

**Important Notice: Computation of Net Economic Loss  
North Carolina Gen. Stat. 105-130.8**

N.C. Gen. Stat. § 105-130.8 allows a deduction to a corporation that has sustained a net economic loss in any or all of the fifteen preceding income years. The purpose of allowing the deduction of a prior year loss is to grant some measure of relief to the corporation that has incurred economic misfortune or is otherwise materially affected by strict adherence to the annual accounting rule in the determination of net income. The net economic loss for any year means the amount by which allowable deductions for the year other than prior year losses exceed income from all sources in the year including any income not subject to North Carolina corporate income tax.

Historically, the North Carolina Department of Revenue has interpreted this provision to require income items not taxable pursuant to N.C. Gen. Stat. § 105-130.5, such as U.S. Government interest and dividends to be considered in the computation of the loss in the year of creation. After reconsideration of the plain language of the statute, the Department has revised its interpretation, recognizing that any allowable deduction, although not taxable, may not reduce a loss in the year the loss is created. N.C. Gen. Stat. § 105-130.8(a)(2). However, pursuant to N.C. Gen. Stat. § 105-130.8(a)(4), a loss carried forward to a subsequent year must first be offset by any income not taxable. The interpretation of the application of a net economic loss carried forward and claimed as a deduction in a subsequent year has not been revised.

The following example demonstrates the revised interpretation and supersedes the examples currently published in the Income and Franchise Tax Rules and Bulletins. That document is currently being revised and will be published later this year.

Example: ABC Loss Co (“ABC”) is a North Carolina corporation engaged in the business of manufacturing chemicals within and without this State. ABC’s business is not directed or managed from its North Carolina offices; therefore, ABC’s commercial domicile is not in this State. For 2010, ABC filed a federal form 1120, showing a taxable loss of \$199,000. (See *Exhibit 1, Page 1, Line 30*)

In determining the federal taxable loss for tax year 2010, the corporation includes the following income and deduction items:

- a. Dividend income from more than 20% owned corporations in the amount of \$3,050,000. (See *Exhibit 1, Page 2, Schedule C, Line 2*)
- b. Dividend income from affiliated group members in the amount of \$1,808,000. (See *Exhibit 1, Page 2, Schedule C, Line 11*)
- c. Dividend income from foreign corporations in the amount of \$1,043,000. (See *Exhibit 1, Page 2, Schedule C, Line 14*)
- d. U.S. Government interest income in the amount of \$26,000. (See *Exhibit 1, Page 1, Line 5*)
- e. Other income in the amount of \$10,000,000. (See *Exhibit 1, Page 1, Line 10*)
- f. Other deductions in the amount of \$11,878,000. (See *Exhibit 1, Page 1, Line 26*)
- g. A special deduction in the amount of \$4,248,000. (See *Exhibit 1, Page 1, Line 29b*)

In determining State net income, the corporation makes the following adjustments to its federal taxable loss:

- a. Deducts U.S Government interest in the amount of \$26,000. (See *Exhibit 2, Page 3, Schedule H, Line 3a*). N.C. Gen. Stat. § 105-130.5(b)(1)
- b. Deducts dividend income from foreign corporations in the amount of \$1,043,000. (See *Exhibit 2, Page 3, Schedule H, Line 3b*). N.C. Gen. Stat. § 105-130.5(b)(3a)

In addition, the corporation classifies dividend income in the amount of \$610,000 as nonapportionable income. The amount of nonapportionable dividend income is calculated by reducing the amount of dividend income reported in 2010 (\$5,901,000) by the sum of the special deduction (\$4,248,000) and the dividend income from foreign corporations (\$1,043,000). (See *Exhibit 2, Page 4, Schedule N, Line 1*). N.C. Gen. Stat. § 105-130.4(h).

During tax year 2010, the corporation received life insurance proceeds in the amount of \$50,000 as a result of the death of an employee and the proceeds were excluded from federal taxable income. (See *Exhibit 1, Page 3, Schedule M-1, Line 7*).

For tax year 2010, the North Carolina apportionment factor is sixty percent (60%).

### Computation of Corporate Income Tax for 2010

|  |             |
|--|-------------|
| Federal Taxable Income Before NOL ( <i>Exhibit 2, Page 1, Schedule B, Line 10</i> )      | (199,000)   |
| Adjustments to Federal Taxable Income ( <i>Exhibit 2, Page 1, Schedule B, Line 11</i> ): |             |
| Deduct: U.S. Government Interest   | 26,000      |
| Deduct: Foreign Dividends  | 1,043,000   |
|  | 1,069,000   |
| N.C. Taxable Income ( <i>Exhibit 2, Page 1, Schedule B, Line 14</i> )                    | (1,268,000) |
| Nonapportionable Income ( <i>Exhibit 2, Page 1, Schedule B, Line 15</i> ):               |             |
| Deduct: Dividend Income Classified as Nonapportionable                                   | 610,000     |
| Apportionable Income ( <i>Exhibit 2, Page 1, Schedule B, Line 16</i> )                   | (1,878,000) |
| Apportionment Factor ( <i>Exhibit 2, Page 1, Schedule B, Line 17</i> )                   | 60.0000%    |
| Income Apportionable to N.C. ( <i>Exhibit 2, Page 1, Schedule B, Line 18</i> )           | (1,126,800) |
| Nonapportionable Income Allocated Directly to N.C.                                       | 0           |
| Income Subject to N.C. Tax for 2010 ( <i>Exhibit 2, Page 1, Schedule B, Line 20</i> )    | (1,126,800) |

### Computation of Net Economic Loss for 2010

|  |                    |
|--|--------------------|
| Apportionable Income ( <i>Exhibit 2, Page 1, Schedule B, Line 16</i> ) | (1,878,000)        |
| Income sources received in 2010 not taxable in North Carolina:         |                    |
| Add: Life insurance proceeds   | 50,000             |
| Add: Nonapportionable dividend income                                  | <u>610,000</u>     |
|  | <u>660,000</u>     |
| <b>Net economic loss for tax year 2010</b>                             | <b>(1,218,800)</b> |
| Apportionment Factor   | <u>60.0000%</u>    |
| <b>Net economic loss apportioned to N.C. for tax year 2010</b>         | <b>(730,800)</b>   |

For 2011, the corporation's federal taxable loss is \$772,500. (*See Exhibit 3, Page 1, Line 30*)

In determining the federal taxable loss for tax year 2011, the corporation includes the following income and deduction items:

- a. Dividend income from more than 20% owned corporations in the amount of \$4,050,000. (*See Exhibit 3, Page 2, Schedule C, Line 2*)

- b. Dividend income from affiliated group members in the amount of \$1,808,000. (See Exhibit 3, Page 2, Schedule C, Line 11)
- c. U.S. Government interest income in the amount of \$6,000. (See Exhibit 3, Page 1, Line 5)
- d. Other income in the amount of \$5,000,000. (See Exhibit 3, Page 1, Line 10)
- e. Other deductions in the amount of \$6,588,500. (See Exhibit 3, Page 1, Line 26)
- f. A special deduction in the amount of \$5,048,000. (See Exhibit 3, Page 1, Line 29b)

In determining State net income, the corporation deducts U.S. Government interest in the amount of \$6,000. (See Exhibit 4, Page 3, Schedule H, Line 3a) N.C. Gen. Stat. § 105-130.5(b)(1). The corporation also classifies dividend income in the amount of \$810,000 as nonapportionable income. The amount of nonapportionable dividend income (\$810,000) is calculated by reducing the amount of dividend income reported in 2011 (\$5,858,000) by the amount of special deduction (\$5,048,000). (See Exhibit 4, Page 4, Schedule N, Line 1). N.C. Gen. Stat. § 105-130.4(h)

For tax year 2011, the North Carolina apportionment factor is seventy percent (70%).

In addition in tax year 2011, the corporation received interest income from municipal bonds in the amount of \$100,000 that was not taxed for federal or State income tax purposes. (See Exhibit 3, Page 3, Schedule M-1, Line 7).

#### Computation of Corporate Income Tax for 2011

|  |             |
|--|-------------|
| Federal Taxable Loss Before NOL (Exhibit 4, Page 1, Schedule B, Line 10)       | (772,500)   |
| Adjustments to Federal Taxable Income (Exhibit 4, Page 1, Schedule B, Line 11) |             |
| Deducts: U.S. Government Interest  | 6,000       |
| N.C. Taxable Income (Exhibit 4, Page 1, Schedule B, Line 14)                   | (778,500)   |
| Nonapportionable Income (Exhibit 4, Page 1, Schedule B, Line 15):              |             |
| Deduct: Dividend Income Classified as Nonapportionable                         | 810,000     |
| Apportionable Income (Exhibit 4, Page 1, Schedule B, Line 16)                  | (1,588,500) |
| Apportionment Factor (Exhibit 4, Page 1, Schedule B, Line 17)                  | 70.0000%    |
| Income Apportionable to N.C. (Exhibit 4, Page 1, Schedule B, Line 18)          | (1,111,950) |
| Nonapportionable Income Allocated Directly to N C.                             | 0           |
| Income Subject to N.C. Tax (Exhibit 4, Page 1, Schedule B, Line 20)            | (1,111,950) |

### Computation of Net Economic Loss for 2011

|  |                  |
|--|------------------|
| Apportionable Income ( <i>Exhibit 4, Page 1, Schedule B, Line 16</i> ) | (1,588,500)      |
| Income sources received in 2011 not taxable in North Carolina:         |                  |
| Add: Nonapportionable dividend income                                  | 810,000          |
| Add: Municipal bond interest income                                    | 100,000          |
| <b>Net economic loss for tax year 2011</b>                             | <b>(678,500)</b> |
| Apportionment Factor   | <u>70.0000%</u>  |
| <b>Net economic loss apportioned to N.C. for tax year 2011</b>         | <b>(474,950)</b> |

### Computation of Net Economic Loss Deduction

|   |               |                  |
|---|---------------|------------------|
| Net economic loss apportioned to North Carolina for tax year 2010 | (730,800)     |                  |
| Income received in 2011 not taxable in North Carolina:            |               |                  |
| Dividend received deduction (70% of 5,048,000)                    | 3,533,600     |                  |
| U.S. Government interest (70% of 6,000)                           | 4,200         |                  |
| Nonapportionable dividend income (70% of 810,000)                 | 567,000       |                  |
| Municipal bond interest income (70% of 100,000)                   | <u>70,000</u> | <u>4,174,800</u> |

Net economic loss deduction

0

*(No net economic loss deduction exists from net economic loss created in 2010 because the net economic loss apportioned to North Carolina for tax year 2010 does not exceed the amount of income not taxable in North Carolina received in 2011. Therefore, the only net economic loss available to be carried forward to tax year 2012 is the net economic loss created in 2011, which is 474,950.)*

N.C. Gen. Stat. 105-130.8(b) provides that the Secretary or the taxpayer may redetermine an item originating in a taxable year that is closed under the statute of limitations for the purpose of determining the amount of net economic loss that can be carried forward to a taxable year that remains open under the statute of limitations.

1120

Form Department of the Treasury Internal Revenue Service

U.S. Corporation Income Tax Return

For calendar year 2010 or tax year beginning \_\_\_\_\_, 2010, ending \_\_\_\_\_, 20

See separate instructions.

A Check if:

- 1a Consolidated return (attach Form 851)
b Life/nonlife consolidated return
2 Personal holding co. (attach Sch. PH)
3 Personal service corp. (see instructions)
4 Schedule M-3 attached

Print or type

Name: ABC Loss Co.
Number, street, and room or suite no. If a P.O. box, see instructions: 1234 Any Street
City or town, state, and ZIP code: City, State, 56789

B Employer identification number

xx-xxxxxxx

C Date incorporated

xx/xx/xxxx

D Total assets (see instructions)

\$

E Check if: (1) Initial return (2) Final return (3) Name change (4) Address change

Income section table with columns 1a-11 and 1c-11. Includes rows for Gross receipts, Cost of goods sold, Gross profit, Dividends, Interest, Gross rents, Gross royalties, Capital gain net income, Net gain or loss, Other income, and Total income.

Deductions section table with columns 12-27 and 29a-29c. Includes rows for Compensation of officers, Salaries and wages, Repairs and maintenance, Bad debts, Rents, Taxes and licenses, Interest, Charitable contributions, Depreciation, Depletion, Advertising, Pension, profit-sharing, etc., plans, Employee benefit programs, Domestic production activities deduction, Other deductions, and Total deductions.

Tax, Refundable Credits, and Payments section table with columns 30-36. Includes rows for Taxable income, Total tax, 2009 overpayment credited to 2010, 2010 estimated tax payments, 2010 refund applied for on Form 4466, Tax deposited with Form 7004, Credits (Form 2439, Form 4136), Refundable credits from Form 3800, line 19c, and Form 8827, line 8c, Estimated tax penalty, Amount owed, Overpayment, and Enter amount from line 35 you want.

Sign Here

Under penalties of perjury, I declare that I have examined this return, including accompanying schedules and statements, and to the best of my knowledge and belief, it is true, correct, and complete. Declaration of preparer (other than taxpayer) is based on all information of which preparer has any knowledge.

Signature of officer Date Title

May the IRS discuss this return with the preparer shown below (see instructions)? Yes No

Paid Preparer Use Only

Print/Type preparer's name Preparer's signature Date Check if self-employed PTIN Firm's name Firm's EIN Firm's address Phone no.

Form 1120 (2010)

**Schedule A Cost of Goods Sold** (see instructions)

|   |  |   |  |
|---|--|---|--|
| 1 | Inventory at beginning of year   | 1 |  |
| 2 | Purchases  | 2 |  |
| 3 | Cost of labor  | 3 |  |
| 4 | Additional section 263A costs (attach schedule)  | 4 |  |
| 5 | Other costs (attach schedule)  | 5 |  |
| 6 | <b>Total.</b> Add lines 1 through 5  | 6 |  |
| 7 | Inventory at end of year   | 7 |  |
| 8 | <b>Cost of goods sold.</b> Subtract line 7 from line 6. Enter here and on page 1, line 2 | 8 |  |

9a Check all methods used for valuing closing inventory:

(i)  Cost

(ii)  Lower of cost or market

(iii)  Other (Specify method used and attach explanation.) ▶

b Check if there was a writedown of subnormal goods ▶

c Check if the LIFO inventory method was adopted this tax year for any goods (if checked, attach Form 970) ▶

d If the LIFO inventory method was used for this tax year, enter percentage (or amounts) of closing inventory computed under LIFO **9d** | |

e If property is produced or acquired for resale, do the rules of section 263A apply to the corporation?  Yes  No

f Was there any change in determining quantities, cost, or valuations between opening and closing inventory? If "Yes," attach explanation  Yes  No

**Schedule C Dividends and Special Deductions** (see instructions)

|    | (a) Dividends received   | (b) %            | (c) Special deductions (a) × (b) |
|----|--|------------------|----------------------------------|
| 1  | Dividends from less-than-20%-owned domestic corporations (other than debt-financed stock)  | 70               |                                  |
| 2  | Dividends from 20%-or-more-owned domestic corporations (other than debt-financed stock)  | 80               | 2,440,000                        |
| 3  | Dividends on debt-financed stock of domestic and foreign corporations  | see instructions |                                  |
| 4  | Dividends on certain preferred stock of less-than-20%-owned public utilities   | 42               |                                  |
| 5  | Dividends on certain preferred stock of 20%-or-more-owned public utilities   | 48               |                                  |
| 6  | Dividends from less-than-20%-owned foreign corporations and certain FSCs   | 70               |                                  |
| 7  | Dividends from 20%-or-more-owned foreign corporations and certain FSCs   | 80               |                                  |
| 8  | Dividends from wholly owned foreign subsidiaries   | 100              |                                  |
| 9  | <b>Total.</b> Add lines 1 through 8. See instructions for limitation   |                  | 2,440,000                        |
| 10 | Dividends from domestic corporations received by a small business investment company operating under the Small Business Investment Act of 1958 | 100              |                                  |
| 11 | Dividends from affiliated group members  | 100              | 1,808,000                        |
| 12 | Dividends from certain FSCs  | 100              |                                  |
| 13 | Dividends from foreign corporations not included on lines 3, 6, 7, 8, 11, or 12  |                  |                                  |
| 14 | Income from controlled foreign corporations under subpart F (attach Form(s) 5471)  |                  |                                  |
| 15 | Foreign dividend gross-up  |                  |                                  |
| 16 | IC-DISC and former DISC dividends not included on lines 1, 2, or 3   |                  |                                  |
| 17 | Other dividends  |                  |                                  |
| 18 | Deduction for dividends paid on certain preferred stock of public utilities  |                  |                                  |
| 19 | <b>Total dividends.</b> Add lines 1 through 17. Enter here and on page 1, line 4 ▶   | 5,901,000        |                                  |
| 20 | <b>Total special deductions.</b> Add lines 9, 10, 11, 12, and 18. Enter here and on page 1, line 29b ▶   |                  | 4,248,000                        |

**Schedule E Compensation of Officers** (see instructions for page 1, line 12)

Note: Complete Schedule E only if total receipts (line 1a plus lines 4 through 10 on page 1) are \$500,000 or more.

| (a) Name of officer | (b) Social security number  | (c) Percent of time devoted to business | Percent of corporation stock owned |               | (f) Amount of compensation |
|---------------------|---|---|------------------------------------|---------------|----------------------------|
|                     |   |   | (d) Common                         | (e) Preferred |                            |
| 1                   |   | %                                       | %                                  | %             |                            |
|                     |   | %                                       | %                                  | %             |                            |
|                     |   | %                                       | %                                  | %             |                            |
|                     |   | %                                       | %                                  | %             |                            |
|                     |   | %                                       | %                                  | %             |                            |
| 2                   | Total compensation of officers  |   |                                    |               |                            |
| 3                   | Compensation of officers claimed on Schedule A and elsewhere on return    |   |                                    |               |                            |
| 4                   | Subtract line 3 from line 2. Enter the result here and on page 1, line 12 |   |                                    |               |                            |

| Schedule L                                  | Balance Sheets per Books                              | Beginning of tax year |     | End of tax year |     |
|---|---|-----------------------|-----|-----------------|-----|
|   |   | (a)                   | (b) | (c)             | (d) |
| <b>Assets</b>                               |   |                       |     |                 |     |
| 1   | Cash  |                       |     |                 |     |
| 2a  | Trade notes and accounts receivable                   |                       |     |                 |     |
| b   | Less allowance for bad debts                          | ( )                   |     | ( )             |     |
| 3   | Inventories   |                       |     |                 |     |
| 4   | U.S. government obligations                           |                       |     |                 |     |
| 5   | Tax-exempt securities (see instructions)              |                       |     |                 |     |
| 6   | Other current assets (attach schedule)                |                       |     |                 |     |
| 7   | Loans to shareholders                                 |                       |     |                 |     |
| 8   | Mortgage and real estate loans                        |                       |     |                 |     |
| 9   | Other investments (attach schedule)                   |                       |     |                 |     |
| 10a   | Buildings and other depreciable assets                |                       |     |                 |     |
| b   | Less accumulated depreciation                         | ( )                   |     | ( )             |     |
| 11a   | Depletable assets                                     |                       |     |                 |     |
| b   | Less accumulated depletion                            | ( )                   |     | ( )             |     |
| 12  | Land (net of any amortization)                        |                       |     |                 |     |
| 13a   | Intangible assets (amortizable only)                  |                       |     |                 |     |
| b   | Less accumulated amortization                         | ( )                   |     | ( )             |     |
| 14  | Other assets (attach schedule)                        |                       |     |                 |     |
| 15  | Total assets  |                       |     |                 |     |
| <b>Liabilities and Shareholders' Equity</b> |   |                       |     |                 |     |
| 16  | Accounts payable                                      |                       |     |                 |     |
| 17  | Mortgages, notes, bonds payable in less than 1 year   |                       |     |                 |     |
| 18  | Other current liabilities (attach schedule)           |                       |     |                 |     |
| 19  | Loans from shareholders                               |                       |     |                 |     |
| 20  | Mortgages, notes, bonds payable in 1 year or more     |                       |     |                 |     |
| 21  | Other liabilities (attach schedule)                   |                       |     |                 |     |
| 22  | Capital stock: a Preferred stock                      |                       |     |                 |     |
|   | b Common stock  |                       |     |                 |     |
| 23  | Additional paid-in capital                            |                       |     |                 |     |
| 24  | Retained earnings—Appropriated (attach schedule)      |                       |     |                 |     |
| 25  | Retained earnings—Unappropriated                      |                       |     |                 |     |
| 26  | Adjustments to shareholders' equity (attach schedule) |                       |     |                 |     |
| 27  | Less cost of treasury stock                           | ( )                   |     | ( )             |     |
| 28  | Total liabilities and shareholders' equity            |                       |     |                 |     |

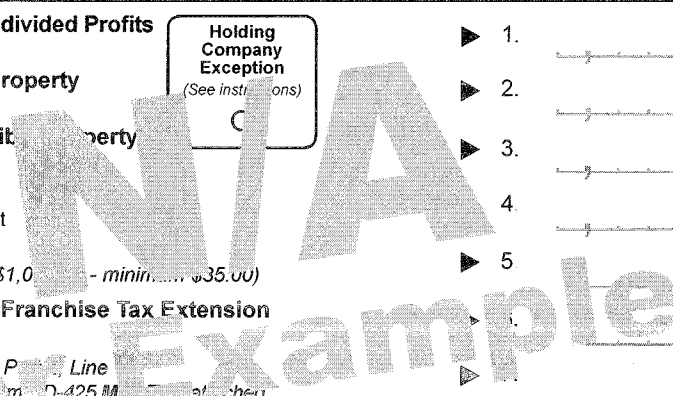
| Schedule M-1 Reconciliation of Income (Loss) per Books With Income per Return                                 |   |           |    |  |           |
|---|---|-----------|----|--|-----------|
| Note: Schedule M-3 required instead of Schedule M-1 if total assets are \$10 million or more—see instructions |   |           |    |  |           |
| 1   | Net income (loss) per books   | 4,099,000 | 7  | Income recorded on books this year not included on this return (itemize):      |           |
| 2   | Federal income tax per books  |           |    | Tax-exempt interest \$   |           |
| 3   | Excess of capital losses over capital gains                                 |           |    | Life Insurance Proceeds  | 50,000    |
| 4   | Income subject to tax not recorded on books this year (itemize):            |           | 8  | Deductions on this return not charged against book income this year (itemize): |           |
| 5   | Expenses recorded on books this year not deducted on this return (itemize): |           | a  | Depreciation \$  |           |
| a   | Depreciation \$   |           | b  | Charitable contributions \$  |           |
| b   | Charitable contributions \$   |           |    |  |           |
| c   | Travel and entertainment \$   |           | 9  | Add lines 7 and 8  | 50,000    |
| 6   | Add lines 1 through 5   | 4,099,000 | 10 | Income (page 1, line 28)—line 6 less line 9                                    | 4,049,000 |

| Schedule M-2 Analysis of Unappropriated Retained Earnings per Books (Line 25, Schedule L) |                              |  |   |   |  |
|---|------------------------------|--|---|---|--|
| 1   | Balance at beginning of year |  | 5 | Distributions: a Cash                       |  |
| 2   | Net income (loss) per books  |  |   | b Stock                                     |  |
| 3   | Other increases (itemize):   |  |   | c Property                                  |  |
|   |                              |  | 6 | Other decreases (itemize):                  |  |
|   |                              |  | 7 | Add lines 5 and 6                           |  |
| 4   | Add lines 1, 2, and 3        |  | 8 | Balance at end of year (line 4 less line 7) |  |



Submit forms in the following order: CD-V, NC-478VJ, CD-479, NC-478, NC-478 series, CD-405, followed by CD-425

|   |  |   |                   |
|---|--|---|-------------------|
| For calendar year 2010, or other tax year beginning <u>10</u> and ending <u>10</u><br><small>(MM-DD) (MM-DD-YY)</small>   |  | <small>(DOR Use Only)</small> _____ / _____ / _____                       |                   |
| Legal Name (First 35 Characters)(USE CAPITAL LETTERS FOR YOUR NAME AND ADDRESS)<br><b>ABC LOSS CO</b>   |  | Federal Employer ID Number<br><b>X X X X X X X X</b>                      |                   |
| Address<br><b>1 2 3 4 ANY STREET</b>  |  | Secretary of State ID _____ NAICS Code _____                              |                   |
| City _____ State <b>NC</b> Zip Code <b>5 6 7 8 9</b>  |  | Gross Receipts / Sales _____  |                   |
| Fill in all applicable circles: <input type="radio"/> Initial Filer <input type="radio"/> NC-478 is attached <input type="radio"/> Captive REIT<br><input type="radio"/> Fed Schedule M-3 is attached <input type="radio"/> Final Return <input type="radio"/> CD-479 is attached <input type="radio"/> Foreign Corp<br><input type="radio"/> Combined Return <input type="radio"/> Amended Return <input type="radio"/> Nonprofit/Tax Exempt |  | Total Assets per Balance Sheet _____                                      |                   |
| Is this corporation related to another corporation as: (Attach a copy of the appropriate federal income tax schedule reflecting the relationship) <input type="radio"/> Parent <input type="radio"/> Subsidiary <input type="radio"/> Affiliate   |  |   |                   |
| Enter the amount of bonus depreciation from Sch. H, Line 1(g) <u>.00</u>  |  | Enter the amount of Section 179 expense from Sch. H, Line 1(h) <u>.00</u> |                   |
| <b>Computation of Franchise Tax</b>   | <b>1. Capital Stock, Surplus, and Undivided Profits</b><br><small>(From Schedule C, Line 13)</small>   | <input type="checkbox"/>  | _____ .00         |
|   | <b>2. Investment in N.C. Tangible Property</b><br><small>(From Schedule D, Line 8)</small>   | <input type="checkbox"/>  | _____ .00         |
|   | <b>3. Appraised Value of N.C. Tangible Property</b><br><small>(From Schedule E, Line 2)</small>  | <input type="checkbox"/>  | _____ .00         |
|   | <b>4. Taxable Amount</b><br>Line 1, 2, or 3, whichever is greatest   | <input type="checkbox"/>  | _____ .00         |
|   | <b>5. Total Franchise Tax Due</b><br>Multiply Line 4 by .0015 (\$1.50 per \$1,000 - minimum \$35.00)   | <input type="checkbox"/>  | _____ .00         |
|   | <b>6. Payment with Application for Franchise Tax Extension</b><br><small>(From Form CD-419, Line 9)</small>  | <input type="checkbox"/>  | _____ .00         |
|   | <b>7. Tax Credits</b> <small>(From Form CD-425, Part 1, Line 1)</small><br><small>If a tax credit is claimed on Form CD-425 M-3 is attached.</small> | <input type="checkbox"/>  | _____ .00         |
|   | <b>8. Franchise Tax Due</b> - If the sum of Line 6 plus 7 is less than Line 5, enter difference here and on Page 2, Line 35                          | <input type="checkbox"/>  | _____ .00         |
|   | <b>9. Franchise Tax Overpaid</b> - If the sum of Line 6 plus 7 is more than Line 5, enter difference here and on Page 2, Line 35                     | <input type="checkbox"/>  | _____ .00         |
| <b>Computation of Corporate Income Tax</b>  | <b>10. Federal Taxable Income Before NOL</b><br><small>(From Schedule G, Line 30 or Federal Form 1120, Line 28 minus 29b)</small>                    | <input checked="" type="radio"/>  | 1 9 9 0 0 0 .00   |
|   | <b>11. Adjustments to Federal Taxable Income</b><br><small>(From Schedule H, Line 5)</small>   | <input checked="" type="radio"/>  | 1 0 6 9 0 0 0 .00 |
|   | <b>12. Net Income Before Contributions</b><br>Add (or subtract) Lines 10 and 11  | <input checked="" type="radio"/>  | 1 2 6 8 0 0 0 .00 |
|   | <b>13. Contributions to Donees Outside N.C.</b><br><small>(From Schedule I, Line 1c)</small>   | <input type="checkbox"/>  | 0 .00             |
|   | <b>14. N.C. Taxable Income</b><br>Line 12 minus Line 13  | <input checked="" type="radio"/>  | 1 2 6 8 0 0 0 .00 |
|   | <b>15. Nonapportionable Income</b><br><small>(From Schedule N, Line 1)</small>   | <input type="radio"/>   | 6 1 0 0 0 0 .00   |
|   | <b>16. Apportionable Income</b><br>Line 14 minus Line 15   | <input checked="" type="radio"/>  | 1 8 7 8 0 0 0 .00 |
|   | <b>17. Apportionment Factor</b> - Enter to four decimal places<br><small>(From Schedule O, Part 1; Part 2 - Line 15; Part 3; or Part 4)</small>      | <input checked="" type="radio"/>  | 6 0 . 0 0 0 0 %   |
|   | <b>18. Income Apportioned to N.C.</b><br>Multiply Line 16 by factor on Line 17   | <input checked="" type="radio"/>  | 1 1 2 6 8 0 0 .00 |
|   | <b>19. Nonapportionable Income Allocated to N.C.</b><br><small>(From Schedule N, Line 2)</small>   | <input type="radio"/>   | 0 .00             |
|   | <b>20. Income Subject to N.C. Tax</b><br>Add Lines 18 and 19   | <input checked="" type="radio"/>  | 1 1 2 6 8 0 0 .00 |
| <b>21. Percentage Depletion over Cost Depletion on N.C. Property</b><br><small>(See Instructions)</small>   | <input type="checkbox"/>   | 0 .00   |                   |



Holding Company Exception (See instructions)

If amount on Line 10-12, Example: 14-16, or 18-20 is negative, fill in circle.



Legal Name ABC LOSS CO

FEIN XX - XXXXXX

Computation of Corporate Income Tax

|   |  |      |                   |
|---|--|------|-------------------|
| 22. Net Economic Loss (Attach schedule)   |  | 22.  | 0.00              |
| 23. Income Before Contributions to N.C. Donees<br>Line 20 minus Lines 21 and 22   |  | 23.  | 1 1 2 6 8 0 0 .00 |
| 24. Contributions to N.C. Donees<br>(From Schedule I, Line 2e)  |  | 24.  | 0.00              |
| 25. Net Taxable Income<br>Line 23 minus Line 24   |  | 25.  | 1 1 2 6 8 0 0 .00 |
| 26. N.C. Net Income Tax<br>Multiply Line 25 by 6.90%  |  | 26.  | 0.00              |
| 27. Surtax<br>Multiply Line 26 by 3.0%  |  | 27.  | 0.00              |
| 28. Income Tax Before Payments and Credits<br>Add Lines 26 and 27   |  | 28.  | 0.00              |
| 29. Annual Report Fee   |  | 29.  | 0.00              |
| 30. Add Lines 28 and 29   |  | 30.  | 0.00              |
| 31. Payments and Credits  |  |      |                   |
| a. Application for Income Tax Extension<br>(From Form CD-419, Line 10)  |  | 31a. | 0.00              |
| b. 2010 Estimated Tax (When filing an amended return,<br>enter previous payments here.)                                     |  | 31b. | 0.00              |
| c. Partnership (If a partnership payment is claimed on<br>Line 31c, a copy of the NC K-1 MUST be attached.)                 |  | 31c. | 0.00              |
| d. Nonresident Withholding<br>(Include copy of 1099 or W-2)   |  | 31d. | 0.00              |
| e. Tax Credits (From Form CD-425, Part 4, Line 34)<br>If a tax credit is claimed on Line 31e, Form CD-425 MUST be attached. |  | 31e. | 0.00              |
| 32. Add Lines 31a through 31e   |  | 32.  | 0.00              |
| 33. Income Tax Due - If Line 32 is less than Line 30, enter<br>difference here and on Line 36, below                        |  | 33.  | 0.00              |
| 34. Income Tax Overpaid - If Line 32 is more than<br>Line 30, enter difference here and on Line 36, below                   |  | 34.  | 0.00              |

If amount on Line 23 or 25 is negative fill in circle.  
Example: ●

Include \$25.00 ONLY if filing report with the Department of Revenue. (Pay online. Go to [www.sosnc.com](http://www.sosnc.com) for an electronic filing option.)



Tax Due or Refund

|  |  |      |      |
|--|--|------|------|
| 35. Franchise Tax Due or Overpayment<br>(From Schedule A, Line 8 or 9)   |  | 35.  | 0.00 |
| 36. Income Tax Due or Overpayment<br>(From Schedule B, Line 33 or 34)  |  | 36.  | 0.00 |
| 37. Balance of Tax Due or Overpayment<br>Add (or subtract) Lines 35 and 36   |  | 37.  | 0.00 |
| 38. Underpayment of Estimated Income Tax<br>(Enter letter in exceptions box, if applicable. See instructions.)   |  | 38.  | 0.00 |
| 39. a. Interest (See instructions)   |  | 39a. | 0.00 |
| b. Penalties (See instructions)  |  | 39b. | 0.00 |
| 40. Total Due - Add Lines 37 through 39b and enter result here,<br>but not less than zero. If less than zero, enter amount on Line 41.<br>Pay online. Go to <a href="http://www.domc.com">www.domc.com</a> and click on <u>Electronic Services</u> . |  | 40.  | 0.00 |
| 41. Overpayment  |  | 41.  | 0.00 |
| 42. Amount of Line 41 applied to 2011 Estimated Income Tax   |  | 42.  | 0.00 |
| 43. Amount of Line 41 contributed to N.C. Nongame and Endangered Wildlife Fund   |  | 43.  | 0.00 |
| 44. Amount to be Refunded<br>Line 41 minus Lines 42 and 43   |  | 44.  | 0.00 |

If amount on Line 35-37 is an overpayment fill in circle.  
Example: ○

Exception to Underpayment of Estimated Tax

Signature and Title of Officer: \_\_\_\_\_ Date: \_\_\_\_\_ Corporate Telephone Number: \_\_\_\_\_  
 I certify that, to the best of my knowledge, this return is accurate and complete. (Important: Include Area Code)

Signature of Paid Preparer: \_\_\_\_\_ Preparer's  FEIN  SSN  PTIN: \_\_\_\_\_  
 I certify that, to the best of my knowledge, this return is accurate and complete. (Fill in applicable circle)

Legal Name ABC LOSS CO

FEIN XX - XXXXXX

**© Federal Taxable Income Before NOL Deduction**

Complete this schedule if you do not attach a copy of your federal income tax return.

|   |     |
|---|-----|
| 1. a. Gross receipts or sales   | .00 |
| b. Returns and allowances   | .00 |
| c. Balance (Line 1a minus Line 1b)  | .00 |
| 2. Cost of goods sold (Attach schedule)   | .00 |
| 3. Gross Profit (Line 1c minus Line 2)  | .00 |
| 4. Dividends (Attach schedule)  | .00 |
| 5. a. Interest on obligations of the United States and its instrumentalities  | .00 |
| b. Other interest   | .00 |
| 6. Gross rents  | .00 |
| 7. Gross royalties  | .00 |
| 8. Capital gain net income (Attach schedule)  | .00 |
| 9. Net gain (loss) (Attach schedule)  | .00 |
| 10. Other income (Attach schedule)  | .00 |
| <b>11. Total Income</b><br>Add Lines 3 through 10   | .00 |
| 12. Compensation of officers (Attach schedule)  | .00 |
| 13. Salaries and wages (Less employment credits)  | .00 |
| 14. Repairs and maintenance   | .00 |
| 15. Bad debts   | .00 |
| 16. Rents   | .00 |
| 17. Taxes and licenses  | .00 |
| 18. Interest  | .00 |
| 19. Charitable contributions  | .00 |
| 20. a. Depreciation   |     |
| b. Depreciation included in cost of goods sold  |     |
| c. Balance (Line 20a minus Line 20b)  | .00 |
| 21. Depletion   | .00 |
| 22. Advertising   | .00 |
| 23. Pension, profit-sharing, and similar plans  | .00 |
| 24. Employee benefit programs   | .00 |
| 25. Domestic production activities deduction  | .00 |
| 26. Other deductions (Attach schedule)  | .00 |
| <b>27. Total Deductions</b><br>Add Lines 12 through 26  | .00 |
| <b>28. Taxable Income per Federal Return Before NOL and Special Deductions</b><br>Line 11 minus Line 27             | .00 |
| <b>29. Special Deductions</b><br>(From Federal Form 1120, Line 29b)   | .00 |
| <b>30. Federal Taxable Income Before NOL</b><br>Line 28 minus Line 29; enter amount here and on Schedule B, Line 10 | .00 |

**Ⓜ Adjustments to Federal Taxable Income**

|  |                |
|--|----------------|
| <b>1. Additions:</b>   |                |
| a. Taxes based on net income   | .00            |
| b. Dividends paid by captive REITs   | .00            |
| c. Contributions   | .00            |
| d. Royalties paid to related members (See instructions)  | .00            |
| e. Expenses attributable to income not taxed (See instructions)  | .00            |
| f. Domestic production activities deduction (From Schedule G, Line 25)   | .00            |
| g. Bonus Depreciation  | .00            |
| h. Section 179 Expense Deduction   | .00            |
| i. Other (Attach explanation or schedule)  | .00            |
| <b>2. Total Additions (Add Lines 1a-1i)</b>  | .00            |
| <b>3. Deductions:</b>  |                |
| a. U.S. obligation interest (net of expenses)  | 26,000 .00     |
| b. Other deductible dividends (See instructions)   | 1,043,000 .00  |
| c. Dividends received from captive REITs   | .00            |
| d. Royalties received from related members (See instructions)  | .00            |
| e. Interest on deposits with FHLB (net of expenses) <b>S&amp;L's only</b>  | .00            |
| f. Bonus depreciation (See instructions)   | .00            |
| g. Other (Attach explanation or schedule)  | .00            |
| <b>4. Total Deductions (Add Lines 3a-3g)</b>   | 1,069,000 .00  |
| <b>5. Adjustments to Federal Taxable Income</b><br>Line 2 minus Line 4, enter amount here and on Schedule B, Line 11 | (1,069,000.00) |
| <b>Ⓜ Contributions</b>   |                |
| <b>1. Contributions to Donees Outside N.C.</b>   |                |
| a. Enter total contributions to donees outside N.C.  | .00            |
| b. Multiply the amount shown on Schedule B, Line 12 by 5%  | .00            |
| <b>c. Amount Deductible</b><br>Enter the lesser of Line 1a or 1b here and on Schedule B, Line 13                     | .00            |
| <b>2. Contributions to N.C. Donees</b>   |                |
| a. Enter total contributions to N.C. donees other than those listed in Line 2d, below                                | .00            |
| b. Multiply Schedule B, Line 23 by 5%  | .00            |
| c. Enter the lesser of Line 2a or 2b   | .00            |
| d. Enter total contributions to the State of N.C. and its political subdivisions                                     | .00            |
| <b>e. Amount Deductible</b><br>Add Lines 2c and 2d; enter total here and on Schedule B, Line 24                      | .00            |
| <b>Ⓜ Explanation of Changes for Amended Return</b><br>Attach additional sheets if necessary                          |                |
|  |                |
|  |                |
|  |                |

Note: The letter K is not used to designate a schedule.

Legal Name ABC LOSS CO

FEIN XX - XXXXXX

Complete this schedule only if you apportion income to North Carolina and to other states AND you have income classified as nonapportionable income. See the instructions for an explanation of what is **apportionable income** and what is **nonapportionable income**.

Nonapportionable Income

| (A) Nonapportionable Income | (B) Gross Amounts | (C) Related Expenses* | (D) Net Amounts<br>(Column B minus Column C) | (E) Net Amounts Allocated Directly to N.C. |
|-----------------------------|-------------------|-----------------------|--|--|
| DIVIDEND INCOME             | 610,000.00        |                       | 610,000.00                                   |  |
|                             |                   |                       |  |  |
|                             |                   |                       |  |  |
|                             |                   |                       |  |  |

1. **Nonapportionable Income** (Enter the total of Column D here and on Schedule B, Line 15) 610,000.00

2. **Nonapportionable Income Allocated to N.C.** (Enter the total of Column E here and on Schedule B, Line 19) 0.00

**Explanation** of why income listed in chart is nonapportionable income rather than apportionable income:

(Attach additional sheets if necessary)

\* For an acceptable means of computing related expenses, see 17 N.C.A.C. 5C .0304.

**Part 1. Domestic and Other Corporations Not Apportioning Franchise or Income Outside N.C.** 100.0000 %  
 Enter 100% on Schedule B, Line 17 and Schedule C, Line 12

**Part 2. Corporations Apportioning Franchise or Income to N.C. and to Other States** Example: 99.9999 %  
 Note: Apportionment factors must be calculated 4 places to the right of the decimal.

Computation of Apportionment Factor

|  | 1. Within North Carolina |                   | 2. Total Everywhere  |                   | Factor |
|--|--------------------------|-------------------|----------------------|-------------------|--------|
|  | (a) Beginning Period     | (b) Ending Period | (a) Beginning Period | (b) Ending Period |        |
| 1. Land  |                          |                   |                      |                   |        |
| 2. Buildings   |                          |                   |                      |                   |        |
| 3. Inventories   |                          |                   |                      |                   |        |
| 4. Other property  |                          |                   |                      |                   |        |
| 5. Total (Add Lines 1-4)   |                          |                   |                      |                   |        |
| 6. Average value of property<br>Add amounts on Line 5 for (a) and (b); divide by 2   |                          |                   |                      |                   |        |
| 7. Rented property (Multiply annual rents by 8)  |                          |                   |                      |                   |        |
| 8. <b>Property Factor</b> (Add Lines 6 and 7; divide Column 1 by Column 2 and enter factor)  |                          |                   |                      |                   | %      |
| 9. Gross payroll   |                          |                   |                      |                   |        |
| 10. Compensation of general executive officers   |                          |                   |                      |                   |        |
| 11. <b>Payroll Factor</b> (Line 9 minus Line 10; divide Column 1 by Column 2 and enter factor)   |                          |                   |                      |                   | %      |
| 12. <b>Sales Factor</b> (Attach schedule) Divide Column 1 by Column 2 and enter factor   |                          |                   |                      |                   | %      |
| 13. <b>Sales Factor</b> (Enter the same factor as on Line 12)  |                          |                   |                      |                   | %      |
| 14. <b>Total of Factors</b> (Add Lines 8, 11, 12, and 13)  |                          |                   |                      |                   | %      |
| 15. <b>N.C. Apportionment Factor</b> (Divide Line 14 by the number of factors present; enter result here, on Schedule B, Line 17, and Schedule C, Line 12) |                          |                   |                      |                   | %      |

**Part 3. Corporations Apportioning Franchise or Income to N.C. and to Other States Using Single Sales Factor** %  
 Excluded corporations, qualified capital intensive corporations, and certain public utilities must apportion North Carolina franchise and corporate income tax using the sales factor alone. These corporations need not complete the property and payroll factor sections of this Schedule. Enter the sales factor from Line 12 here, on Schedule B, Line 17, and on Schedule C, Line 12. (See instructions and G.S.105-130.4 for more information.)

**Part 4. Special Apportionment** %  
 Special apportionment formulas apply to certain types of corporations such as telephone companies, motor carriers, and railroad companies. If you use a special apportionment formula, enter the computed apportionment factor here, on Schedule B, Line 17, and on Schedule C, Line 12. (See instructions and G.S.105-130.4 for more information.)

1120

Form Department of the Treasury Internal Revenue Service

U.S. Corporation Income Tax Return

For calendar year 2011 or tax year beginning \_\_\_\_\_, 2011, ending \_\_\_\_\_, 20

See separate instructions.

Header section containing: A Check if: 1a Consolidated return, 1b Life/nonlife consolidated return, 2 Personal holding co., 3 Personal service corp., 4 Schedule M-3 attached; B Employer identification number; C Date incorporated; D Total assets; E Check if: (1) Initial return, (2) Final return, (3) Name change, (4) Address change.

Income section table with columns: Description, 1a, 1b, 1c, 1d, 1e, 2, 3, 4, 5, 6, 7, 8, 9, 10, 11. Includes rows for Merchant card and third-party payments, Gross receipts or sales, Total, Returns and allowances, Subtract line 1d from line 1c, Cost of goods sold, Gross profit, Dividends, Interest, Gross rents, Gross royalties, Capital gain net income, Net gain or (loss), Other income, Total income.

Deductions section table with columns: Description, 12, 13, 14, 15, 16, 17, 18, 19, 20, 21, 22, 23, 24, 25, 26, 27, 28, 29a, 29b, 29c. Includes rows for Compensation of officers, Salaries and wages, Repairs and maintenance, Bad debts, Rents, Taxes and licenses, Interest, Charitable contributions, Depreciation, Depletion, Advertising, Pension, profit-sharing, etc., plans, Employee benefit programs, Domestic production activities deduction, Other deductions, Total deductions, Taxable income before net operating loss deduction, Net operating loss deduction, Special deductions, Add lines 29a and 29b.

Tax, Refundable Credits, and Payments section table with columns: Description, 30, 31, 32, 33, 34, 35, 36. Includes rows for Taxable income, Total tax, Total payments and refundable credits, Estimated tax penalty, Amount owed, Overpayment, Enter amount from line 35 you want.

Sign Here section with fields for Signature of officer, Date, Title, and a box for 'May the IRS discuss this return with the preparer shown below (see instructions)? Yes No'.

Paid Preparer Use Only section with fields for Print/Type preparer's name, Preparer's signature, Date, Check if self-employed, PTIN, Firm's name, Firm's EIN, Firm's address, Phone no.

| <b>Schedule C Dividends and Special Deductions</b> (see instructions) |  | (a) Dividends received | (b) %            | (c) Special deductions (a) x (b) |
|---|--|------------------------|------------------|----------------------------------|
| 1   | Dividends from less-than-20%-owned domestic corporations (other than debt-financed stock)  |                        | 70               |                                  |
| 2   | Dividends from 20%-or-more-owned domestic corporations (other than debt-financed stock)  | 4,050,000              | 80               | 3,240,000                        |
| 3   | Dividends on debt-financed stock of domestic and foreign corporations  |                        | see instructions |                                  |
| 4   | Dividends on certain preferred stock of less-than-20%-owned public utilities   |                        | 42               |                                  |
| 5   | Dividends on certain preferred stock of 20%-or-more-owned public utilities   |                        | 48               |                                  |
| 6   | Dividends from less-than-20%-owned foreign corporations and certain FSCs   |                        | 70               |                                  |
| 7   | Dividends from 20%-or-more-owned foreign corporations and certain FSCs   |                        | 80               |                                  |
| 8   | Dividends from wholly owned foreign subsidiaries   |                        | 100              |                                  |
| 9   | <b>Total.</b> Add lines 1 through 8. See instructions for limitation   |                        |                  | 3,240,000                        |
| 10  | Dividends from domestic corporations received by a small business investment company operating under the Small Business Investment Act of 1958 |                        | 100              |                                  |
| 11  | Dividends from affiliated group members  | 1,808,000              | 100              | 1,808,000                        |
| 12  | Dividends from certain FSCs  |                        | 100              |                                  |
| 13  | Dividends from foreign corporations not included on lines 3, 6, 7, 8, 11, or 12  |                        |                  |                                  |
| 14  | Income from controlled foreign corporations under subpart F (attach Form(s) 5471)  |                        |                  |                                  |
| 15  | Foreign dividend gross-up  |                        |                  |                                  |
| 16  | IC-DISC and former DISC dividends not included on lines 1, 2, or 3   |                        |                  |                                  |
| 17  | Other dividends  |                        |                  |                                  |
| 18  | Deduction for dividends paid on certain preferred stock of public utilities  |                        |                  |                                  |
| 19  | <b>Total dividends.</b> Add lines 1 through 17. Enter here and on page 1, line 4   | 5,858,000              |                  |                                  |
| 20  | <b>Total special deductions.</b> Add lines 9, 10, 11, 12, and 18. Enter here and on page 1, line 29b   |                        |                  | 5,048,000                        |

| Schedule L Balance Sheets per Books         |   | Beginning of tax year |     | End of tax year |     |
|---|---|-----------------------|-----|-----------------|-----|
|   |   | (a)                   | (b) | (c)             | (d) |
| <b>Assets</b>                               |   |                       |     |                 |     |
| 1   | Cash  |                       |     |                 |     |
| 2a  | Trade notes and accounts receivable                   |                       |     |                 |     |
| b   | Less allowance for bad debts                          | ( )                   |     | ( )             |     |
| 3   | Inventories   |                       |     |                 |     |
| 4   | U.S. government obligations                           |                       |     |                 |     |
| 5   | Tax-exempt securities (see instructions)              |                       |     |                 |     |
| 6   | Other current assets (attach schedule)                |                       |     |                 |     |
| 7   | Loans to shareholders                                 |                       |     |                 |     |
| 8   | Mortgage and real estate loans                        |                       |     |                 |     |
| 9   | Other investments (attach schedule)                   |                       |     |                 |     |
| 10a   | Buildings and other depreciable assets                |                       |     |                 |     |
| b   | Less accumulated depreciation                         | ( )                   |     | ( )             |     |
| 11a   | Depletable assets                                     |                       |     |                 |     |
| b   | Less accumulated depletion                            | ( )                   |     | ( )             |     |
| 12  | Land (net of any amortization)                        |                       |     |                 |     |
| 13a   | Intangible assets (amortizable only)                  |                       |     |                 |     |
| b   | Less accumulated amortization                         | ( )                   |     | ( )             |     |
| 14  | Other assets (attach schedule)                        |                       |     |                 |     |
| 15  | <b>Total assets</b>                                   |                       |     |                 |     |
| <b>Liabilities and Shareholders' Equity</b> |   |                       |     |                 |     |
| 16  | Accounts payable                                      |                       |     |                 |     |
| 17  | Mortgages, notes, bonds payable in less than 1 year   |                       |     |                 |     |
| 18  | Other current liabilities (attach schedule)           |                       |     |                 |     |
| 19  | Loans from shareholders                               |                       |     |                 |     |
| 20  | Mortgages, notes, bonds payable in 1 year or more     |                       |     |                 |     |
| 21  | Other liabilities (attach schedule)                   |                       |     |                 |     |
| 22  | Capital stock: a Preferred stock                      |                       |     |                 |     |
|   | b Common stock  |                       |     |                 |     |
| 23  | Additional paid-in capital                            |                       |     |                 |     |
| 24  | Retained earnings—Appropriated (attach schedule)      |                       |     |                 |     |
| 25  | Retained earnings—Unappropriated                      |                       |     |                 |     |
| 26  | Adjustments to shareholders' equity (attach schedule) |                       |     |                 |     |
| 27  | Less cost of treasury stock                           |                       | ( ) |                 | ( ) |
| 28  | <b>Total liabilities and shareholders' equity</b>     |                       |     |                 |     |

**Schedule M-1 Reconciliation of Income (Loss) per Books With Income per Return**

Note: Schedule M-3 required instead of Schedule M-1 if total assets are \$10 million or more—see instructions

|   |   |           |    |  |           |
|---|---|-----------|----|--|-----------|
| 1 | Net income (loss) per books   | 4,375,500 | 7  | Income recorded on books this year not included on this return (itemize):      |           |
| 2 | Federal income tax per books  |           |    | Tax-exempt interest \$   |           |
| 3 | Excess of capital losses over capital gains                                 |           |    | <b>Municipal Bond Interest Income</b>  | 100,000   |
| 4 | Income subject to tax not recorded on books this year (itemize):            |           | 8  | Deductions on this return not charged against book income this year (itemize): |           |
| 5 | Expenses recorded on books this year not deducted on this return (itemize): |           | a  | Depreciation \$  |           |
| a | Depreciation \$   |           | b  | Charitable contributions \$  |           |
| b | Charitable contributions \$   |           |    |  |           |
| c | Travel and entertainment \$   |           | 9  | Add lines 7 and 8  | 100,000   |
| 6 | Add lines 1 through 5   | 4,375,500 | 10 | Income (page 1, line 28)—line 6 less line 9                                    | 4,275,500 |

**Schedule M-2 Analysis of Unappropriated Retained Earnings per Books (Line 25, Schedule L)**

|   |                              |  |   |   |  |
|---|------------------------------|--|---|---|--|
| 1 | Balance at beginning of year |  | 5 | Distributions: a Cash                       |  |
| 2 | Net income (loss) per books  |  |   | b Stock                                     |  |
| 3 | Other increases (itemize):   |  |   | c Property                                  |  |
| 4 | Add lines 1, 2, and 3        |  | 6 | Other decreases (itemize):                  |  |
|   |                              |  | 7 | Add lines 5 and 6                           |  |
|   |                              |  | 8 | Balance at end of year (line 4 less line 7) |  |

Submit forms in the following order: CD-V, NC-478VJ, CD-479, NC-478, NC-478 series, CD-405, followed by CD-425

For calendar year 2011, or other tax year beginning (MM-DD) 11 and ending (MM-DD-YY) DOR Use Only

Form CD-405 with sections: Legal Name (ABC LOSS CO), Federal Employer ID Number (XX-XXXXXXX), Address (1234 ANY STREET, CITY, NC 56789), Franchise Tax Computation (lines 1-9), Corporate Income Tax Computation (lines 10-21). Includes a barcode with number 6300106013.



Legal Name ABC LOSS CO

FEIN XX - XXXXXX

B Computation of Corporate Income Tax

|   |                                     |
|---|-------------------------------------|
| <p><b>22. Net Economic Loss</b> (Attach schedule)</p>   | <p>▶ 22. _____ 0.00</p>             |
| <p><b>23. Income Before Contributions to N.C. Donees</b><br/>Line 20 minus Lines 21 and 22</p>  | <p>23. ● _____ 1 1 1 1 9 5 0.00</p> |
| <p><b>24. Contributions to N.C. Donees</b><br/>(From Schedule I, Line 2e)</p>   | <p>▶ 24. _____ 0.00</p>             |
| <p><b>25. Net Taxable Income</b><br/>Line 23 minus Line 24</p>  | <p>25. ● _____ 1 1 1 1 9 5 0.00</p> |
| <p><b>26. N.C. Net Income Tax</b><br/>Multiply Line 25 by 6.90%</p>   | <p>26. _____ 0.00</p>               |
| <p><b>27. Annual Report Fee</b></p>   | <p>▶ 27. _____ 0.00</p>             |
| <p><b>28. Add Lines 26 and 27</b></p>   | <p>28. _____ 0.00</p>               |
| <p><b>29. Payments and Credits</b></p>  | <p>▶ 29a. _____ 0.00</p>            |
| <p>a. Application for Income Tax Extension<br/>(From Form CD-419, Line 10)</p>  | <p>▶ 29a. _____ 0.00</p>            |
| <p>b. 2011 Estimated Tax (When filing an amended return,<br/>enter previous payments here.)</p>   | <p>▶ 29b. _____ 0.00</p>            |
| <p>c. Partnership (If a partnership payment is claimed on<br/>Line 29c, a copy of the NC K-1 MUST be attached.)</p>                     | <p>▶ 29c. _____ 0.00</p>            |
| <p>d. Nonresident Withholding<br/>(Include copy of 1099 or W-2)</p>   | <p>▶ 29d. _____ 0.00</p>            |
| <p>e. Tax Credits (From Form CD-425, Part 4, Line 34)<br/>If a tax credit is claimed on Line 29e,<br/>Form CD-425 MUST be attached.</p> | <p>▶ 29e. _____ 0.00</p>            |
| <p><b>30. Add Lines 29a through 29e</b></p>   | <p>30. _____ 0.00</p>               |
| <p><b>31. Income Tax Due</b> - If Line 30 is less than Line 28, enter<br/>difference here and on Line 34, below</p>                     | <p>31. _____ 0.00</p>               |
| <p><b>32. Income Tax Overpaid</b> - If Line 30 is more than<br/>Line 28, enter difference here and on Line 34, below</p>                | <p>▶ 32. _____ 0.00</p>             |

If amount on Line 23 or 25 is negative fill in circle.  
Example: ●

Include \$25.00 ONLY if filing report with the Department of Revenue. (Pay online - Go to [www.sosnc.com](http://www.sosnc.com) for an electronic filing option.)



Tax Due or Refund

|  |                          |
|--|--------------------------|
| <p><b>33. Franchise Tax Due or Overpayment</b><br/>(From Schedule A, Line 8 or 9)</p>  | <p>33. ○ _____ 0.00</p>  |
| <p><b>34. Income Tax Due or Overpayment</b><br/>(From Schedule B, Line 31 or 32)</p>   | <p>34. ○ _____ 0.00</p>  |
| <p><b>35. Balance of Tax Due or Overpayment</b><br/>Add (or subtract) Lines 33 and 34</p>  | <p>35. ○ _____ 0.00</p>  |
| <p><b>36. Underpayment of Estimated Income Tax</b><br/>(Enter letter in exceptions box, if applicable. See instructions.)</p>  | <p>▶ 36. _____ 0.00</p>  |
| <p><b>37. a. Interest</b> (See instructions)</p>   | <p>▶ 37a. _____ 0.00</p> |
| <p>b. Penalties (See instructions)</p>   | <p>▶ 37b. _____ 0.00</p> |
| <p><b>38. Total Due</b> - Add Lines 35 through 37b and enter result here,<br/>but not less than zero. If less than zero, enter amount on Line 39.<br/>Pay online. Go to <a href="http://www.dornnc.com">www.dornnc.com</a> and click on <a href="#">Electronic Services</a>.</p> | <p>38. _____ 0.00</p>    |
| <p><b>39. Overpayment</b></p>  | <p>39. _____ 0.00</p>    |
| <p><b>40. Amount of Line 39 applied to 2012 Estimated Income Tax</b></p>   | <p>▶ 40. _____ 0.00</p>  |
| <p><b>41. Amount of Line 39 contributed to N.C. Nongame and Endangered Wildlife Fund</b></p>   | <p>▶ 41. _____ 0.00</p>  |
| <p><b>42. Amount to be Refunded</b><br/>Line 39 minus Lines 40 and 41</p>  | <p>▶ 42. _____ 0.00</p>  |

If amount on Line 33-35 is an overpayment fill in circle.  
Example: ○

Exception to Underpayment of Estimated Tax

Signature and Title of Officer: \_\_\_\_\_ Date: \_\_\_\_\_ Corporate Telephone Number: \_\_\_\_\_  
 I certify that, to the best of my knowledge, this return is accurate and complete. (Important: Include Area Code)

Signature of Paid Preparer: \_\_\_\_\_ Preparer's  FEIN  SSN  PTIN: \_\_\_\_\_  
 I certify that, to the best of my knowledge, this return is accurate and complete. (Fill in applicable circle)

MAIL TO: N.C. Dept. of Revenue, P.O. Box 25000, Raleigh, N.C. 27640-0500. Returns are due by the 15th day of the 4th month after the end of the income year.

Legal Name ABC LOSS CO

FEIN XX - XXXXXX

| <b>© Federal Taxable Income Before NOL Deduction</b>  |     |
|---|-----|
| <i>Complete this schedule if you do not attach a copy of your federal income tax return.</i>                        |     |
| 1. a. Merchant card and third-party payments  | .00 |
| b. Gross receipts or sales  | .00 |
| c. Returns and allowances   | .00 |
| d. Balance (Line 1a plus 1b minus Line 1c)  | .00 |
| 2. Cost of goods sold (Attach schedule)   | .00 |
| 3. Gross Profit (Line 1d minus Line 2)  | .00 |
| 4. Dividends (Attach schedule)  | .00 |
| 5. a. Interest on obligations of the United States and its instrumentalities  | .00 |
| b. Other interest   | .00 |
| 6. Gross rents  | .00 |
| 7. Gross royalties  | .00 |
| 8. Capital gain net income (Attach schedule)  | .00 |
| 9. Net gain (loss) (Attach schedule)  | .00 |
| 10. Other income (Attach schedule)  | .00 |
| <b>11. Total Income</b><br>Add Lines 3 through 10   | .00 |
| 12. Compensation of officers (Attach schedule)  | .00 |
| 13. Salaries and wages (Less employment credits)  | .00 |
| 14. Repairs and maintenance   | .00 |
| 15. Bad debts   | .00 |
| 16. Rents   | .00 |
| 17. Taxes and licenses  | .00 |
| 18. Interest  | .00 |
| 19. Charitable contributions  | .00 |
| 20. a. Depreciation   |     |
| b. Depreciation included in cost of goods sold  |     |
| c. Balance (Line 20a minus Line 20b)  | .00 |
| 21. Depletion   | .00 |
| 22. Advertising   | .00 |
| 23. Pension, profit-sharing, and similar plans  | .00 |
| 24. Employee benefit programs   | .00 |
| 25. Domestic production activities deduction  | .00 |
| 26. Other deductions (Attach schedule)  | .00 |
| <b>27. Total Deductions</b><br>Add Lines 12 through 26  | .00 |
| <b>28. Taxable Income per Federal Return Before NOL and Special Deductions</b><br>Line 11 minus Line 27             | .00 |
| <b>29. Special Deductions</b><br>(From Federal Form 1120, Line 29b)   | .00 |
| <b>30. Federal Taxable Income Before NOL</b><br>Line 28 minus Line 29; enter amount here and on Schedule B, Line 10 | .00 |

| <b>Ⓜ Adjustments to Federal Taxable Income</b>  |              |
|---|--------------|
| <b>1. Additions:</b>  |              |
| a. Taxes based on net income  | .00          |
| b. Dividends paid by captive REITs  | .00          |
| c. Contributions  | .00          |
| d. Royalties paid to related members (See instructions)   | .00          |
| e. Expenses attributable to income not taxed (See instructions)   | .00          |
| f. Domestic production activities deduction (From Schedule G, Line 25)  | .00          |
| g. Bonus Depreciation   | .00          |
| h. Section 179 expense deduction  | .00          |
| i. Other (Attach explanation or schedule)   | .00          |
| <b>2. Total Additions (Add Lines 1a-1i)</b>   | .00          |
| <b>3. Deductions:</b>   |              |
| a. U.S. obligation interest (net of expenses)   | 6,000 .00    |
| b. Other deductible dividends (See instructions)  | .00          |
| c. Dividends received from captive REITs  | .00          |
| d. Royalties received from related members (See instructions)   | .00          |
| e. Interest on deposits with FHLB (net of expenses) <b>S&amp;L's only</b>   | .00          |
| f. Bonus depreciation (See instructions)  | .00          |
| g. Section 179 expense deduction  | .00          |
| h. Other (Attach explanation or schedule)   | .00          |
| <b>4. Total Deductions (Add Lines 3a-3h)</b>  | 6,000 .00    |
| <b>5. Adjustments to Federal Taxable Income</b><br>Line 28 minus Line 4, enter amount here and on Schedule B, Line 11 | ( 6,000 .00) |
| <b>Ⓜ Contributions</b>  |              |
| <b>1. Contributions to Donees Outside N.C.</b>  |              |
| a. Enter total contributions to donees outside N.C.   | .00          |
| b. Multiply the amount shown on Schedule B, Line 12 by 5%   | .00          |
| <b>c. Amount Deductible</b><br>Enter the lesser of Line 1a or 1b here and on Schedule B, Line 13                      | .00          |
| <b>2. Contributions to N.C. Donees</b>  |              |
| a. Enter total contributions to N.C. donees other than those listed in Line 2d, below                                 | .00          |
| b. Multiply Schedule B, Line 23 by 5%   | .00          |
| c. Enter the lesser of Line 2a or 2b  | .00          |
| d. Enter total contributions to the State of N.C. and its political subdivisions                                      | .00          |
| <b>e. Amount Deductible</b><br>Add Lines 2c and 2d; enter total here and on Schedule B, Line 24                       | .00          |
| <b>Ⓜ Explanation of Changes for Amended Return</b><br><i>Attach additional sheets if necessary</i>                    |              |
|   |              |
|   |              |
|   |              |

Note: The letter K is not used to designate a schedule.

Legal Name ABC LOSS CO

FEIN XX - XXXXXXXX

Complete this schedule only if you apportion income to North Carolina and to other states AND you have income classified as nonapportionable income. See the instructions for an explanation of what is apportionable income and what is nonapportionable income.

Nonapportionable Income

Table with 5 columns: (A) Nonapportionable Income, (B) Gross Amounts, (C) Related Expenses\*, (D) Net Amounts (Column B minus Column C), (E) Net Amounts Allocated Directly to N.C. Row 1: DIVIDEND INCOME, 810,000.00, 810,000.00.

1. Nonapportionable Income (Enter the total of Column D here and on Schedule B, Line 15) 810,000 .00
2. Nonapportionable Income Allocated to N.C. (Enter the total of Column E here and on Schedule B, Line 19) 0 .00

Explanation of why income listed in chart is nonapportionable income rather than apportionable income:
(Attach additional sheets if necessary)

\* For an acceptable means of computing related expenses, see 17 N.C.A.C. 5C .0304.

Part 1. Domestic and Other Corporations Not Apportioning Franchise or Income Outside N.C. Enter 100% on Schedule B, Line 17 and Schedule C, Line 12 100.0000 %

Part 2. Corporations Apportioning Franchise or Income to N.C. and to Other States Note: Apportionment factors must be calculated 4 places to the right of the decimal. Example: 99.9999 %

Computation of Apportionment Factor

Table for Part 2 computation of apportionment factor. Columns: 1. Within North Carolina (Beginning/Ending Period), 2. Total Everywhere (Beginning/Ending Period). Rows include Land, Buildings, Inventories, Other property, Total, Average value of property, Rented property, Property Factor, Gross payroll, Compensation of general executive officers, Payroll Factor, Sales Factor, Total of Factors, N.C. Apportionment Factor.

Part 3. Corporations Apportioning Franchise or Income to N.C. and to Other States Using Single Sales Factor Excluded corporations, qualified capital intensive corporations, and certain public utilities must apportion North Carolina franchise and corporate income tax using the sales factor alone. These corporations need not complete the property and payroll factor sections of this Schedule. Enter the sales factor from Line 12 here, on Schedule B, Line 17, and on Schedule C, Line 12. (See instructions and G.S.105-130.4 for more information.)

Part 4. Special Apportionment Special apportionment formulas apply to certain types of corporations such as telephone companies, motor carriers, and railroad companies. If you use a special apportionment formula, enter the computed apportionment factor here, on Schedule B, Line 17, and on Schedule C, Line 12. (See instructions and G.S.105-130.4 for more information.)