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CD-405 CW Instructions
2019 Combined Corporate Income Tax Worksheet

GENERAL INFORMATION

Important: A corporation may file a combined income tax return **only** if specifically directed in writing to do so by the Secretary of Revenue.

The information contained in these instructions is to be used as a guide in the preparation of a North Carolina combined income tax return and is not intended to cover all provisions of the law. For further information on North Carolina tax law, refer to administrative rules, bulletins, directives, and other publications issued by the Department of Revenue. The Department has adopted rules (17 NCAC 05F.0101 through 17 NCAC 05F.0601) regarding the Secretary of Revenue's authority to adjust net income or to require a combined return. These rules are located at the Department's website, www.ncdor.gov. Click on "Taxes and Forms," "Corporate Income and Franchise Tax," and select "Administrative Code."

Purpose of Form CD-405 CW

A corporation required or authorized by the Secretary of Revenue to submit a combined income tax return must use Form CD-405, C-Corporation Tax Return, and Form CD-405 CW, Combined Corporate Income Tax Worksheet to calculate its North Carolina net income on a combined basis for all members of its unitary business that are required or authorized to be part of the combined return.

When to File

Combined income tax returns are due on the 15th day of the fourth month following the close of the income year. An income year ending on any day other than the last day of the month is deemed to end on the last day of the calendar month ending nearest to the last day of the actual income year.

Extension. An extension of time to file the combined income tax return may be granted for six (6) months if the extension application is received timely. Without a valid extension, a combined return filed after the statutory due date will be delinquent and subject to interest and all applicable penalties provided by law. To receive an extension, taxpayers must file the application by the original due date of the combined return.

Beginning with tax year 2019, a taxpayer that receives an automatic extension to file a federal corporate income tax return will be granted an automatic state extension to file the N.C. C-Corporation tax return, Form CD-405, and Combined Corporate Income Tax Worksheet, Form CD-405 CW. In order to receive the automatic state extension, you **MUST** fill in the "Federal Extension" circle on page 1 of Form CD-405.

Entities Included in a Combined Return

The beginning point for a combined return is the net income on a combined basis of all members of an affiliated group that are conducting a unitary business, except those members of the unitary business group that are statutorily excluded from the combined return by G.S. 105-130.5A(j)(1) through (7). *(For more information, see "Entities Excluded from a Combined Return.")*

The term "unitary business" is defined as "one or more related business organizations where there is a unity of ownership, operation, and use." It can also exist where there is interdependence in their functions. A determination of whether a corporation is part of a unitary business with another corporation is determined based on the facts and circumstances of each case.

A corporation or the Secretary of Revenue may propose a combination of fewer than all members of the unitary business group and the Secretary and the corporation may agree to a combination of less than the entire unitary business group if the Secretary finds that the combination of a smaller group is a reasonable means of redetermining State net income. The Secretary may not require a combination of fewer than all members of the combined group without the consent of the corporation.

Entities Excluded from a Combined Return

G.S. 105-130.5A(j) sets out seven types of entities that cannot be included in a combined return:

1. A corporation not required to file a federal income tax return.
2. An insurance company, other than a captive insurance company, (i) which is subject to tax under Article 8B of Chapter 105 (gross premiums taxes), (ii) whose premiums are subject to tax under Article 21 of Chapter 58 (surplus lines insurance tax) or a similar tax in another state, (iii) which is licensed as a reinsurance company, (iv) which is a life insurance company as defined in section 816 of the Internal Revenue Code, or (v) which is an insurance company subject to tax imposed by section 831 of the Code (insurance companies other than life insurance companies.) A "captive insurance company" means an insurer that is part of an affiliated group where the insurer receives more than 50% of its net written premiums or other amounts received as compensation for insurance from members of the affiliated group. The captive insurance company test is an annual test.
3. A corporation exempt from taxation under section 501 of the Internal Revenue Code.
4. An S corporation.
5. A foreign corporation as defined in section 7701 of the Internal Revenue Code, other than a domestic branch thereof. The term "foreign corporation" means a corporation that is not a United States domestic corporation.
6. A partnership, limited liability company, or other entity not taxed as a corporation.
7. A corporation with at least 80% of its gross income from all sources in the tax year being active foreign business income as defined in section 861(c)(1)(B) of the Internal Revenue Code in effect as of July 1, 2009. The term "active foreign business income" means gross income which (i) is derived from sources outside the United States or is attributable to income so derived by a subsidiary of such corporation, and (ii) is attributable to the active conduct of a trade or business in a foreign country or possession of the United States by the corporation or by a subsidiary.

Procedures for Filing a Combined Return

A corporation approved to file a combined income tax return must do so on Form CD-405, C-Corporation Tax Return, and fill in the "Combined Return" circle located on page 1 of the return. The combined Form CD-405 and all required schedules must be filed by the "principal member." The combined income tax return replaces

the separate entity income tax returns filed by the members of the group that are doing business in North Carolina.

Who is the "Principal Member"?

The "principal member" is a member of the combined group that acts in the group's name in all matters relating to the income tax liability for the combined group, and is the entity responsible for preparing the corporate income tax return and making corporate income tax payments for the combined group.

When filing Form CD-405 CW, the principal member must include the following schedules:

1. Schedule C of Form CD-405 CW, "Combined Federal Taxable Income Before NOL," or similar schedule that reflects the computation of the federal taxable income of each corporation in the combined return that the corporation would have reported if the corporation had filed a North Carolina income tax return on a separate company basis.
2. A schedule detailing all intercompany eliminations made by and between the members of the unitary group.
3. Schedule D of Form CD-405 CW, "Combined Adjustments to Federal Taxable Income," or similar schedule that reflects North Carolina adjustments to federal taxable income pursuant to G.S.105-130.5. *(For specific information on State adjustments, refer to the instructions for Form CD-405 available on the Department's website.)*
4. Schedule E of Form CD-405 CW, "Combined Apportionment Factor," or similar schedule that reflects the computation of the combined apportionment factor as required in 17 NCAC 05F .0501(6). Taxpayers **may not** use Schedule O of Form CD-405.
5. Schedule F of Form CD-405 CW, "Schedule of Payments Made by Each Member of the Combined Group," or similar schedule that reflects all North Carolina estimated income tax payments and extension payments made by each member of the combined group.
6. A schedule of eligible State net losses and the use of same by member entities and the combined group. *(For specific information on the State net loss deduction, refer to G.S. 105-130.8A.)*
7. A schedule of eligible tax credits and the use of same by member entities and the combined group. *(For more information, see "Tax Credits" below.)*

Tax Credits

Any member of the combined group that has activities that qualify for a North Carolina income tax credit must provide all required information to determine and support the amount of the credit on a separate company basis. This information must be included with the combined return in each year the qualifying member becomes eligible to claim a credit or an installment of a credit, even if the group's income tax liability for that year is not sufficient for the combined group to benefit from the income tax credit.

A combined group eligible to claim income tax credits must complete Form CD-425, Corporate Tax Credit Summary, on a combined basis and file it with the group's income tax return. If a member of the combined group is eligible to claim an income tax credit limited by statute to 50% of tax, the combined group must also complete Form NC-478, Summary of Tax Credits Limited to 50% of Tax, and the applicable NC-478 letter series form for the credit. *(For more specific information concerning income tax credits, refer to the instructions for Form CD-405 and the Corporate Income and Franchise Tax Bulletins.)*

Franchise Tax

Any corporation included in a combined income tax return doing business in North Carolina under G.S. 105-114(b)(3) must file a separate North Carolina franchise tax return and pay any franchise tax due on a separate entity basis. Any corporation included in a combined income tax return not doing business in North Carolina under G.S. 105-114(b)(3) is not subject to North Carolina franchise tax.

Apportionment Factor. If the corporation filing a separate franchise tax return is a multistate taxpayer, *(a corporation having income from business activities that is taxable both within and without North Carolina)*, then the corporation must calculate an apportionment factor to be used in calculating its net worth using its separate entity property, payroll, and sales before intercompany eliminations. The corporation **may use** Schedule O of Form CD-405 to reflect the separate entity's apportionment factor for franchise tax purposes.

Principal Member. The principal member is required to compute its franchise tax on a separate entity basis (Schedules A, C, D, E, F, L, and O of Form CD-405). However, it must file and pay its franchise tax on the combined group's Form CD-405.

Other Members. All other members must compute franchise tax on separate tax returns by completing Schedules A, C, D, E, F, L and O of Form CD-405. Each corporation must leave blank the income tax schedules, (Schedules B, G, H, I, M-1, M-2, and N) of Form CD-405. In addition, each member's franchise tax return must include a statement with the return that indicates the corporation's income is included in a combined income tax return filed by the combined group's principal member. The statement must include the name and Federal Employer Identification Number (FEIN) of the principal member.

Extensions. An extension of time to file the franchise tax return may be granted for six (6) months if the extension application is received timely. Unless specifically directed in writing by the Secretary of Revenue to file a combined franchise tax return, each corporation that is doing business pursuant to G.S. 105-114(b)(3) must file an application for extension of franchise tax (Form CD-419) by the original due date of the return.

Note: A taxpayer that receives an automatic extension to file a federal corporate income tax return will also be granted an automatic state extension to file the franchise tax return.

Where to File

To ensure proper handling, the principal member must submit the combined income tax return including a payment voucher, "Form CD-V," for the corporate income tax of the combined group. All separate entity franchise tax returns must be submitted with the combined income tax return. A separate franchise tax payment voucher must also be submitted for each corporation required to file and pay franchise tax. *(For more information on Form CD-V, refer to the instructions for Form CD-405 available on the Department's website.)*

Mail the combined return, any balance due, and a personalized payment voucher, Form CD-V, to:

Corporate Combined Return
North Carolina Department of Revenue
P.O. Box 871
Raleigh, NC 27602-0871

Specific Instructions for Filing Form CD-405 CW

Use Form CD-405 and Form CD-405 CW for tax year 2019 to file a combined income tax return for taxable years beginning on or after January 1, 2019 **only if specifically directed in writing**. **Important:** A corporation can **only** file a combined income tax return if specifically directed in writing to do so by the Secretary of Revenue. (*For more specific information on the Secretary's authority to combine income tax returns, refer to the Administrative Code and any published Directives available on the Department's website.)*

Step 1 - Provide Member Information

Enter the principal member's true legal name (as set forth in the corporate charter) and federal employer identification number (FEIN) on the appropriate lines.

If the unitary business filed a combined income tax return last year, enter the name and FEIN of the principal member that filed Form CD-405 last year, if different from this year.

Schedule A - Entities Included in Combined Return. On Lines 1 through 10, list the name and FEIN of each member of the combined unitary group included in the combined return. If the corporation is new to the combined group, fill in the appropriate circle and enter the date the corporation became a member of the group. (*Attach additional schedules if necessar*y.)

Schedule B - Entities Excluded from Combined Return. On Lines 1 through 10, list the name and FEIN of each corporation in the affiliated group that is not included in the North Carolina combined income tax return. Fill in the appropriate circle(s) that corresponds to the reason(s) the corporation was excluded from the combined return. (*Attach additional schedules if necessary.)*

Note. Any corporation authorized by the Secretary of Revenue to exclude additional entities from the combined income tax return must complete Schedule B. In the space provided, list the name and FEIN of the excluded corporation(s). Fill in the "other" circle and attach documentation to support the exclusion.

Step 2 - Calculate Federal Taxable Income

Federal taxable income as defined in the Internal Revenue Code, effective as of January 1, 2019 (before net operating loss) is the starting point for determining North Carolina taxable income

Important. DO NOT use dollar signs ($), commas, or decimal points. If amount is negative, enter the amount in parenthesis. **Round all amounts to whole U.S. dollars.**

Schedule C - Combined Federal Taxable Income Before NOL

Columns A, B, and C. Enter the name and federal employer identification number (FEIN) of each member of the combined group included in the return. Complete Lines 1 though 30 for each member of the combined group. Line 30 will represent federal taxable income for each member "as if" each corporation were not part of a consolidated U.S. Form 1120 (i.e. a pro forma U.S. Form 1120.) (*Attach additional schedules if necessary.)*

Column D - Eliminations between members. In the space provided, list any intercompany transactions between members that must be eliminated to arrive at combined federal taxable income. *(Attach a schedule that details the amount of each line by entity.)*

Column E - Combined Totals. Compute the net total of Columns A, B, C, and D for each line. Total Column E and enter the sum on Form CD-405, Schedule B, Line 10. **If the amount on Form CD-405, Schedule B, Line 10 is negative, enter the amount and fill in the circle located next to Line 10 to indicate the amount is negative. Do not use brackets or other symbols to indicate a negative number.**

Step 3 - Calculate Federal Taxable Income Subject to Apportionment

Taxpayers must make certain North Carolina adjustments (additions and subtractions) as provided in G.S. 105-130.5 to determine combined income subject to apportionment. Schedule D provides a list of some of the adjustments required by statute but is not all-inclusive. *(For a detailed listing of State adjustments to federal taxable income, see the instructions for Form CD-405 available on the Department's website.)*

Important. DO NOT use dollar signs ($), commas, or decimal points. If amount is negative, enter the amount in parenthesis. **Round all amounts to whole U.S. dollars.**

Schedule D - Combined Adjustments to Federal Taxable Income

Columns A, B, and C. Enter the name and federal employer identification number (FEIN) of each member of the combined group included in the return. Complete Lines 1 though 5 for each member of the combined group.

Column D - Eliminations between members. In the space provided, list any intercompany transactions between members that must be eliminated to arrive at combined North Carolina taxable income. *(Attach a schedule that details the amount of each line by entity.)*

Column E - Combined Totals. Compute the net total of Columns A, B, C, and D for each line. Total Column E and enter the sum on Form CD-405, Schedule B, Line 11. **If the amount on Form CD-405, Schedule B, Line 11 is negative, enter the amount and fill in the circle located next to Line 11 to indicate the amount is negative. Do not use brackets or other symbols to indicate a negative number.**

Step 4 - Calculate Apportionment Factor

Only **one** apportionment factor is to be calculated by a taxpayer for the combined group. Unless otherwise provided by statute, the standard apportionment factor **must** be used. *(For more information, see "Standard Apportionment Factor.")* If more than fifty percent (50%) of the group's combined income subject to apportionment is generated from a business activity subject to special apportionment under subsections (m) through (s1) of G.S. 105-130.4, then that apportionment formula must be used for the

entire group. *(For more information, see "Other Special Factor.")*

Note. If the taxpayer believes the statutory apportionment method that otherwise applies to the combined group subjects a greater portion of the group's income to tax than is attributable to its business in this State, the taxpayer may propose, and the Secretary must consider, an alternative method of apportionment. *(For more information on alternative apportionment, see G.S. 105-130.4(t1).)*

Part 1 - Standard Apportionment Factor

Columns A, B, and C. Enter the name and federal employer identification number (FEIN) of each member of the combined group included in the return.

Columns A through D, Lines 1 through 7. A taxpayer must include in the apportionment factor the sales of all corporations included in the combined group as provided in G.S. 105-130.4. All sales into North Carolina by entities within the combined group must be included in the sales factor numerator. Where an intercompany transaction has occurred and been eliminated in the calculation of combined income, this amount must also be eliminated from the numerator and denominator of the factor. *(For detailed information on how to compute the standard apportionment factor, refer to the 2019 instructions for Form CD-405 available on the Department's website.)*

Column E. For each line, 1a, 1b, 2a, 2b, 3a, 3b, 4a, 4b, 5a, 5b, 6a, 6b, 7a and 7b, add the amounts in Columns A, B, C, and D, and enter the combined totals for each line in Column E.

Column E, Line 8a. Add the amounts on lines 1a, 2a, 3a, 4a, 5a, 6a, and 7a in Columns A, B, C, and D, and enter the combined totals in Column E.

Column E, Line 8b. Add the amounts on lines 1b, 2b, 3b, 4b, 5b, 6b, and 7b in Columns A, B, C, and D, and enter the combined totals in Column E.

Column E, Line 9. Divide Column E, Line 8a by Column E, Line 8b. **This is the 2019 standard apportionment factor for the combined group.** Enter the factor on Form CD-405, Schedule B, Line 17. **Do not** complete Schedule O of Form CD-405.

Note. The apportionment factor must be calculated 4 places to the right of the decimal.

Part 2 - Other Special Factor

G.S. 105-130.4 and the instructions for completing Form CD-405, C-Corporation Tax Return, should be consulted for detailed information regarding apportionment of income.

Important: Special apportionment provisions apply to certain types of businesses. The Department refers to the North American Industry Classification System (NAICS) as a means of determining whether a taxpayer's business operations require the use of a special apportionment provision. See G.S. 105-130.4 for definitions and other statutory requirements.

If more than fifty percent (50%) of the group's combined income subject to apportionment is generated from a business activity subject to special apportionment, then that apportionment formula must be used for the entire group. Enter the apportionment factor from Part 2. **Do not** complete Schedule O of Form CD-405.

Note. The apportionment factor must be calculated 4 places to the right of the decimal.

Step 5 - Provide Payment Information

The principal member must complete Schedule F of Form CD-405 CW listing all North Carolina income tax estimated payments (Form CD-429) and corporate income tax extension payments (Form CD-419) made by each member of the combined group.

Columns A, B, and C. Enter the name and federal employer identification number (FEIN) of each member of the combined group included in the return. Complete Lines 1 though 5 for each member of the combined group.

Column E- Combined Totals. Compute the total of Columns A, B, and C for Lines 1 through 5.

Column E, Line 6. Add Lines 1 through 5. Enter the sum on Form CD-405, Schedule B, Line 27b.

Column E, Line 7. Compute the total of Columns A through C. Enter the sum on Form CD-405, Schedule B, Line 27a.

Step 6 - Provide Other Information

State Net Losses. The principal member must include a schedule of eligible State net losses and the use of State net losses by any member of the combined group. *(For additional information on how to calculate the State net loss deduction, see G.S. 105-130.8A and the 2015 law change publication on the Department's website.)*

Tax Credits. The principal member must include a schedule of eligible tax credits and the use of tax credits by any member of the combined group. *(For additional information on corporate income tax credits, see the "Tax Credits" section on page 2 of these instructions and the instructions for Form CD-405.)*