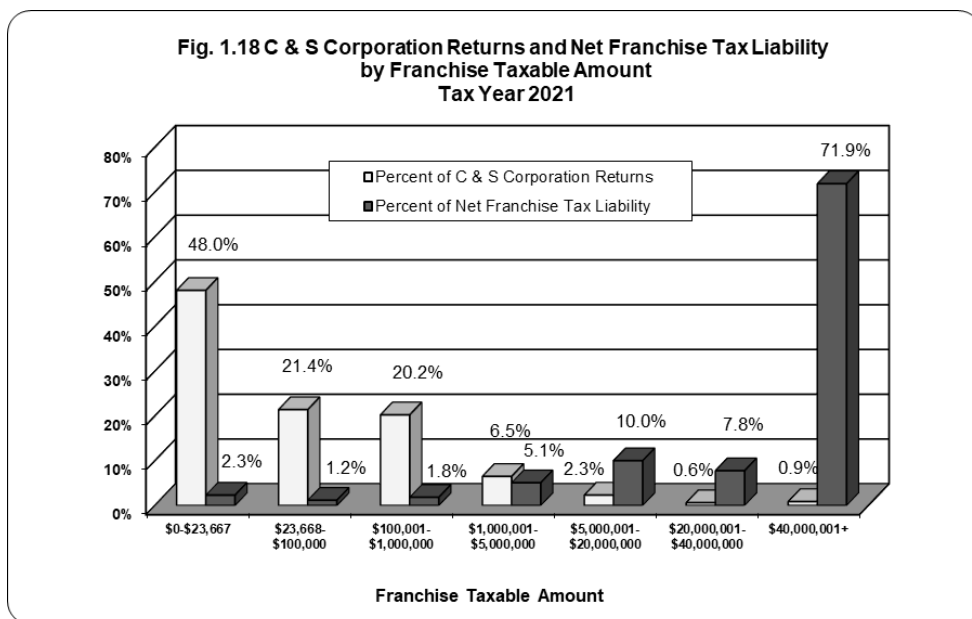
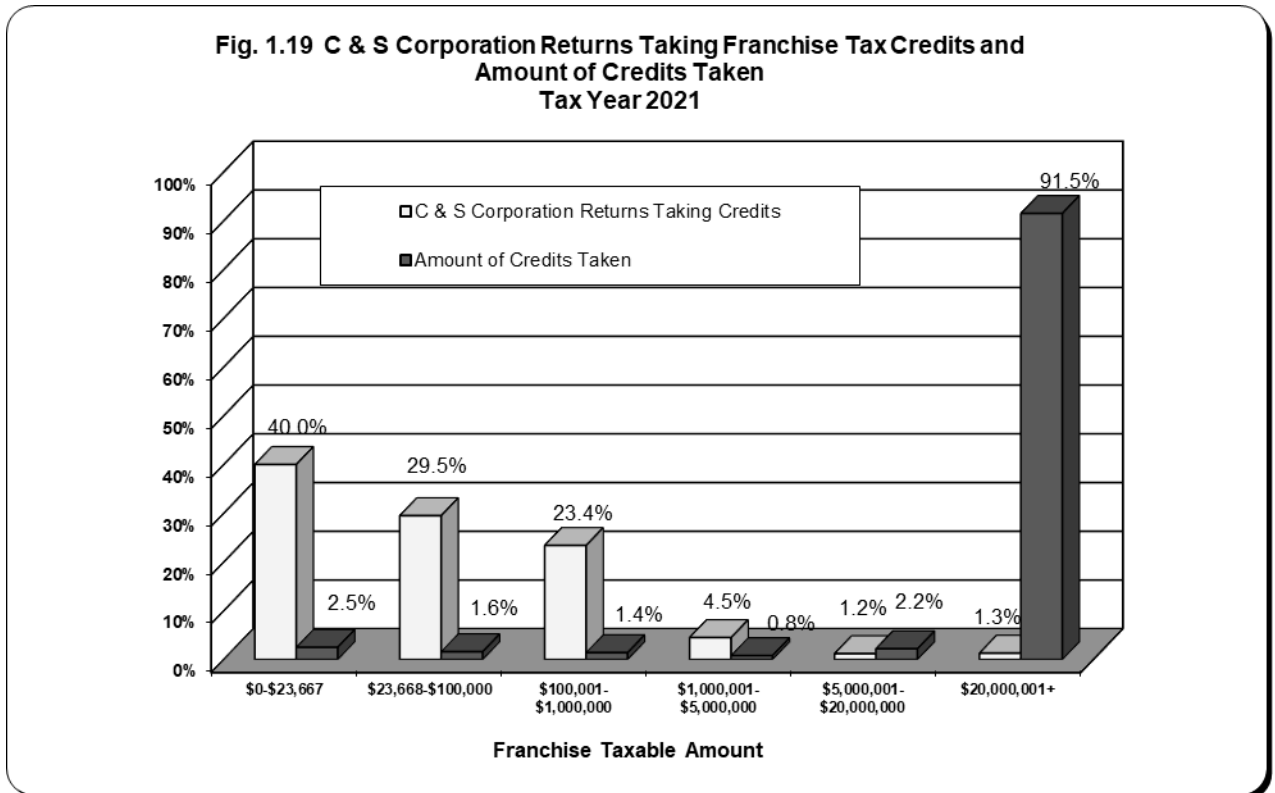


Figure 1.19 shows the distribution of C and S corporation returns that took franchise tax credits and the amount of credits taken. Only 16,444 of the 253,749 taxable corporations took credits in tax year 2021.¹² Corporations with over \$20 million as their franchise tax base took 91.5% of all credits.



¹² The 253,749 taxable corporations include 29 C corporations and 1,380 S corporations that had zero net franchise tax because their tax credits exactly offset their tax liability. In addition, there were 80 nontaxable returns claiming the refundable short-period tax credit.

C CORPORATIONS

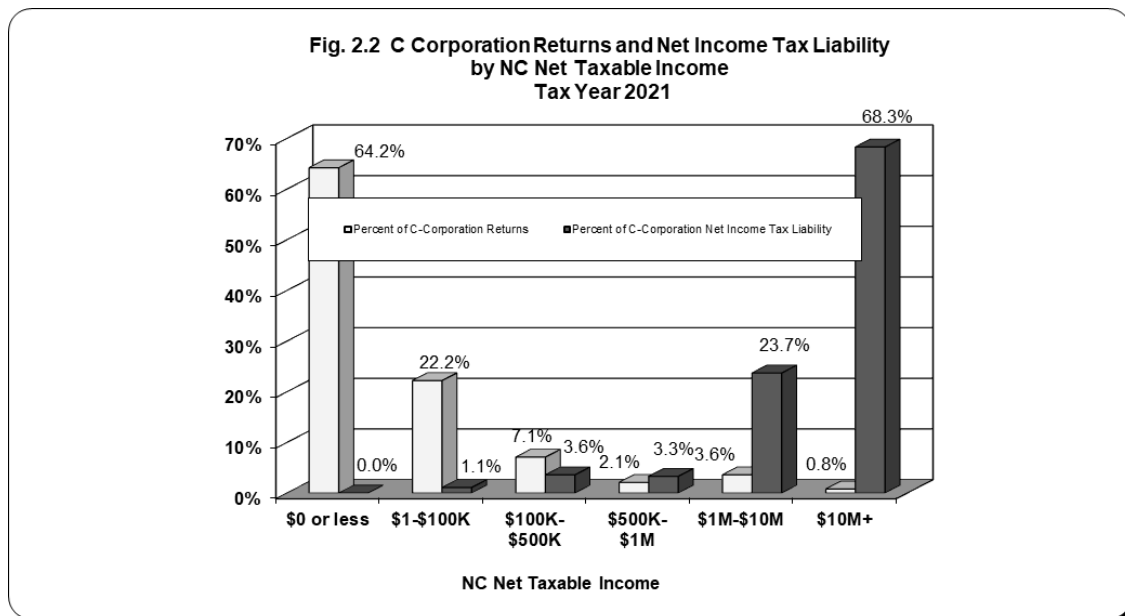
Of the 89,725 tax returns that were filed for tax year 2021, 32,117 (35.8%) had positive NC taxable income and 31,581 (35.2%) of them had a net tax liability (i.e., a positive tax liability after credits were applied).

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

**Table 2.1
C Corporation Returns and Net Income Tax Liability by NC Net Taxable Income
Tax Year 2021**

| NC Net Taxable Income | Number of Returns | Percent | Cumulative Percent | Net Income Tax Liability [\$] | Percent | Cumulative Percent |
|--------------------------|-------------------|---------------|--------------------|-------------------------------|---------------|--------------------|
| \$0 or less | 57,608 | 64.2% | 64.2% | 0 | -- | -- |
| \$1-\$15,000 | 10,749 | 12.0% | 76.2% | 1,253,401 | 0.1% | 0.1% |
| \$15,001-\$30,000 | 3,339 | 3.7% | 79.9% | 1,813,185 | 0.2% | 0.3% |
| \$30,001-\$50,000 | 2,516 | 2.8% | 82.7% | 2,470,982 | 0.2% | 0.5% |
| \$50,001-\$100,000 | 3,344 | 3.7% | 86.4% | 5,991,757 | 0.6% | 1.1% |
| \$100,001-\$500,000 | 6,353 | 7.1% | 93.5% | 37,347,612 | 3.6% | 4.7% |
| \$500,001-\$1,000,000 | 1,907 | 2.1% | 95.6% | 33,943,347 | 3.3% | 8.0% |
| \$1,000,001-\$10,000,000 | 3,227 | 3.6% | 99.2% | 246,864,526 | 23.7% | 31.7% |
| \$10,000,001+ | 682 | 0.8% | 100.0% | 710,523,635 | 68.3% | 100.0% |
| Total | 89,725 | 100.0% | -- | 1,040,208,445 | 100.0% | -- |

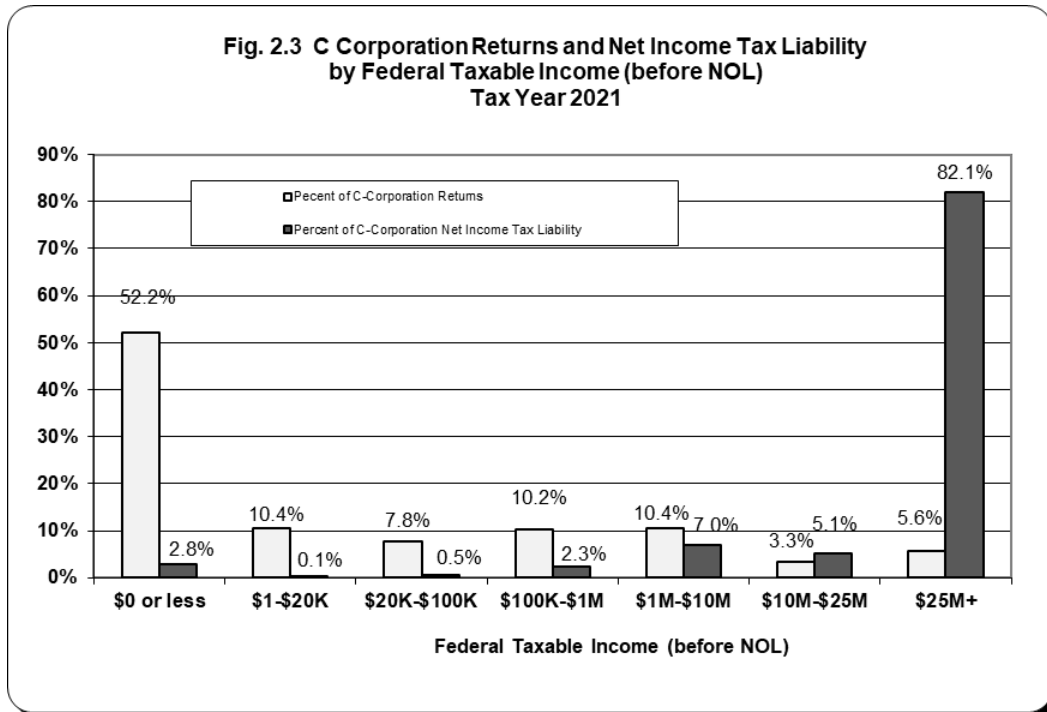
Note: Figures are partially based on unaudited returns. Breakout percentages may not add to totals due to rounding.



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 92.0% of the C corporation income tax liability, and made up 4.4% of the corporations filing returns. Approximately 68% of the total C corporation net income tax liability was attributable to the 682 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 eighty-two 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 2021**

| Federal Taxable Income (before NOL) | NC Apportionment Percentage | | | | | Total |
|--|-----------------------------|--------------|--------------|--------------|---------------|---------------|
| | <5% | 5% - 24% | 25% - 49% | 50% - 99% | 100% | |
| \$0 or less | 17,680 | 2,646 | 493 | 580 | 25,463 | 46,862 |
| \$1 - \$20,000 | 775 | 155 | 72 | 114 | 8,173 | 9,289 |
| \$20,001 - \$100,000 | 1,373 | 336 | 100 | 175 | 5,041 | 7,025 |
| \$100,001 - \$1,000,000 | 4,529 | 981 | 216 | 452 | 3,008 | 9,186 |
| \$1,000,001 - \$10,000,000 | 6,966 | 1,357 | 209 | 249 | 557 | 9,338 |
| \$10,000,001-\$25,000,000 | 2,509 | 358 | 42 | 33 | 43 | 2,985 |
| \$25,000,001+ | 4,395 | 566 | 34 | 24 | 21 | 5,040 |
| Total | 38,227 | 6,399 | 1,166 | 1,627 | 42,306 | 89,725 |

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 2021**

| Federal Taxable Income (before NOL) | NC Apportionment Percentage | | | | | Total |
|--|-----------------------------|--------------------|-------------------|-------------------|-------------------|----------------------|
| | <5% [\$] | 5% - 24% [\$] | 25% - 49% [\$] | 50% - 99% [\$] | 100% [\$] | |
| \$0 or less | 23,364,387 | 2,732,752 | 680,126 | 810,752 | 1,762,913 | 29,350,930 |
| \$1 - \$20,000 | 10,402 | 18,245 | 7,418 | 30,760 | 1,394,577 | 1,461,402 |
| \$20,001 - \$100,000 | 58,503 | 63,080 | 43,662 | 186,488 | 5,171,418 | 5,523,151 |
| \$100,001 - \$1,000,000 | 1,059,520 | 1,235,646 | 628,917 | 2,830,815 | 18,165,947 | 23,920,845 |
| \$1,000,001 - \$10,000,000 | 11,263,446 | 11,814,830 | 4,998,965 | 13,890,639 | 30,355,672 | 72,323,552 |
| \$10,000,001-\$25,000,000 | 15,994,183 | 11,742,109 | 5,165,730 | 9,625,473 | 10,818,392 | 53,345,887 |
| \$25,000,001+ | 525,699,018 | 240,556,507 | 34,692,187 | 28,493,713 | 24,841,253 | 854,282,678 |
| Total | 577,449,459 | 268,163,169 | 46,217,005 | 55,868,640 | 92,510,172 | 1,040,208,445 |

Note: Figures are based partially on unaudited returns.

C corporations that operated exclusively within North Carolina, and so apportion all their income to the state, made up 47.2% of the returns filed for tax year 2021. These corporations accounted for only 8.9% of the corporation income tax liability.

The State receives a significant portion of its corporation income taxes from a small number of large multi-state firms. Over 73% 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.

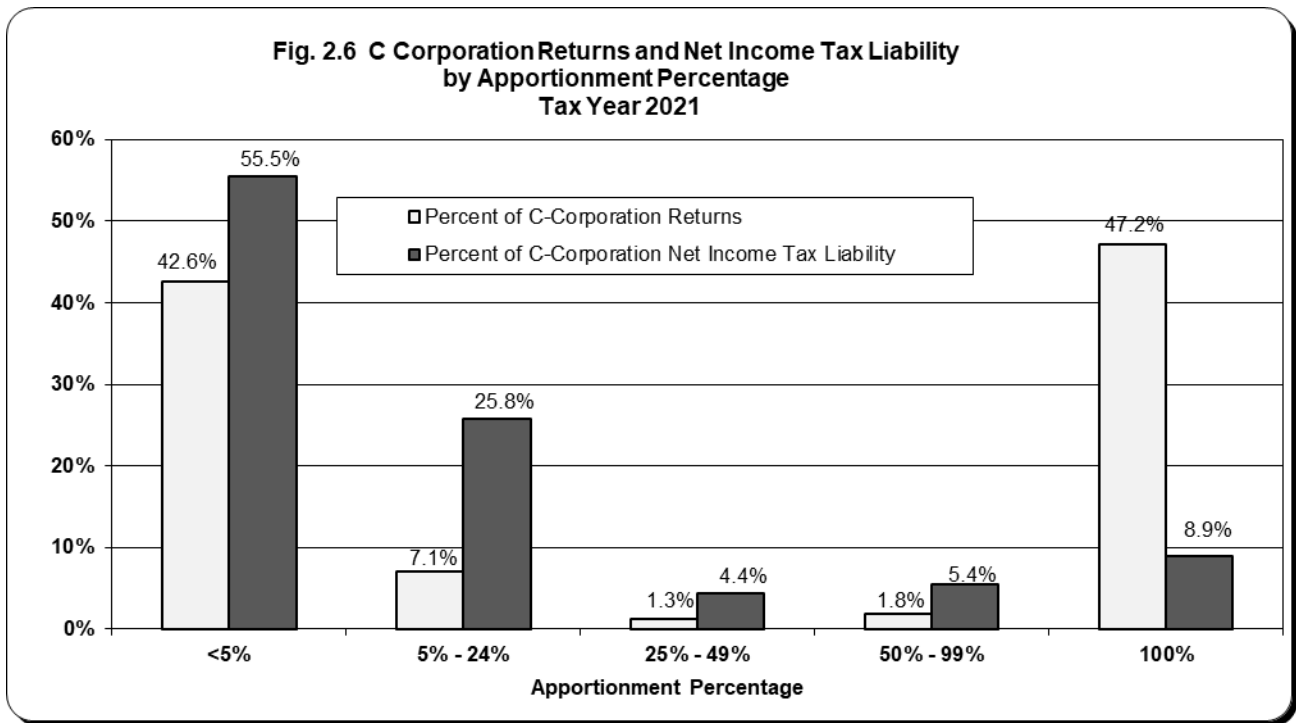


Table 2.7 on the next page shows statistics on the calculation of net tax liability at various steps, starting with federal taxable income. Returns are divided into taxable and nontaxable returns, where taxable returns are defined as those with a positive tax liability before credits are applied. The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

Out of 89,725 returns, 35.2% were taxable returns and 64.8% were nontaxable returns. Taxable returns with a federal taxable income over \$25 million made up 5.6% of the returns but accounted for 82.1% of the tax liability.

Of the 46,862 returns with federal taxable income of zero or less, 1,945 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 42,863 returns that did show a positive federal taxable income, 13,227 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 \$305.4 billion, there was a reduction of \$38.0 billion due to NC adjustments, a decrease of \$6.3 billion due to nonapportionable income, a reduction of \$256.2 billion due to apportioning income to North Carolina, and a reduction of \$4.8 billion due to State Net Loss carryforwards.¹³

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 2021 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.¹⁴

Finally, North Carolina tax credits for businesses reduced overall C corporation tax liabilities by \$20.0 million.

¹³ 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.

¹⁴ 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 2021**

| | | | (+) | (-) | (-) | (-) | (=) |
|----------------------------------|--------------------------|---|--------------------------------------|---|--------------------------------|---------------------------------------|---------------------------------|
| FTI of Corporation | Number of Returns | Federal Taxable Income, Before NOL | Adjustments to Federal Income | Contributions to Donees Outside NC | Nonapportionable Income | Reduction Due To Apportionment | Income Apportioned to NC |
| | | [\$] | [\$] | [\$] | [\$] | [\$] | [\$] |
| <u>Taxable Returns</u> | | | | | | | |
| \$0 or less | 1,945 | (39,957,403,424) | 89,414,316,312 | 352,074,383 | 164,824,487 | 47,654,594,201 | 1,285,419,817 |
| \$1-\$20,000 | 6,039 | 42,076,242 | 36,114,213 | 137,068 | 933,660 | 15,720,854 | 61,398,873 |
| \$20,001-\$100,000 | 4,861 | 242,605,849 | 97,880,365 | 569,684 | 80,397,427 | 21,762,675 | 237,756,428 |
| \$100,001-\$1,000,000 | 6,074 | 2,362,498,270 | 620,844,716 | 8,148,795 | 197,924,836 | 1,775,983,302 | 1,001,286,053 |
| \$1,000,001-\$10,000,000 | 6,533 | 25,220,117,669 | 3,938,848,377 | 81,107,986 | 1,704,011,630 | 24,474,668,394 | 2,899,178,036 |
| \$10,000,001-\$25,000,000 | 2,182 | 35,042,798,212 | 4,515,360,607 | 104,028,231 | 1,939,877,847 | 35,361,402,713 | 2,152,850,028 |
| \$25,000,001+ | 3,947 | 1,368,960,299,316 | 43,219,367,011 | 9,576,165,855 | 12,084,472,774 | 1,354,162,378,576 | 36,356,649,122 |
| Total, Taxable | 31,581 | 1,391,912,992,134 | 141,842,731,601 | 10,122,232,002 | 16,172,442,661 | 1,463,466,510,715 | 43,994,538,357 |
| <u>Nontaxable Returns</u> | | | | | | | |
| \$0 or less | 44,917 | (522,511,438,531) | 55,589,997,192 | 41,266,706 | (1,037,805,737) | (451,545,149,430) | (14,379,752,878) |
| More than \$0 | 13,227 | 305,393,077,867 | (37,968,909,440) | 2,291,311,044 | 6,309,822,054 | 256,187,120,781 | 2,635,914,548 |
| Total, Nontaxable | 58,144 | (217,118,360,664) | 17,621,087,752 | 2,332,577,750 | 5,272,016,317 | (195,358,028,649) | (11,743,838,330) |

| | (+) | (-) | (-) | (-) | (=) | | (-) | (=) |
|----------------------------------|--|---|-----------------------|-----------------------------------|---------------------------|----------------------------|--------------------|--------------------------|
| 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 | ** | ** | 82,713,630 | 2,042,770 | 1,261,777,934 | ** | ** | 29,350,930 |
| \$1-\$20,000 | ** | ** | 3,245,078 | 156,083 | 58,452,408 | ** | ** | 1,461,402 |
| \$20,001-\$100,000 | ** | ** | 17,539,241 | 834,709 | 221,212,859 | ** | ** | 5,523,151 |
| \$100,001-\$1,000,000 | ** | ** | 64,999,114 | 3,878,922 | 958,409,917 | 23,960,276 | 39,431 | 23,920,845 |
| \$1,000,001-\$10,000,000 | ** | ** | 154,476,905 | 6,803,044 | 2,895,147,791 | 72,378,798 | 55,246 | 72,323,552 |
| \$10,000,001-\$25,000,000 | ** | ** | 114,786,099 | 3,242,456 | 2,140,735,582 | 53,518,398 | 172,511 | 53,345,887 |
| \$25,000,001+ | ** | ** | 1,597,986,653 | 193,753,771 | 34,871,640,122 | 871,791,038 | 17,508,360 | 854,282,678 |
| Total, Taxable | 698,160,423 | 38,863,692 | 2,035,746,720 | 210,711,755 | 42,407,376,613 | 1,060,184,809 | 19,976,364 | 1,040,208,445 |
| <u>Nontaxable Returns</u> | | | | | | | | |
| \$0 or less | ** | ** | 3,568,520,036 | 4,634,290 | (18,273,470,084) | - | - | - |
| More than \$0 | ** | ** | 4,822,413,410 | 34,168,666 | (2,200,207,754) | - | - | - |
| Total, Nontaxable | (319,961,003) | 7,530,028 | 8,390,933,446 | 38,802,956 | (20,473,677,838) | - | - | - |

**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 31,581 returns with positive tax liability before credits did not take any income tax credits. Over eighty-five percent of the 81 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 96.8% of the total credits taken.

**Table 2.8
Number of C Corporation Taxable Returns Taking Credits as a Percentage of Tax Liability
Tax Year 2021**

| 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 | 19,400 | 0 | ** | 0 | ** | 12 |
| \$100,001-\$1,000,000 | 8,241 | 0 | 0 | 0 | 19 | 19 |
| \$1,000,001-\$10,000,000 | 3,199 | ** | ** | 0 | ** | 28 |
| \$10,000,001+ | 660 | ** | 0 | ** | ** | 22 |
| Total | 31,500 | ** | ** | ** | 69 | 81 |

**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.

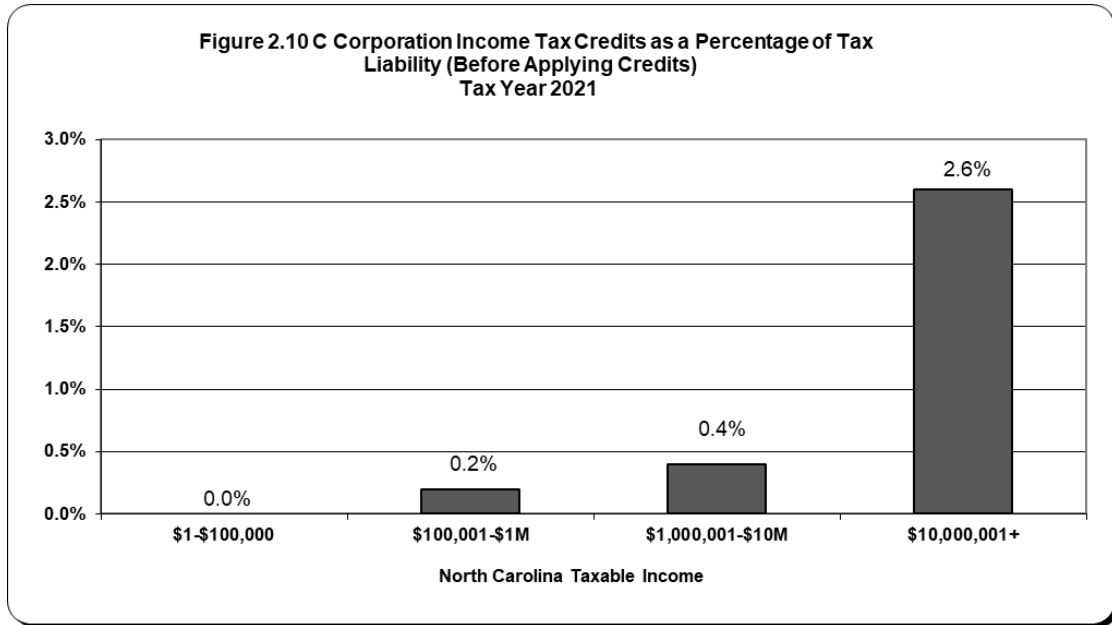
**Table 2.9
Amount of C Corporation Tax Credits Taken as a Percentage of Tax Liability
Tax Year 2021**

| 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 | ** | 4,201 |
| \$100,001-\$1,000,000 | 0 | 0 | 0 | 118,025 | 118,025 |
| \$1,000,001-\$10,000,000 | ** | ** | 0 | ** | 1,039,696 |
| \$10,000,001+ | ** | 0 | ** | ** | 18,814,442 |
| Total | ** | ** | ** | 19,343,174 | 19,976,364 |

**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 \$10 million in North Carolina taxable income.



Note: More detailed groupings of taxable income could not be reported due to confidentiality requirements.

**Table 2.11
C Corporation Income Tax Credits by Credit Type
Tax Year 2021**

| Income Tax Credits | All Returns | |
|-----------------------------------|--------------------|-------------|
| | Number of Credits* | Amount (\$) |
| Tax Credits Claimed | 83 | 20,488,575 |
| C-Corporation adjustment** | 81 | (512,211) |
| Credits Taken | 81 | 19,976,364 |

*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 76.6% of the tax liability and 2.7% of returns.

The total net tax liability of \$247.8 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 2021**

| NC Taxable Income* | Number of Returns | Percent | Number With Tax Due | Net Tax Liability [\$] | Percent |
|---------------------------------|--------------------------|----------------|----------------------------|-------------------------------|----------------|
| \$0 or less | 59,498 | 32.2% | 0 | 0 | 0.0% |
| \$1-\$15,000 | 28,861 | 15.6% | 4,415 | 1,111,127 | 0.4% |
| \$15,001-30,000 | 16,299 | 8.8% | 1,391 | 1,536,682 | 0.6% |
| \$30,001-\$50,000 | 15,251 | 8.3% | 1,035 | 2,018,537 | 0.8% |
| \$50,001-\$100,000 | 22,250 | 12.0% | 1,498 | 5,340,093 | 2.2% |
| \$100,001-\$500,000 | 32,428 | 17.6% | 2,607 | 28,925,944 | 11.7% |
| \$500,001-\$1,000,000 | 5,263 | 2.8% | 557 | 19,053,853 | 7.7% |
| \$1,000,001-\$10,000,000 | 4,546 | 2.5% | 626 | 76,607,602 | 30.9% |
| \$10,000,001+ | 356 | 0.2% | 70 | 113,203,897 | 45.7% |
| Total | 184,752 | 100.0% | 12,199 | 247,797,735 | 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.

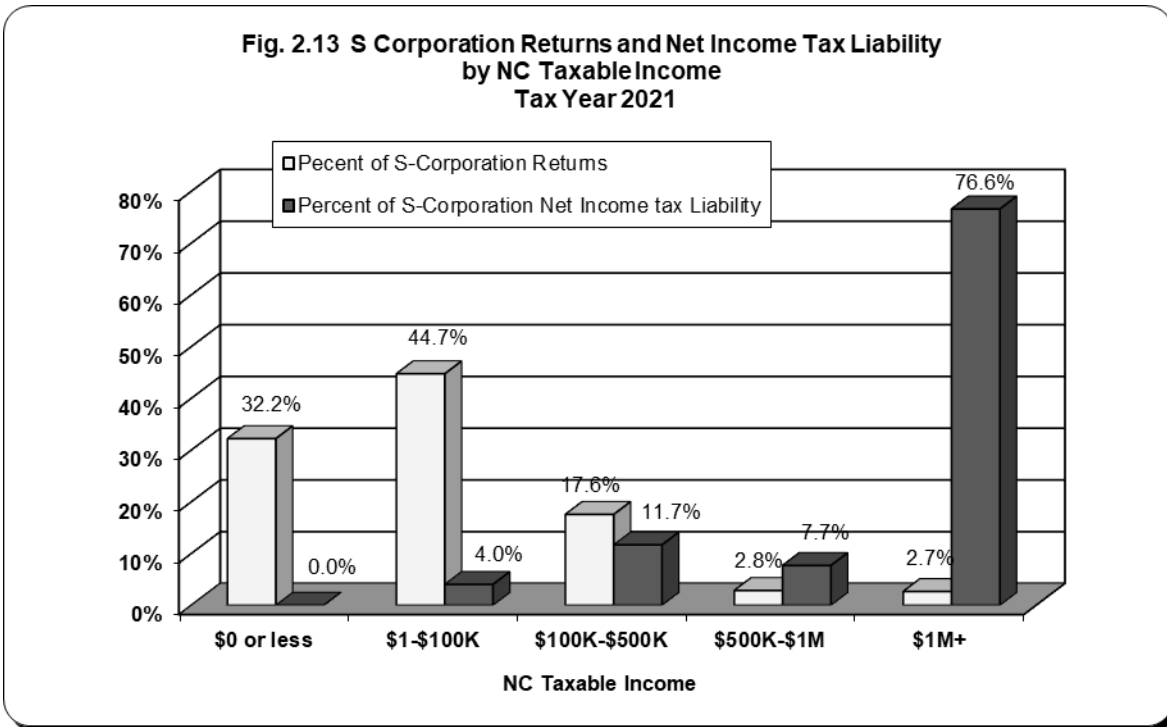
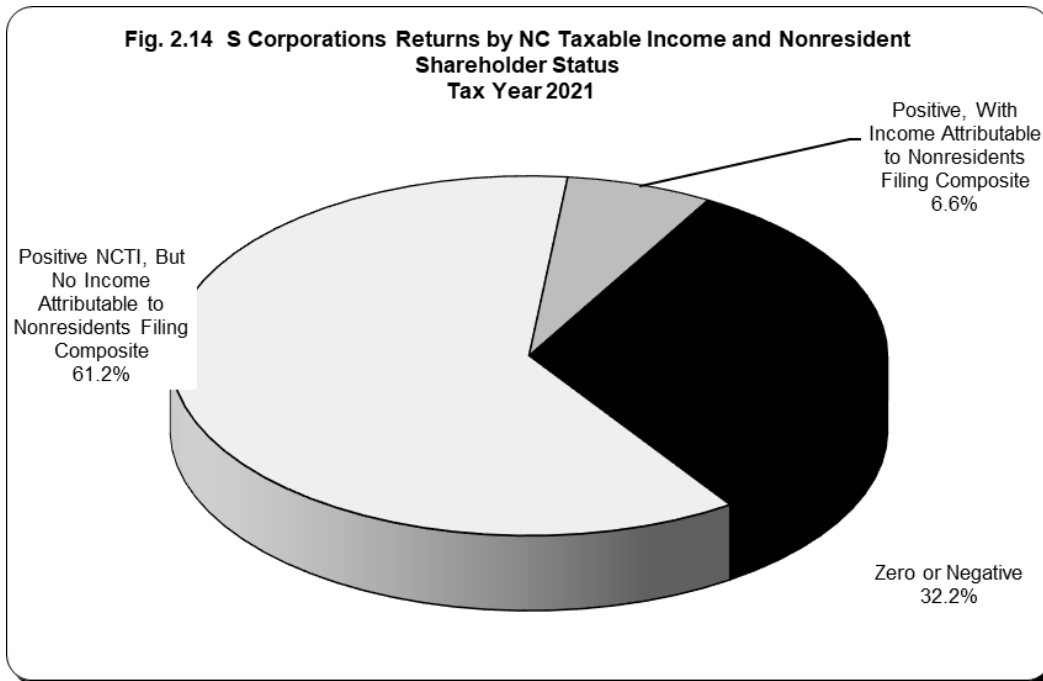


Figure 2.14 illustrates the distribution of returns by North Carolina taxable income and nonresident shareholder filing status. Only 6.6% of S corporation returns had a tax liability attributable to nonresidents who chose to allow the S corporation to file a composite return on their behalf.



**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 2021**

| | | (+) | (+) | (-) | (-) | (=) | (+) |
|---|-------------------|------------------------------------|---------------------------------------|---------------------------------|--|----------------------------------|---|
| 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 | 59,498 | 20,949,572,712 | (463,681,174) | 1,583,589,550 | 22,620,929,986 | (3,718,627,998) | (8,261,469) |
| Positive, But No Income Attributable to Nonresidents Filing Composite | 113,042 | 74,835,421,257 | 2,552,255,035 | 3,176,845,863 | 45,279,025,863 | 28,931,804,566 | 907,913,524 |
| Positive, With Income Attributable to Nonresidents Filing Composite | 12,212 | 161,708,420,719 | 5,952,204,407 | 6,403,179,313 | 155,879,171,647 | 5,378,274,166 | 129,796,487 |
| Total | 184,752 | 257,493,414,688 | 8,040,778,268 | 11,163,614,726 | 223,779,127,496 | 30,591,450,734 | 1,029,448,542 |

| | (=) | (+) | (=) | Separately Stated Income Attributable to Nonresidents Filing Composite [\$] | Computed Income Tax [\$] | (-) Tax Credits [\$] | (=) Net Tax Liability [\$] |
|---|-------------------------------|--|--|--|-----------------------------|----------------------------|----------------------------------|
| NC Taxable Income | NC Net Taxable Income [\$] | Adjustment for Shareholders Paying Tax on Shares [\$] | Taxable Income Attributable to Nonresidents Filing Composite [\$] | | | | |
| Zero or Negative | (3,726,889,467) | 3,558,062,934 | (168,826,533) | 260,591 | - | - | - |
| Positive, But No Income Attributable to Nonresidents Filing Composite | 29,839,718,090 | (29,839,718,090) | - | 1,125,503 | 59,089 | - | 59,089 |
| Positive, With Income Attributable to Nonresidents Filing Composite | 5,508,070,653 | (799,273,653) | 4,708,797,000 | 10,555,644 | ** | ** | 247,738,646 |
| Total | 31,620,899,276 | (27,080,928,809) | 4,539,970,467 | 11,941,738 | ** | ** | 247,797,735 |

**Not shown to maintain taxpayer confidentiality. Amounts are included in totals.
Note: Figures are based partially on unaudited returns.

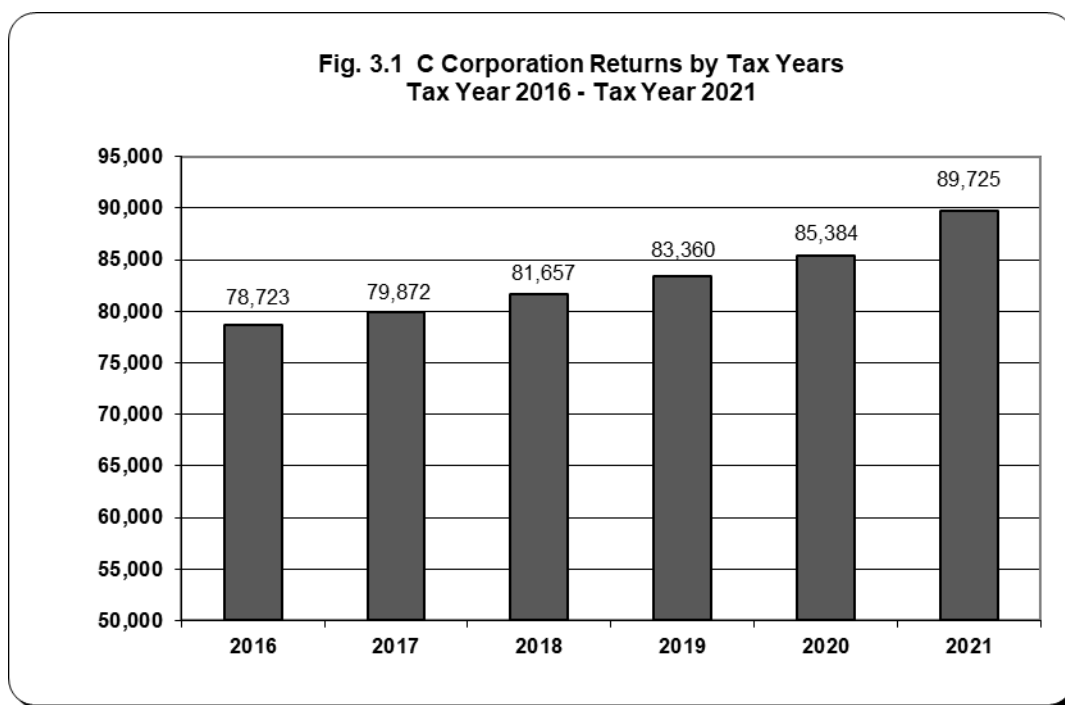
Due to the small number of S corporations claiming income tax credits, no statistics on these can be provided.

C CORPORATIONS

In this section, data on corporate returns are presented for tax years 2016 through 2021. 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 2014.¹⁵ The average increase has been slightly higher in the four years since 2018 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. Covid-19 may have also impacted the number of returns for 2020 and 2021 as the economic dislocation gave rise to different types of businesses. The number of returns has increased 14.0% between 2016 and 2021, or 2.65% on an annualized basis.

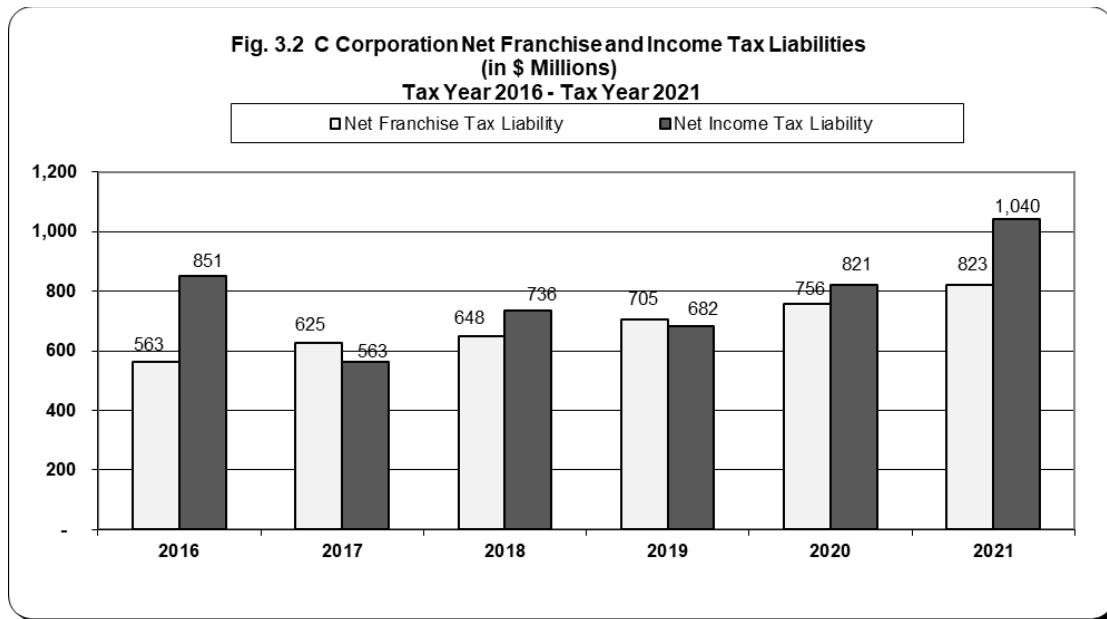
The number of first-time filers, as reported on the tax form, was 8,752 in 2021 and 6,685 in 2020.



¹⁵ 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 2016 through 2021 for C corporations.

The decreases in income tax revenues since 2016 reflects mainly the decrease in the tax rates in these years. In 2016, the income tax rate was 4.0%. It decreased to 3.0% in 2017 and 2018. And the tax rate from 2019 through 2021 was 2.5%.



In order to compare the income tax liabilities across years with the changing tax rates, Figure 3.2a shows the total net North Carolina taxable income for returns with a positive tax liability, before applying tax credits. This graph shows generally increasing taxable incomes. The dip in 2017 may be due to corporations shifting taxable income to 2018 to take advantage of the lower federal tax rate in that year.

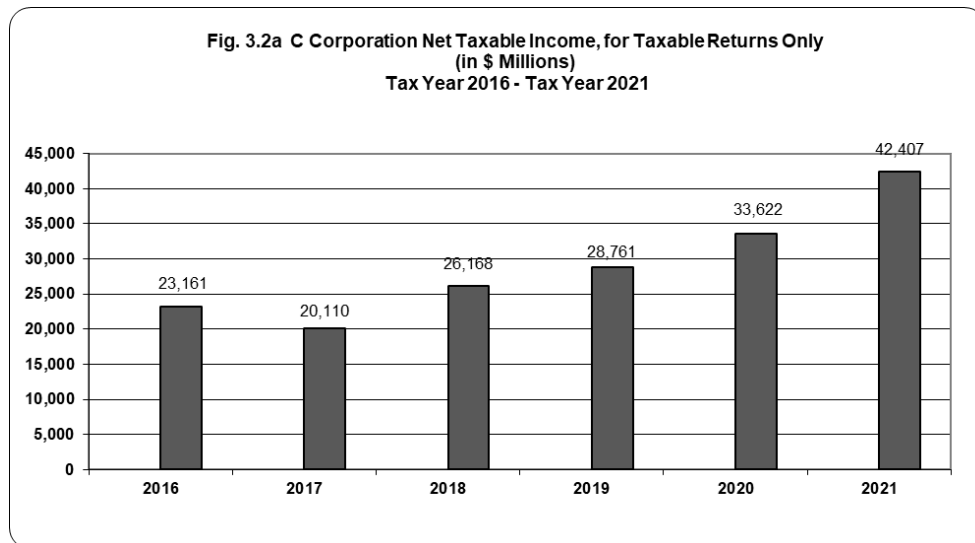
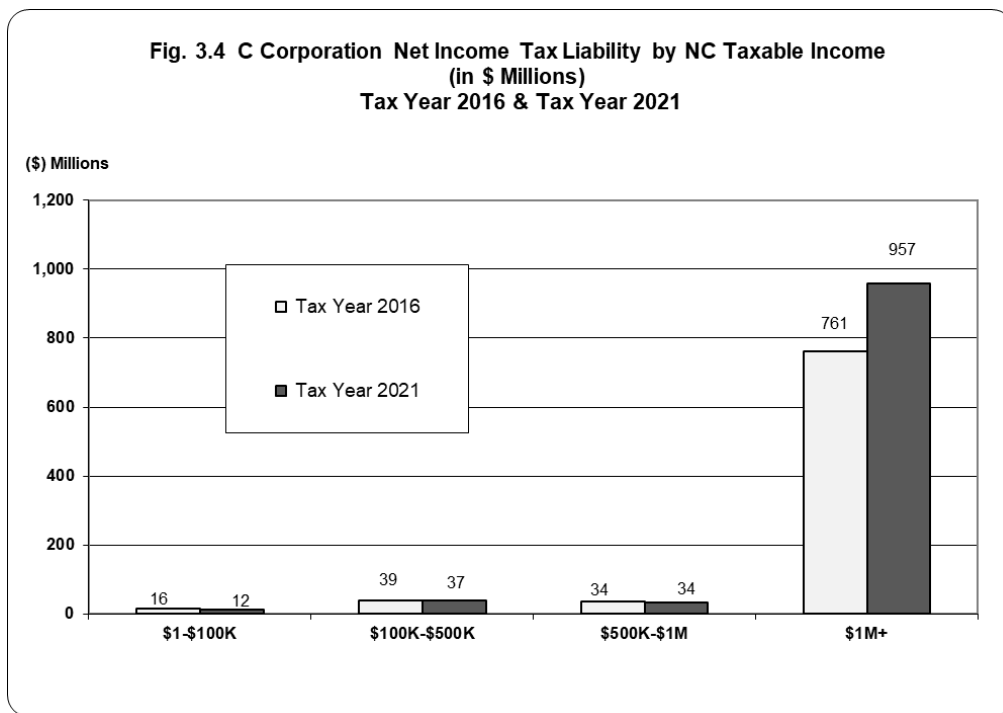


Table 3.3 and Figure 3.4 compare the net income tax liability of C corporations in tax year 2016 and tax year 2021 by NC taxable income brackets. Most taxable income brackets have experienced a decrease in tax liability due to the decline in the tax rate. However, tax liabilities have increased for corporations with taxable income over \$1 million.

Table 3.3
C Corporation Net Income Tax Liability by NC Taxable Income
Tax Year 2016 & Tax Year 2021

| NC Taxable Income | Net Income Tax Liability TY 2016 | Net Income Tax Liability TY 2021 | % Difference |
|--------------------------|----------------------------------|----------------------------------|--------------|
| \$0 or less | - | - | -- |
| \$1-\$15,000 | 2,056,248 | 1,253,401 | -39.0% |
| \$15,001-\$30,000 | 2,665,623 | 1,813,185 | -32.0% |
| \$30,001-\$50,000 | 3,602,626 | 2,470,982 | -31.4% |
| \$50,001-\$100,000 | 8,074,511 | 5,991,757 | -25.8% |
| \$100,001-\$500,000 | 39,065,613 | 37,347,612 | -4.4% |
| \$500,001-\$1,000,000 | 34,351,377 | 33,943,347 | -1.2% |
| \$1,000,001-\$10,000,000 | 221,943,416 | 246,864,526 | 11.2% |
| \$10,000,001+ | 538,872,686 | 710,523,635 | 31.9% |
| Total | 850,632,100 | 1,040,208,445 | 22.3% |

Note: The tax rate in 2016 was 4.0% and the tax rate in 2021 was 2.5%.



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

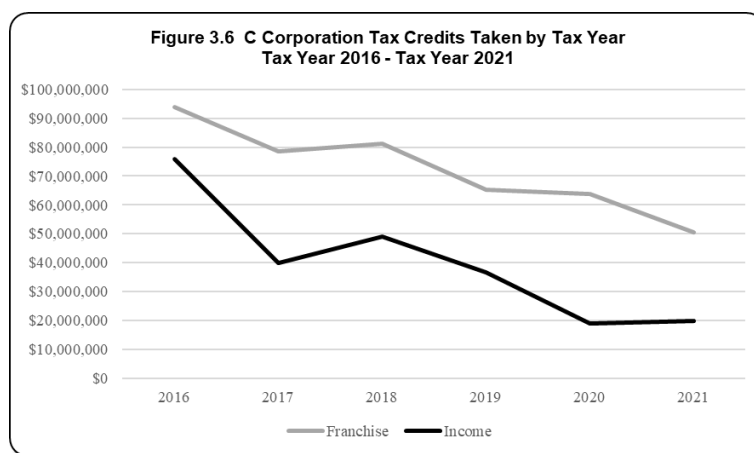
**A taxpayer can claim a credit for expenses occurring before Jan. 1, 2015

***Article 3H had expired for eligibility certifications issued as of Jan. 1, 2015, but has since been re-enacted by S.L. 2021-180.

(An eligible railroad station was eligible for expenses in 2019 for the 2021 and 2022 tax years. Article 3H has been re-enacted by S.L. 2021-180.)

****A taxpayer can claim a credit for expenses occurring before Jan. 1, 2030

Figure 3.6 shows the amount of credits taken by C corporations against the franchise and corporate income tax for tax years 2016 through 2021. Income tax credits have decreased sharply since 2016, while franchise tax credits have had a much smaller decline since 2016. Even though some credits cannot be generated after a certain date, installments and carryforwards of unused credits will continue to be taken in future years.¹⁶



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

S CORPORATIONS

Figure 3.7 compares the number of S corporation returns by tax years 2016 through 2021. 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 14.1% between tax years 2016 and 2021. This is equivalent to an annualized rate of growth of 2.7%.

In Tax Year 2021, there were 13,333 taxpayers that indicated that they were first-time filers. In the prior year, there had been 11,295.

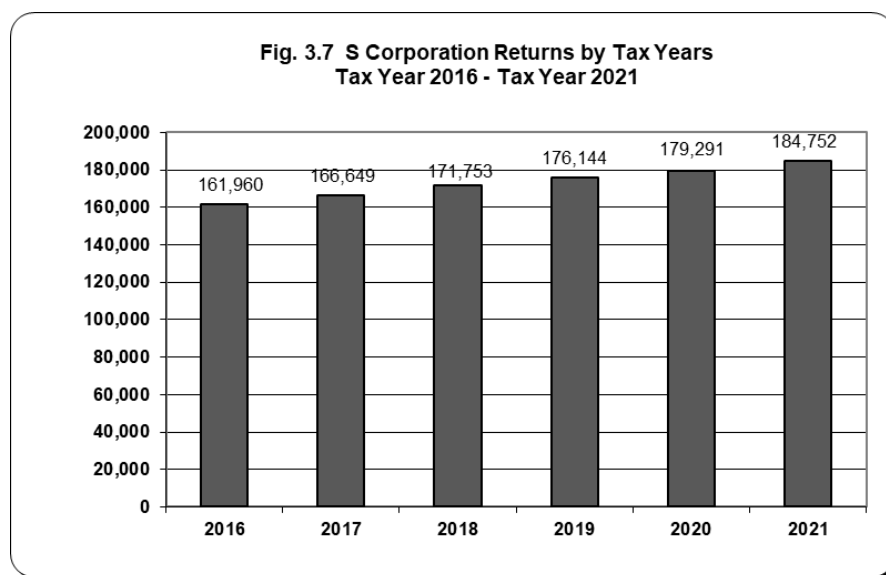


Figure 3.8 on the next page illustrates the relative amounts of net tax liabilities for 2016 through 2021 for S corporations. As discussed in Section II, the income tax liability for S corporations only includes taxes paid for nonresident shareholders filing a composite return. Therefore, comparisons 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 through 2021, the tax rate was 5.25%.

In Tax Year 2016, the minimum franchise tax increased from \$35 to \$200. The decline in Tax Year 2018 and succeeding years is mainly due to the reduction in the tax on the first \$1 million of taxable assets that began in that year.

There were large increases in income tax liabilities for S Corporations in Tax Years 2020 and 2021. The majority of the increase from 2019 to 2020 is due to existing taxpayers (i.e., taxpayers that were in both 2019 and 2020 databases). However, most of the increase in 2021 was due to new taxpayers that were not present in the 2019 or 2020 databases.

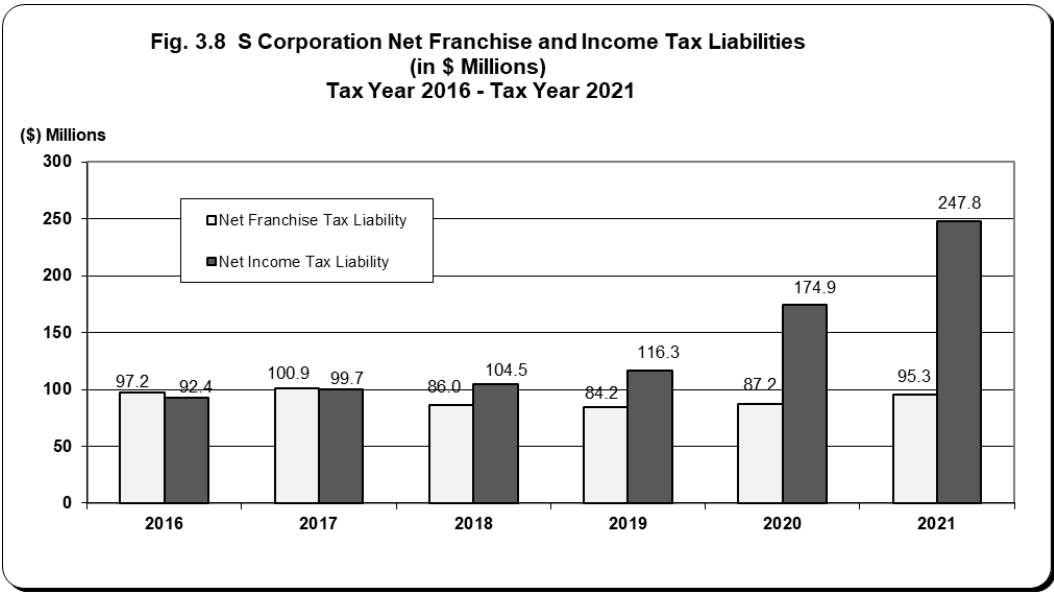
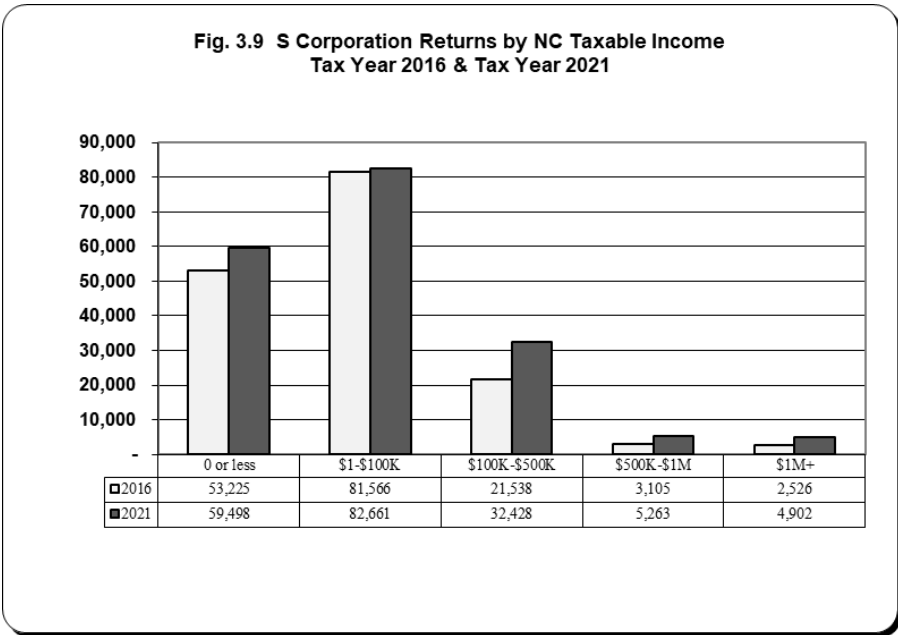


Figure 3.9 compares the number of S corporation returns in tax years 2016 and 2021 by NC taxable income brackets. The total number of returns has grown in each bracket, with the smallest increase for those in the \$1 to \$100,000 taxable income bracket. The percentage growth has been greatest in the \$1 million and above taxable income bracket.



**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 79.8% of full-year returns and 73.6% of all returns. Their net franchise tax liability was 74.8% of the total, and their net income tax liability made up 72.2% of the total.

Short-period returns comprised 7.8% of all returns. They represented 4.3% of net franchise tax liabilities and 3.2% of the net corporation income tax liabilities.

**Table 4.1
C Corporation Statistics by Fiscal Year Start Month
Tax Year 2021**

| Tax Year Start Month | All Returns | Franchise Tax | | Income Tax | |
|----------------------|-------------------|---------------|-------------|------------|---------------|
| | Number of returns | Number | Amount (\$) | Number | Amount (\$) |
| January | 66,003 | 54,774 | 615,371,403 | 22,539 | 750,873,766 |
| February | 1,145 | 1,098 | 34,127,273 | 407 | 56,779,542 |
| March | 603 | 572 | 3,511,266 | 251 | 3,055,160 |
| April | 3,212 | 3,075 | 29,900,649 | 1,379 | 35,649,444 |
| May | 842 | 770 | 6,002,655 | 347 | 11,607,594 |
| June | 805 | 726 | 8,169,899 | 357 | 15,732,640 |
| July | 3,847 | 3,175 | 24,469,646 | 1,518 | 35,242,480 |
| August | 787 | 728 | 7,022,309 | 391 | 11,099,723 |
| September | 791 | 727 | 5,302,953 | 335 | 7,470,935 |
| October | 3,069 | 2,832 | 38,783,798 | 1,311 | 54,161,770 |
| November | 1,052 | 1,010 | 9,577,552 | 477 | 15,642,834 |
| December | 588 | 551 | 5,290,943 | 265 | 9,737,363 |
| Short-period returns | 6,981 | 5,971 | 35,304,061 | 2,004 | 33,155,194 |
| Total | 89,725 | 76,009 | 822,834,407 | 31,581 | 1,040,208,445 |

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 94.1% of the 184,752 returns and 98.9% of the 175,874 full-year returns. They represented 90.5% of net franchise tax liabilities and 94.0% of the net corporation income tax liabilities. Full-year returns with start dates in October accounted for 3.8% of franchise tax liabilities and 3.7% of income tax liabilities.

There were 8,878 short-period returns included in the S corporation returns, 4.8% of the total number. They represented 2.8% of net franchise tax liabilities and 2.7% of the net corporation income tax liabilities.

**SECTION V
INDUSTRY SECTORS**

C-CORPORATIONS

Table 5.1 shows franchise and income tax liabilities by major industry sector. The manufacturing sector had the largest tax liability for both the franchise tax and the income tax, approximately 23.8% of the total amount. Other sectors with relatively high shares of tax liability include finance and insurance; information; retail; wholesale; and professional, scientific, and technical services.

**Table 5.1
C Corporation Franchise Tax and Income Tax Liability by Industry Sector
Tax Year 2021**

| Industry Sector | All Returns | Franchise Tax | | Income Tax | |
|---|-------------------|---------------|--------------------|---------------|----------------------|
| | Number of returns | Number | Amount (\$) | Number | Amount (\$) |
| Agriculture, Forestry, Fishing and Hunting | 1,039 | 1,008 | 3,359,146 | 374 | 4,280,059 |
| Mining | 160 | 151 | 3,482,580 | 49 | 4,583,461 |
| Utilities | 255 | 229 | 40,350,937 | 69 | 10,115,417 |
| Construction | 6,071 | 5,836 | 18,093,009 | 2,529 | 45,374,433 |
| Manufacturing | 8,664 | 8,376 | 217,353,935 | 3,620 | 225,829,578 |
| Wholesale | 6,250 | 6,031 | 51,796,379 | 3,107 | 73,943,538 |
| Retail | 5,529 | 5,279 | 59,703,862 | 2,422 | 112,701,392 |
| Transportation | 2,266 | 2,181 | 11,767,452 | 1,056 | 21,446,600 |
| Couriers and Warehousing | 214 | 208 | 1,694,924 | 84 | 2,381,419 |
| Information | 3,538 | 3,366 | 70,023,146 | 1,062 | 106,162,090 |
| Finance and Insurance | 8,749 | 7,914 | 131,280,236 | 3,584 | 221,141,896 |
| Real Estate and Rental & Leasing | 12,155 | 7,308 | 60,456,170 | 2,737 | 51,923,666 |
| Professional, Scientific and Technical Services | 13,544 | 12,855 | 62,785,391 | 4,319 | 61,008,990 |
| Management of Companies / see note | 3,042 | 2,860 | 50,815,621 | 1,045 | 41,915,644 |
| Administration & Support and Waste Management & Remediation Services | 3,381 | 2,732 | 10,452,254 | 1,217 | 14,710,026 |
| Educational Services | 511 | 459 | 1,608,531 | 168 | 1,326,210 |
| Health Care and Social Assistance | 2,712 | 2,576 | 13,079,516 | 820 | 16,676,657 |
| Arts, Entertainment and Recreation | 871 | 745 | 1,544,431 | 322 | 2,977,809 |
| Accommodations and Food Services | 2,170 | 2,061 | 6,902,268 | 1,018 | 11,975,001 |
| Other Services | 5,163 | 2,714 | 3,101,065 | 1,237 | 5,005,698 |
| Unidentifiable | 3,441 | 1,120 | 3,183,554 | 742 | 4,728,861 |
| Total | 89,725 | 76,009 | 822,834,407 | 31,581 | 1,040,208,445 |

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 eighteen (118) 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 Processing, Research & Equity Division, mainly for four of the industry sectors: manufacturing; retail; information; and finance and insurance.) In addition, all 68 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 2021**

| | Total | Construction | Manufacturing | Wholesale | Retail | Information | Finance & Insurance | Real Estate, Rental & Leasing | Professional Services |
|--|-------------------|----------------|-----------------|----------------|-----------------|-----------------|---------------------|-------------------------------|-----------------------|
| Taxable Returns | | | | | | | | | |
| Number of returns | 31,581 | 2,529 | 3,620 | 3,107 | 2,422 | 1,062 | 3,584 | 2,737 | 4,319 |
| Federal Taxable Income, Before NOL | 1,391,912,992.134 | 19,410,236,867 | 382,375,745,960 | 77,439,990,945 | 99,084,163,913 | 156,454,962,239 | 356,005,979,071 | 31,800,548,533 | 108,706,667,297 |
| (+) Adjustments to Federal Income | 141,842,731.601 | -3,071,535,718 | 11,939,583,666 | 18,064,323,926 | 16,113,965,861 | 28,470,104,437 | 32,673,256,239 | 9,438,773,599 | 6,170,159,388 |
| (-) Contributions to Donees Outside NC | 10,122,232.002 | -54,125,061 | 3,327,735,536 | 624,656,003 | 1,558,184,799 | 1,588,266,543 | 1,575,860,538 | 137,531,940 | 598,976,490 |
| (-) Nonapportionable Income | 16,172,442.661 | -3,287,780 | 367,244,484 | 55,302,181 | -405,342 | 2,999,096,016 | 7,017,486,606 | 381,191,752 | 39,833,620 |
| (-) Reduction Due to Apportionment | 1,463,466,510.715 | 14,489,334,269 | 380,620,179,181 | 91,745,554,628 | 108,832,750,958 | 175,861,885,220 | 371,149,597,622 | 38,647,872,261 | 111,571,163,853 |
| (=) Income Apportioned to NC | 43,994,538.357 | 1,906,779,721 | 10,000,170,425 | 3,078,802,059 | 4,807,599,339 | 4,475,818,897 | 8,936,290,544 | 2,072,726,179 | 2,666,852,722 |
| (+) Nonapportionable Income Allocated to NC | 698,160,423 | 1,565,259 | ** | ** | ** | ** | 358,661,936 | ** | 559,259 |
| (-) Percentage Depletion Over Cost Depletion | 38,863,692 | 0 | ** | ** | ** | ** | 0 | ** | 0 |
| (-) State Net Loss | 2,035,746,720 | 91,128,305 | 510,902,061 | 115,978,481 | 98,790,202 | 190,689,951 | 296,062,358 | 91,601,588 | 227,968,736 |
| (-) Contributions to NC Donees | 210,711,755 | 2,240,750 | 14,154,245 | 11,554,190 | 116,421,719 | 4,038,175 | 50,806,640 | 381,550 | 2,288,148 |
| (=) Net Taxable Income | 42,407,376,613 | 1,814,975,925 | 9,495,143,392 | 2,966,221,301 | 4,545,499,524 | 4,324,522,025 | 8,948,083,482 | 2,077,411,304 | 2,443,042,899 |
| Computed Income Tax | 1,060,184,809 | ** | 237,378,637 | ** | ** | ** | ** | ** | 61,076,107 |
| (-) Tax Credits | 19,976,364 | ** | 11,549,059 | ** | ** | ** | ** | ** | 67,117 |
| (=) Net Tax Liability | 1,040,208,445 | 45,374,433 | 225,829,578 | 73,943,538 | 112,701,392 | 106,162,090 | 221,141,896 | 51,923,666 | 61,008,990 |
| Non-Taxable Returns | | | | | | | | | |
| Number of returns | 58,144 | 3,542 | 5,044 | 3,143 | 3,107 | 2,476 | 5,165 | 9,418 | 9,225 |
| Federal Taxable Income, Before NOL | -217,118,360,664 | 2,509,987,243 | -10,613,934,924 | 2,489,488,577 | -7,065,842,512 | -76,285,709,933 | -10,463,683,174 | -11,360,136,160 | -53,039,432,890 |
| (+) Adjustments to Federal Income | 17,621,087,752 | 659,048,982 | -6,357,207,830 | 1,062,167,966 | 3,770,486,366 | 8,237,076,639 | -3,178,285,946 | -4,817,300,190 | 8,738,239,124 |
| (-) Contributions to Donees Outside NC | 2,332,577,750 | 13,150,533 | 1,034,731,832 | 61,356,865 | ** | 18,365,638 | 239,180,438 | 5,620,776 | 102,973,528 |
| (-) Nonapportionable Income | 5,272,016,317 | 998,324 | 488,341,369 | 367,059,679 | ** | 556,258,801 | 1,958,647,267 | 524,429,134 | 661,184,360 |
| (-) Reduction Due to Apportionment | -197,954,602,414 | 3,262,452,701 | -17,033,507,352 | 3,342,709,732 | -2,912,830,898 | -66,835,522,954 | -15,135,347,083 | -15,884,265,902 | -42,313,771,717 |
| (=) Income Apportioned to NC | -11,743,838,330 | -107,565,333 | -2,010,708,603 | -219,469,733 | -451,382,141 | -1,787,734,779 | -704,449,742 | -823,222,358 | -2,751,579,937 |
| (+) Nonapportionable Income Allocated to NC | ** | ** | ** | ** | ** | ** | ** | ** | -3,269,885 |
| (-) Percentage Depletion Over Cost Depletion | ** | ** | ** | ** | ** | 0 | 0 | ** | 0 |
| (-) State Net Loss | 8,390,933,446 | 514,613,181 | 2,062,326,251 | 390,927,526 | 692,864,087 | 1,516,203,938 | 507,380,210 | 211,530,617 | 606,337,010 |
| (-) Contributions to NC Donees | 38,802,956 | 59,150 | 504,658 | ** | 79,588 | ** | ** | ** | 447,791 |
| (=) Net Taxable Income | -20,473,677,838 | -622,070,117 | -4,146,720,904 | -616,481,667 | -1,144,193,706 | -3,296,022,108 | -1,374,107,065 | -1,035,400,333 | -3,366,320,675 |
| 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) construction; (2) retail; (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 2021**

| Industry Sector | All Returns | Franchise Tax | | Income Tax | |
|---|-------------------|----------------|-------------------|---------------|--------------------|
| | Number of returns | Number | Amount (\$) | Number | Amount (\$) |
| Agriculture, Mining & Utilities | 4,266 | 4,117 | 3,884,563 | 124 | 2,907,321 |
| Construction | 28,567 | 27,623 | 12,708,574 | 1,380 | 18,456,670 |
| Manufacturing | 7,399 | 7,112 | 11,881,588 | 1,122 | 32,334,666 |
| Wholesale | 6,966 | 6,652 | 8,159,501 | 1,041 | 58,153,733 |
| Retail | 17,035 | 16,206 | 12,341,046 | 630 | 16,743,716 |
| Transportation | 5,895 | 5,643 | 2,301,712 | 306 | 7,735,238 |
| Couriers and Warehousing | 529 | 507 | 253,087 | 37 | 382,741 |
| Information | 2,620 | 2,496 | 1,540,019 | 327 | 5,824,450 |
| Finance and Insurance | 7,374 | 7,042 | 4,351,910 | 768 | 25,011,190 |
| Real Estate and Rental & Leasing | 20,935 | 19,838 | 11,012,113 | 925 | 9,505,049 |
| Professional, Scientific and Technical Services | 31,103 | 29,526 | 8,576,496 | 3,285 | 29,796,185 |
| Management of Companies | 1,414 | 1,324 | 1,812,451 | 457 | 12,171,332 |
| Administration & Support and Waste Management & Remediation Services | 8,300 | 7,898 | 2,254,768 | 671 | 14,777,823 |
| Educational Services | 1,383 | 1,300 | 404,956 | 97 | 1,632,301 |
| Health Care and Social Assistance | 12,505 | 12,030 | 3,891,031 | 170 | 3,816,570 |
| Arts, Entertainment and Recreation | 4,235 | 3,988 | 2,235,828 | 352 | 1,418,393 |
| Accommodations and Food Services | 9,399 | 8,977 | 4,329,739 | 201 | 4,769,044 |
| Other Services | 13,295 | 12,673 | 2,968,047 | 272 | 2,170,300 |
| Unidentifiable | 1,532 | 1,459 | 419,142 | 34 | 191,013 |
| Total | 184,752 | 176,411 | 95,326,571 | 12,199 | 247,797,735 |

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-one (21) 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 Processing, Research & Equity Division.)

**SECTION V
INDUSTRY SECTORS**

Table 5.4 shows the North Carolina net taxable income of S corporations in tax year 2021 by industry sector. This is the income that is passed through to shareholders who then report this income on their individual income tax returns. The industry sectors with the largest net taxable income are (1) professional, scientific and technical services; (2) retail; (3) construction; (4) wholesale; (5) manufacturing; and (6) real estate and rental & leasing.

**Table 5.4
S Corporation NC Net Taxable Income by Industry Sector
Tax Year 2021**

| Industry Sector | Net Taxable Income | | |
|---|--------------------|-----------------------|-----------------------|
| | Number of returns | Amount (\$) | Share of total amount |
| Agriculture, Forestry, Fishing and Hunting | 3,783 | 599,575,131 | 1.9% |
| Mining | 119 | 32,648,981 | 0.1% |
| Utilities | 157 | 30,735,966 | 0.1% |
| Construction | 25,934 | 3,803,550,450 | 12.0% |
| Manufacturing | 6,642 | 2,806,732,104 | 8.9% |
| Wholesale | 6,376 | 3,208,386,708 | 10.1% |
| Retail | 16,179 | 4,075,115,081 | 12.9% |
| Transportation | 5,427 | (493,981,690) | -1.6% |
| Couriers and Warehousing | 486 | 75,273,700 | 0.2% |
| Information | 2,357 | 466,511,727 | 1.5% |
| Finance and Insurance | 6,521 | 2,269,727,551 | 7.2% |
| Real Estate and Rental & Leasing | 19,517 | 2,692,603,759 | 8.5% |
| Professional, Scientific and Technical Services | 27,976 | 5,017,416,404 | 15.9% |
| Management of Companies | 1,167 | 1,002,829,133 | 3.2% |
| Administration & Support and Waste Management & Remediation Services | 7,639 | 1,125,795,748 | 3.6% |
| Educational Services | 1,299 | 114,067,212 | 0.4% |
| Health Care and Social Assistance | 11,950 | 2,092,675,584 | 6.6% |
| Arts, Entertainment and Recreation | 3,848 | 302,460,713 | 1.0% |
| Accommodations and Food Services | 8,827 | 1,324,462,803 | 4.2% |
| Other Services | 12,746 | 982,871,577 | 3.1% |
| Unidentifiable | 1,138 | 91,440,634 | 0.3% |
| Total | 170,088 | 31,620,899,276 | |

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-one (21) 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 Processing, Research & Equity Division.)

**SECTION V
INDUSTRY SECTORS**

Table 5.5 shows the North Carolina net taxable income of S corporations in tax year 2021 by industry sector for taxpayers who had positive amounts of net taxable income. The industry sectors with the largest net taxable income are (1) professional, scientific and technical services; (2) construction; (3) retail; (4) wholesale; (5) manufacturing; and (6) real estate and rental & leasing.

**Table 5.5
S Corporation NC Net Taxable Income (Positive Values Only) by Industry Sector
Tax Year 2021**

| Industry Sector | Net Taxable Income (Positive Values Only) | | |
|---|--|-----------------------|--------------------------|
| | Number | Amount (\$) | Share of total amount |
| Agriculture, Forestry, Fishing and Hunting | 2,410 | 696,021,565 | 2.0% |
| Mining | 78 | 36,118,091 | 0.1% |
| Utilities | 108 | 34,683,202 | 0.1% |
| Construction | 18,895 | 4,260,493,428 | 12.1% |
| Manufacturing | 4,674 | 3,030,397,140 | 8.6% |
| Wholesale | 4,922 | 3,301,685,825 | 9.3% |
| Retail | 11,799 | 4,259,749,806 | 12.1% |
| Transportation | 3,975 | 825,811,544 | 2.3% |
| Couriers and Warehousing | 338 | 83,746,195 | 0.2% |
| Information | 1,645 | 503,673,328 | 1.4% |
| Finance and Insurance | 5,425 | 2,331,009,348 | 6.6% |
| Real Estate and Rental & Leasing | 14,533 | 2,911,284,075 | 8.2% |
| Professional, Scientific and Technical Services | 21,158 | 5,276,064,580 | 14.9% |
| Management of Companies | 891 | 1,053,515,559 | 3.0% |
| Administration & Support and Waste Management & Remediation Services | 5,563 | 1,217,806,165 | 3.4% |
| Educational Services | 892 | 129,018,828 | 0.4% |
| Health Care and Social Assistance | 9,262 | 2,285,936,701 | 6.5% |
| Arts, Entertainment and Recreation | 2,644 | 389,868,466 | 1.1% |
| Accommodations and Food Services | 6,024 | 1,513,367,257 | 4.3% |
| Other Services | 9,176 | 1,107,353,613 | 3.1% |
| Unidentifiable | 779 | 101,159,277 | 0.3% |
| Total | 125,191 | 35,348,763,993 | |

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-one (21) 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 Processing, Research & Equity Division.)