

North Carolina

Corporation Income and Business Franchise Taxes

Statistics and Trends

Tax Year 2011

Revised: January 2015



NCDOR

Revenue Research Division

CONTENTS

| | |
|---|-----------|
| INTRODUCTION..... | 1 |
| OVERVIEW OF TAXES COVERED BY THIS REPORT | 2 |
| <u>SECTION I - FRANCHISE TAX</u> | |
| C-Corporation..... | 4 |
| Table 1.1: C-Corporation Returns by Tax Base Utilized | |
| Table 1.2: C-Corporation Net Franchise Tax Liability by Tax Base Utilized | |
| Figure 1.3: C-Corporation Returns and Net Franchise Tax Liability by Tax Base | |
| Table 1.4: C-Corporation Returns and Net Franchise Tax Liability by Franchise Taxable Amount | |
| Figure 1.5: C-Corporation Returns and Net Franchise Tax Liability by Franchise Taxable Amount | |
| Table 1.6: C-Corporation Returns Claiming Franchise Tax Credits and Amount of Credits Taken | |
| Figure 1.7: C-Corporation Returns Claiming Franchise Tax Credits and Amount of Credits Taken | |
| Table 1.8: C-Corporation Franchise Tax Credits Taken by Credit Type and Franchise Taxable Amount | |
| S-Corporation | 9 |
| Table 1.9: S-Corporation Returns by Tax Base Utilized | |
| Table 1.10: S-Corporation Net Franchise Tax Liability by Tax Base Utilized | |
| Figure 1.11: S-Corporation Returns and Net Franchise Tax Liability by Tax Base | |
| Table 1.12: S-Corporation Returns and Net Franchise Tax Liability by Franchise Taxable Amount | |
| Figure 1.13: S-Corporation Returns and Net Franchise Tax Liability by Franchise Taxable Amount | |
| Table 1.14: S-Corporation Returns Taking Franchise Tax Credits and Amount of Credits Taken | |
| Figure 1.15: S-Corporation Returns Taking Franchise Tax Credits and Amount of Credit Taken | |
| Table 1.16: S-Corporation Franchise Tax Credits Taken by Credit Type and Franchise Taxable Amount | |
| C and S Corporations Combined | 13 |
| Figure 1.17: C & S Corporation Returns and Net Franchise Tax Liability by Tax Base | |
| Figure 1.18: C & S Corporation Returns and Net Franchise Tax Liability by Franchise Taxable Amount | |
| Figure 1.19: C & S Corporations Returns Claiming Franchise Tax Credits and Amount of Credits Taken | |
| <u>SECTION II - INCOME TAX</u> | |
| C-Corporation..... | 15 |
| Table 2.1: C-Corporation Returns and Net Income Tax Liability by NC Taxable Income | |
| Figure 2.2: C-Corporation Returns and Net Income Tax Liability by NC Taxable Income | |
| Figure 2.3: C-Corporation Returns and Net Income Tax Liability by Federal Taxable Income (Before NOL) | |
| Table 2.4: C-Corporation Returns by Federal Taxable Income (Before NOL) and Apportionment Percentage | |
| Table 2.5: C-Corporation Net Income Tax Liability by Federal Taxable Income (Before NOL) and Apportionment Percentage | |
| Figure 2.6: C-Corporation Returns and Net Income Tax Liability by Apportionment Percentage | |
| Table 2.7: C-Corporation Income Tax Calculation Detail by Federal Taxable Income (Before NOL) | |
| Table 2.8: Number of C-Corporation Returns Taking Credits as a Percentage of Tax Liability | |
| Table 2.9: Amount of C-Corporation Tax Credits Taken as a Percentage of Tax Liability | |
| Figure 2.10: C-Corporation Income Tax Credits as a Percentage of Tax Liability | |
| Table 2.11: C-Corporation Income Tax Credits by Credit Type and NC Taxable Income | |
| S-Corporation | 23 |
| Table 2.12: S-Corporation Returns and Net Income Tax Liability by NC Taxable Income | |
| Figure 2.13: S-Corporation Returns and Net Income Tax Liability by NC Taxable Income | |
| Figure 2.14: S-Corporation Returns by NC Taxable Income and Nonresident Shareholder Status | |
| Table 2.15: S-Corporation Income Tax Calculation Detail | |
| Table 2.16: S-Corporation Income Tax Credits by Credit Type and NC Taxable Income | |

SECTION III – TRENDS

C-Corporation.....27
Figure 3.1: C-Corporation Returns by Tax Year
Figure 3.2: C-Corporation Net Franchise and Income Tax Liabilities by Tax Year
Table 3.3: C-Corporation Net Income Tax Liability by NC Taxable Income – Tax Years 2005 & 2011
Figure 3.4: C-Corporation Net Income Tax Liability by NC Taxable Income – Tax Years 2005 & 2011

S-Corporation.....30
Figure 3.5: S-Corporation Returns by Tax Years
Figure 3.6: S-Corporation Net Franchise and Income Tax Liabilities by Tax Year
Figure 3.7: S-Corporation Returns by NC Taxable Income – Tax Years 2005 & 2011

SECTION IV – INDUSTRY SECTORS

C-Corporation.....33
Figure 4.1: C-Corporation Franchise Tax and Income Tax Liability by Industry Sector

S-Corporation.....34
Figure 4.2: S-Corporation Franchise Tax and Income Tax Liability by Industry Sector
Figure 4.3: S-Corporation NC Net Taxable Income by Industry Sector

INTRODUCTION

This report contains statistics concerning business franchise and income taxes imposed on corporations and limited liability companies under the Revenue Laws of North Carolina. It is designed to provide legislators, public officials, tax professionals, researchers, and other interested citizens of North Carolina with information about the characteristics of corporate taxpayers and how those taxpayers contribute to the State's tax revenues. The report includes both historical series of data and detailed reports for tax year 2011 (TY11). It was prepared by the Revenue Research Division of the North Carolina Department of Revenue.

This report is based upon data submitted by corporations and limited liability companies filing as corporations on the CD-405, CD-401S, and CD-425 forms. The data were retrieved from the Department's Integrated Tax Administration System (ITAS) on December 11, 2013. The returns may not have been audited by this date. As such, the data may reflect errors made by taxpayers. The Revenue Research Division did examine the downloaded data in order to correct errors that were determined to have resulted from scanning the returns into ITAS.

Corporate tax returns are included in this report if they were filed for calendar year 2011 or for a tax year beginning sometime in 2011.

The Tax Year 2011 corporate tax forms and instructions are available for review on the following Department of Revenue website: www.dorn.com/downloads/corp_archive/11archive/index.html

This report is divided into four sections. Section I presents information related to the business franchise tax for TY11; Section II has information related to the corporation income tax for TY11; Section III presents data on the trends in these tax returns from Tax Year 2005 through Tax Year 2011; and Section IV breaks out key data by major industry sectors.

The following table presents key summary statistics for the business franchise and corporation income taxes for Tax Year 2011.

| | C Corporations | S Corporations |
|--|----------------|----------------|
| Number of returns | 76,379 | 147,262 |
| Number of returns with nonzero net franchise tax | 66,359 | 139,841 |
| Amount of net franchise tax | \$400,605,913 | \$60,733,531 |
| Number of returns with nonzero net income tax | 25,288 | 6,072 |
| Amount of net income tax | \$971,699,831 | \$66,084,768 |

Note: Net tax liability is tax liability minus tax credits. Taxpayers may have negative net tax liability due to the usage of certain refundable tax credits. Note that S-corporations only report income tax liability for nonresident shareholders who request that the company file a composite return on their behalf.

OVERVIEW OF TAXES COVERED BY THIS REPORT

The following descriptions of the General Business Franchise Tax and Corporation Income Tax reflect the tax law in effect for 2011. These descriptions are not official interpretations of the Revenue Laws and should not be relied upon as representing the official position of the Department of Revenue.

FRANCHISE TAX

The general business franchise tax is levied on business corporations doing business in the State (including those electing S-corporation status). The tax is imposed on the largest of three alternative asset bases. These bases are (a) the amount of the capital stock, surplus, and undivided profits apportioned to the State (using the apportionment formula for corporation income); (b) 55% of appraised value of property in the State subject to local taxation; or (c) the book value of real and tangible personal property in the State, less any debt outstanding which was created to acquire or improve real property in the State. The tax is \$1.50 per \$1,000 of taxable assets.

Limited Liability Companies (LLC's) that elect to be taxed as corporations for federal income tax purposes became liable for franchise tax beginning in 2007 (as reported on TY2006 returns). LLC's that chose to file as S-corporations in North Carolina became liable for tax beginning in 2009 (due on TY2008 returns). Electric power, water, and sewer utility companies pay a franchise tax based on their gross receipts and are exempt from the business franchise tax to the extent that their utilities franchise tax payments exceed their business franchise tax liability. The utilities franchise tax is not covered by this publication.

The minimum franchise tax for companies covered by the tax is \$35. The tax on holding companies that receive more than 80% of their gross income from subsidiaries is capped at \$75,000 if the company uses the capital stock, surplus, and undivided profits base. (The taxpayer must ensure this amount is not less than the tax calculated using the alternative bases.)

CORPORATION INCOME TAX

The corporation income tax applies to corporations that do business in North Carolina and that do not elect S-corporation status. The calculation of taxable income begins with Federal Taxable Income before Net Operating Loss. Additions to income are required for items including taxes based on income, capital loss carry-over, certain royalties paid to related members, contributions, and expenses attributable to income not taxed. Deductions from income are allowed for items including U.S. obligation interest, capital loss not deducted on the Federal return, and certain royalty payments received from related members.

The portion of this adjusted income that is subject to apportionment, less contributions to donees in other States, is apportioned to North Carolina based upon North Carolina's share of the corporation's property, payroll, and sales, with sales double-weighted in the formula. For several types of industries (utilities, construction contractors, securities dealers, loan companies, and corporations that receive more than 50% of their ordinary gross income from intangible property), apportionment is based only on the sales factor. Special apportionment rules apply to interstate carriers, railroads, and air and water transportation corporations. The Secretary of Revenue has the authority to approve an alternative method of apportionment if the taxpayer can establish evidence that the statutory formula operates to subject a greater portion of the corporation's income to tax than is attributable to its business in the State. Income not subject to apportionment is allocated to North Carolina if the business activity generating the income is located in North Carolina.

Total income allocated to North Carolina may be reduced by the value of net economic loss, percentage depletion over cost depletion, and contributions to North Carolina donees. The net taxable income is taxed at a rate of 6.9%.

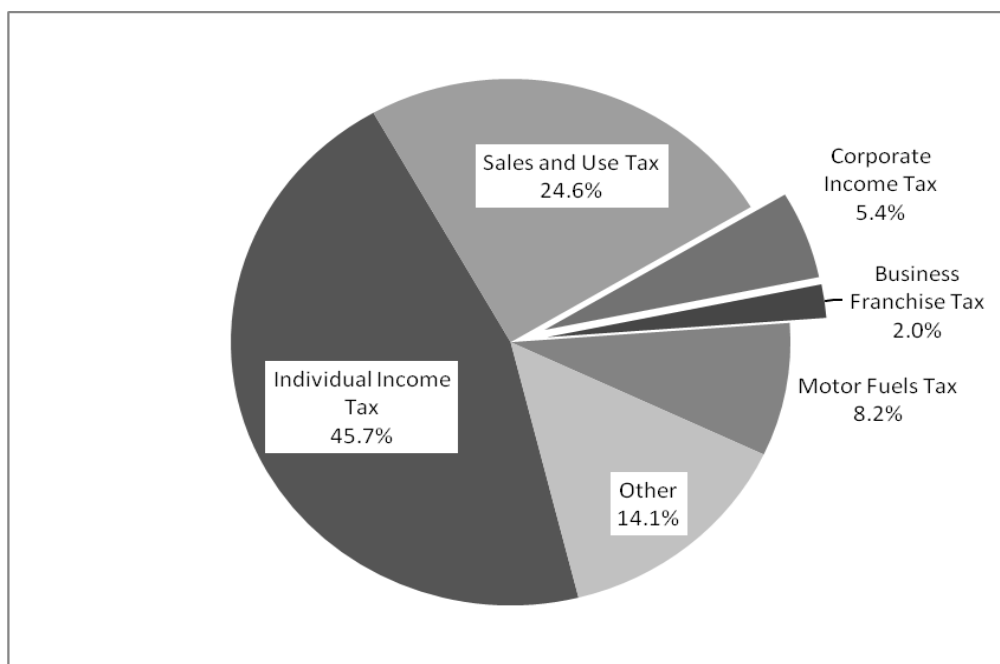
A taxpayer must add back 85% of the amount of bonus depreciation taken for federal income tax purposes during the tax year. This amount can then be deducted in equal installments over the next 5 tax years. Similar provisions existed for tax years 2008 through 2010.

S-corporations must file returns at the corporation level, but the income tax is paid by shareholders through the individual income tax. S-corporations do sometimes make payments on behalf of nonresident shareholders, and these payments are treated as corporation income tax. As a result, information concerning the income and tax liabilities of S-corporations also is included in this report.

The following chart illustrates the relative importance of corporation tax revenues to overall State tax revenues. State tax revenues in Fiscal Year 2011-12 were \$22.7 billion. (Licenses and fees are included in State tax revenues, but unemployment insurance contributions are excluded.) Net collections for the corporation income tax and the business franchise tax accounted for \$1.7 billion of the total, or 7.4%.

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

Composition of Net State Tax Revenues by Tax Category, FY11-12



Note: The "other" category includes motor vehicle licenses (2.5% of total); highway use tax (2.2%); insurance premiums tax (2.1%); public utilities franchise tax (1.8%); tobacco products tax (1.3%); and alcoholic beverage tax (1.4%), among others. Unemployment insurance contributions are not included in this graph.

C-CORPORATIONS

Overall, the net franchise tax liability for the C-corporation returns in this report totaled \$400.6 million. (Net tax liability is the amount of tax liability after deducting tax credits.) After excluding filers that were not liable for franchise tax (9,959 returns), the average amount due from the remaining 66,420 returns was \$6,032. Half of these taxpayers owed \$69 or less; and 99% of taxpayers owed less than \$98,000 each.

In order to provide a distributional analysis for the franchise tax, returns have been broken out into 7 brackets based on their franchise taxable amount. The first bracket (\$0 to \$23,667) represents those taxpayers that had the minimum \$35 amount of tax due or were exempt from the franchise tax. The highest bracket (\$40,000,000+) includes taxpayers whose tax liability before credits would be at least \$60,000.

Table 1.1 shows the distribution of returns based on which tax base was used to calculate the taxable amount. The capital stock, surplus and undivided profits base was used on 45% of the 2011 tax year returns, followed by investment in tangible property base (13%), and appraised values in property base (8%). Thirty-five percent of the returns listed no assets because: 1) the taxpayer was exempt from franchise tax; 2) the 2011 tax year return was a final return; or 3) the taxpayer had no assets.

**Table 1.1
C-Corporation Returns by Tax Base Utilized
Tax Year 2011**

| Franchise Taxable Amount | Number of C-Corporation Returns | | | | Total |
|----------------------------------|---------------------------------|----------------------------------|---|-------------------------------------|--------|
| | No Assets Listed | Capital Stock, Surplus & Profits | Investment in Tangible Property in N.C. | Appraised Value of Property in N.C. | |
| \$0-\$23,667 | 26,637 | 8,013 | 2,173 | 1,794 | 38,617 |
| \$23,668-\$100,000 | - | 6,371 | 2,218 | 1,550 | 10,139 |
| \$100,001-\$1,000,000 | - | 11,451 | 3,226 | 1,988 | 16,665 |
| \$1,000,001-\$5,000,000 | - | 4,545 | 1,061 | 477 | 6,083 |
| \$5,000,001-\$20,000,000 | - | 2,095 | 571 | 119 | 2,785 |
| \$20,000,001-\$40,000,000 | - | 620 | 200 | 38 | 858 |
| \$40,000,001+ | - | 953 | 234 | 45 | 1,232 |
| Total | 26,637 | 34,048 | 9,683 | 6,011 | 76,379 |

Note: Figures are based partially on unaudited returns. In cases where the tax bases were equal, the base listed earlier in the table (and on the return) was assigned.

**SECTION I
FRANCHISE TAX**

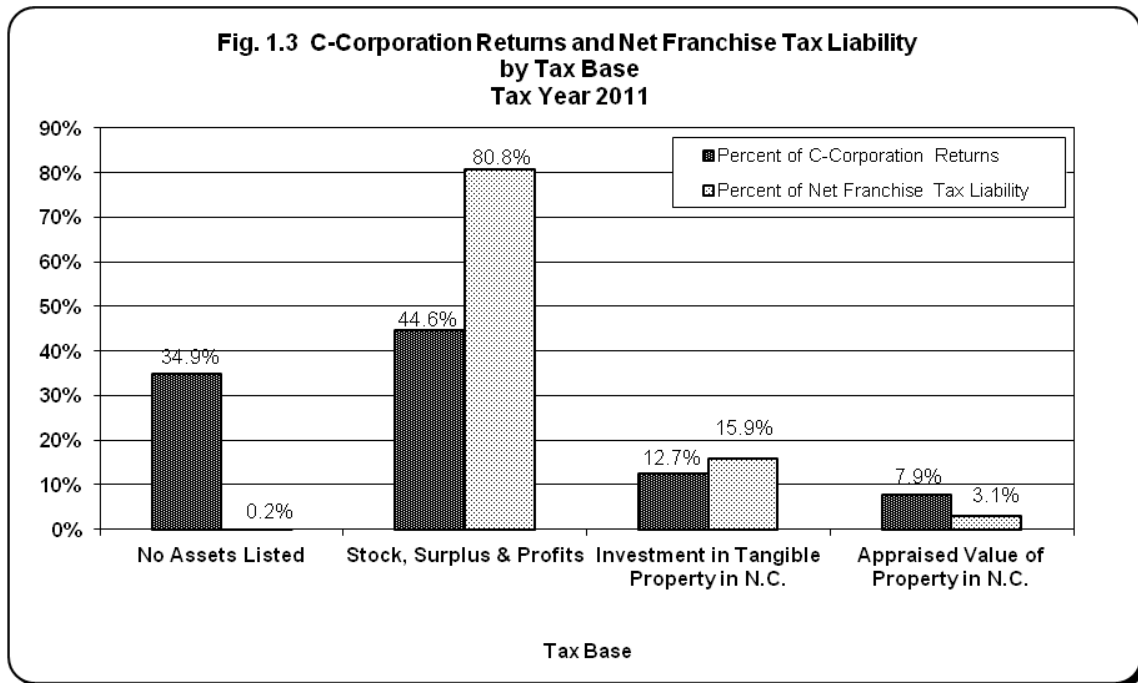
Table 1.2 compares the net franchise tax liability by tax base utilized. The greatest share of tax paid (81%) was under the capital stock, surplus and undivided profits base. Taxpayers using the investment in tangible property base paid 16% of the franchise tax, while the appraised value in property base represented only 3.1% of the net tax liability.

**Table 1.2
C-Corporation Net Franchise Tax Liability by Tax Base Utilized
Tax Year 2011**

| Franchise Taxable Amount | Net Tax Liability (\$) | | | | Total |
|---------------------------|------------------------|----------------------------------|---|-------------------------------------|-------------|
| | No Assets Listed | Capital Stock, Surplus & Profits | Investment in Tangible Property in N.C. | Appraised Value of Property in N.C. | |
| \$0-\$23,667 | 712,899 | 272,921 | 74,425 | 61,645 | 1,121,890 |
| \$23,668-\$100,000 | - | 522,188 | 177,704 | 123,237 | 823,129 |
| \$100,001-\$1,000,000 | - | 6,201,568 | 1,670,330 | 984,326 | 8,856,224 |
| \$1,000,001-\$5,000,000 | - | 15,394,699 | 3,634,701 | 1,381,014 | 20,410,414 |
| \$5,000,001-\$20,000,000 | - | 31,041,783 | 8,173,966 | 1,667,006 | 40,882,755 |
| \$20,000,001-\$40,000,000 | - | 25,071,466 | 7,259,416 | 1,525,740 | 33,856,622 |
| \$40,000,001+ | - | 245,177,559 | 42,723,478 | 6,753,842 | 294,654,879 |
| Total | 712,899 | 323,682,184 | 63,714,020 | 12,496,810 | 400,605,913 |

Note: Figures are based partially on unaudited returns.

Figure 1.3 illustrates graphically the summary data in Tables 1.1 and 1.2.



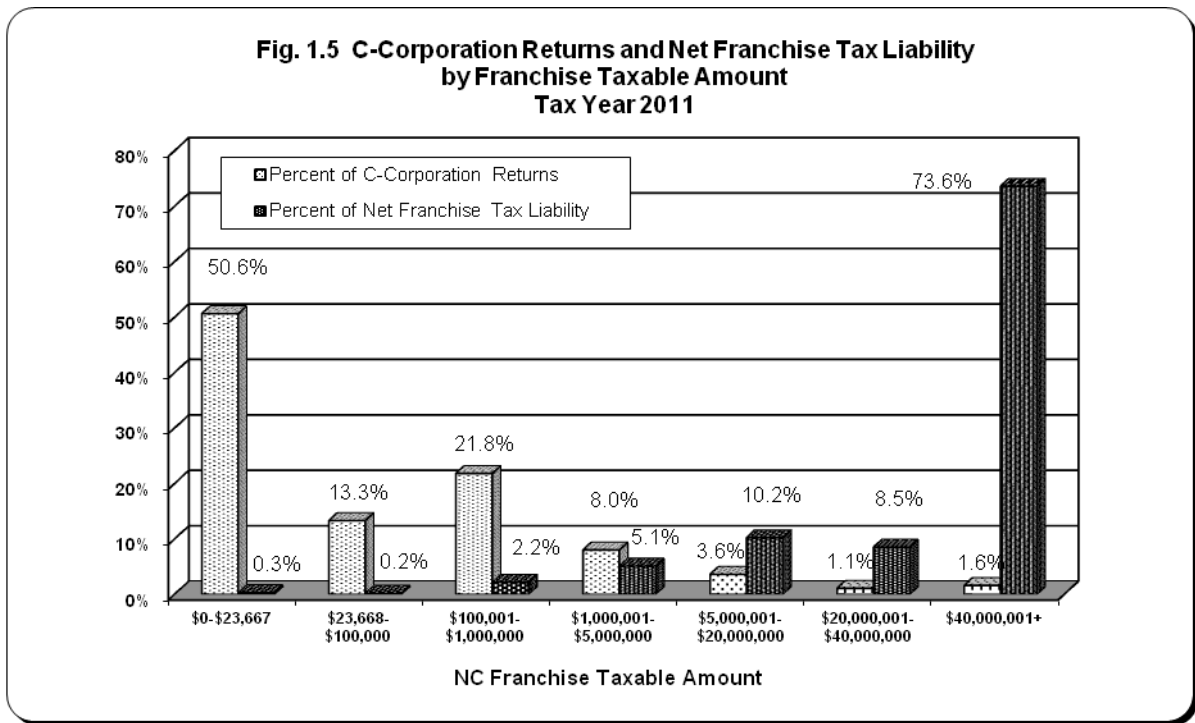
**SECTION I
FRANCHISE TAX**

Table 1.4 and Figure 1.5 provide the distribution of C-corporation returns and net franchise tax liability by taxable amount. Taxpayers with franchise taxable amount of at least \$40 million made up only 1.6% of the returns, but paid 73.6% of net franchise tax.

**Table 1.4
C-Corporation Returns and Net Franchise Tax Liability by Franchise Taxable Amount
Tax Year 2011**

| Franchise Taxable Amount | Number of Returns | | Net Franchise Tax Liability (\$) | |
|---------------------------|-------------------|---------------|----------------------------------|---------------|
| | Number of Returns | Percent | Liability (\$) | Percent |
| \$0-\$23,667 | 38,617 | 50.6% | 1,121,890 | 0.3% |
| \$23,668-\$100,000 | 10,139 | 13.3% | 823,129 | 0.2% |
| \$100,001-\$1,000,000 | 16,665 | 21.8% | 8,856,224 | 2.2% |
| \$1,000,001-\$5,000,000 | 6,083 | 8.0% | 20,410,414 | 5.1% |
| \$5,000,001-\$20,000,000 | 2,785 | 3.6% | 40,882,755 | 10.2% |
| \$20,000,001-\$40,000,000 | 858 | 1.1% | 33,856,622 | 8.5% |
| \$40,000,001+ | 1,232 | 1.6% | 294,654,879 | 73.6% |
| Total | 76,379 | 100.0% | 400,605,913 | 100.0% |

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



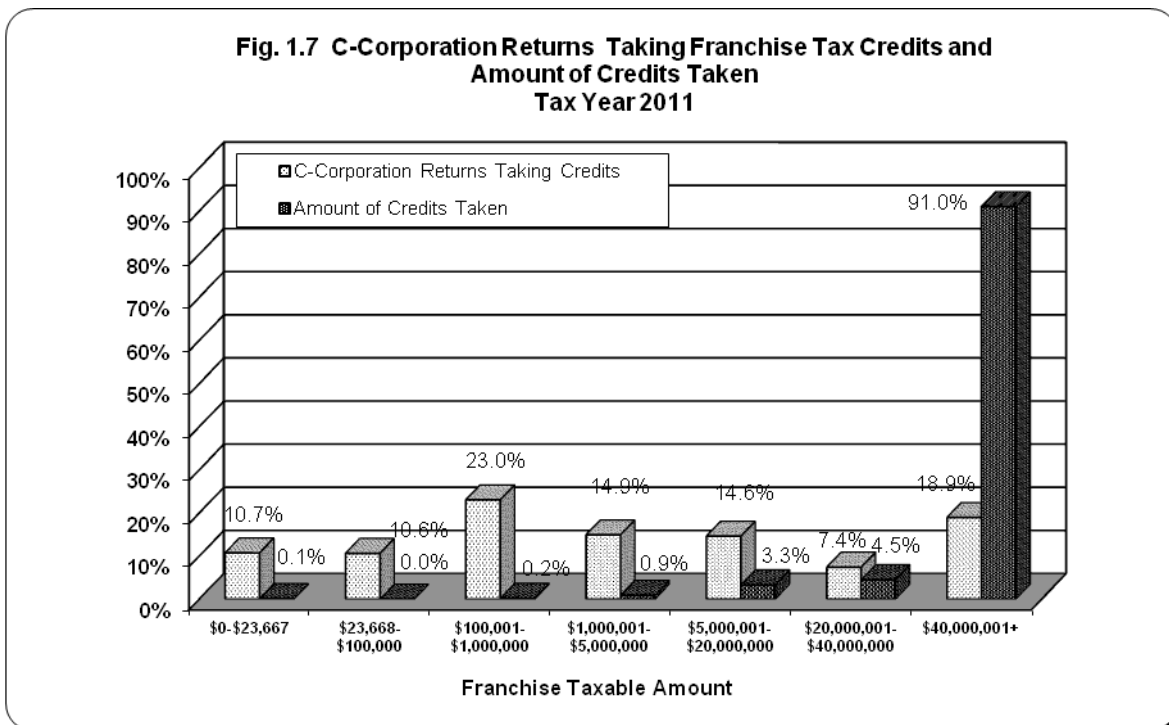
**SECTION I
FRANCHISE TAX**

Table 1.6 and Figure 1.7 compare the number of C-corporation returns taking franchise tax credits and amount of credits taken by taxable amount brackets. Of the 66,420 returns with positive tax liability before credits, only 1,793 (2.7%) took credits. Returns with franchise taxable amount greater than \$40 million comprised only 18.9% of the returns taking credits, but 91.0% of the credits taken.

**Table 1.6
C-Corporation Returns Taking Franchise Tax Credits and Amount of Credits Taken
Tax Year 2011**

| Franchise Taxable Amount | Number of Returns Taking Credits | | Amount of Credits Taken (\$) | |
|---------------------------|----------------------------------|---------------|------------------------------|---------------|
| | | Percent | | Percent |
| \$0-\$23,667 | 192 | 10.7% | 34,431 | 0.1% |
| \$23,668-\$100,000 | 190 | 10.6% | 9,140 | 0.0% |
| \$100,001-\$1,000,000 | 412 | 23.0% | 121,409 | 0.2% |
| \$1,000,001-\$5,000,000 | 267 | 14.9% | 515,126 | 0.9% |
| \$5,000,001-\$20,000,000 | 261 | 14.6% | 1,847,783 | 3.3% |
| \$20,000,001-\$40,000,000 | 133 | 7.4% | 2,506,102 | 4.5% |
| \$40,000,001+ | 338 | 18.9% | 51,134,480 | 91.0% |
| Total | 1,793 | 100.0% | 56,168,471 | 100.0% |

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



**SECTION I
FRANCHISE TAX**

Table 1.8 shows the amount of franchise tax credits by credit type and franchise taxable amount. On average, credits offset 15.0% of tax liability for taxpayers whose taxable amount was above \$5 million and 2.2% for those with lower taxable amounts.

**Table 1.8
C-Corporation Franchise Tax Credits Taken by Credit Type and Franchise Taxable Amount
Tax Year 2011**

| Income Tax Credits | All Returns | | Taxable Amount <\$5,000,001 | | Taxable Amount \$5,000,001+ | |
|--|-------------------------|---------------------------|--------------------------------|---------------------------|--------------------------------|---------------------------|
| | Number of Credits | Amount Claimed (\$) | Number of Credits | Amount Claimed (\$) | Number of Credits | Amount Claimed (\$) |
| Short Period Credit for Change in Income Year | 346 | 4,428,148 | 230 | 330,454 | 116 | 4,097,694 |
| + Other Credits Claimed* | 194 | 25,042,747 | 171 | 38,099 | 23 | 25,004,648 |
| - Other Credits Not Taken ** | -- | (20,401,788) | -- | (13,160) | -- | (20,388,628) |
| + Credits Subject to 50% Limit Taken | 1,280 | 47,099,364 | 668 | 324,713 | 612 | 46,774,651 |
| = Credits Taken | 1,793 | 56,168,471 | 1,061 | 680,106 | 732 | 55,488,365 |

* These credits include Major Computer Manufacturing Facility, Renovating Historic Mill Facility, Piped Natural Gas, Recycling Facilities, Expenses Related to Dividends, and Additional Annual Report Fee Paid.

** Credits were not taken against tax because a taxpayer's liability was less than the amount of credits claimed or because of taxpayer error.

Note: Confidentiality prevents the disclosure of the individual credits and credit amounts. Figures are based on both audited and unaudited returns. Detail may not add to totals due to rounding or taxpayer error.

S-CORPORATIONS

Table 1.9 shows the distribution of S-corporation returns by franchise tax base. The capital stock, surplus and undivided profits base was used on 42% of 2011 tax year returns, followed by investment in tangible property base (19%), and appraised values in property (15%). Twenty-four percent of the returns listed no assets because: 1) the taxpayer was exempt from franchise tax; 2) the 2011 tax year return was a final return; or 3) the taxpayer had no assets.

**Table 1.9
S-Corporation Returns by Tax Base Utilized
Tax Year 2011**

| Franchise Taxable Amount | Number of S-Corporation Returns | | | | Total |
|---------------------------|---------------------------------|----------------------------------|---|-------------------------------------|----------------|
| | No Assets Listed | Capital Stock, Surplus & Profits | Investment in Tangible Property in N.C. | Appraised Value of Property in N.C. | |
| \$0-\$23,667 | 34,667 | 27,204 | 9,573 | 8,997 | 80,441 |
| \$23,668-\$100,000 | - | 16,188 | 8,833 | 5,548 | 30,569 |
| \$100,001-\$1,000,000 | - | 15,165 | 8,407 | 6,024 | 29,596 |
| \$1,000,001-\$5,000,000 | - | 2,811 | 1,298 | 1,293 | 5,402 |
| \$5,000,001-\$20,000,000 | - | 554 | 333 | 194 | 1,081 |
| \$20,000,001-\$40,000,000 | - | 58 | 30 | 18 | 106 |
| \$40,000,001+ | - | 32 | 23 | 12 | 67 |
| Total | 34,667 | 62,012 | 28,497 | 22,086 | 147,262 |

Note: Figures are based partially on unaudited returns. In cases where the bases were equal, the base listed earlier in the table (and on the return) was assigned

Table 1.10 and Figure 1.11 provide the number of S-corporation returns and net franchise tax liability by tax base utilized. The greatest share of tax paid (51.5%) was under the capital stock, surplus and undivided profits base.

**Table 1.10
S-Corporation Net Franchise Tax Liability by Tax Base Utilized
Tax Year 2011**

| Franchise Taxable Amount | Net Tax Liability (\$) | | | | Total |
|---------------------------|------------------------|----------------------------------|---|-------------------------------------|-------------------|
| | No Assets Listed | Capital Stock, Surplus & Profits | Investment in Tangible Property in N.C. | Appraised Value of Property in N.C. | |
| \$0-\$23,667 | 1,009,001 | 930,643 | 328,193 | 306,814 | 2,574,651 |
| \$23,668-\$100,000 | - | 1,250,146 | 694,477 | 425,835 | 2,370,458 |
| \$100,001-\$1,000,000 | - | 7,024,625 | 3,721,984 | 2,892,902 | 13,639,511 |
| \$1,000,001-\$5,000,000 | - | 8,799,324 | 4,149,482 | 3,846,970 | 16,795,776 |
| \$5,000,001-\$20,000,000 | - | 7,228,772 | 4,300,116 | 2,485,987 | 14,014,875 |
| \$20,000,001-\$40,000,000 | - | 2,265,916 | 1,178,908 | 656,183 | 4,101,007 |
| \$40,000,001+ | - | 3,750,788 | 2,381,978 | 1,104,487 | 7,237,253 |
| Total | 1,009,001 | 31,250,214 | 16,755,138 | 11,719,178 | 60,733,531 |

Note: Figures are based partially on unaudited returns.

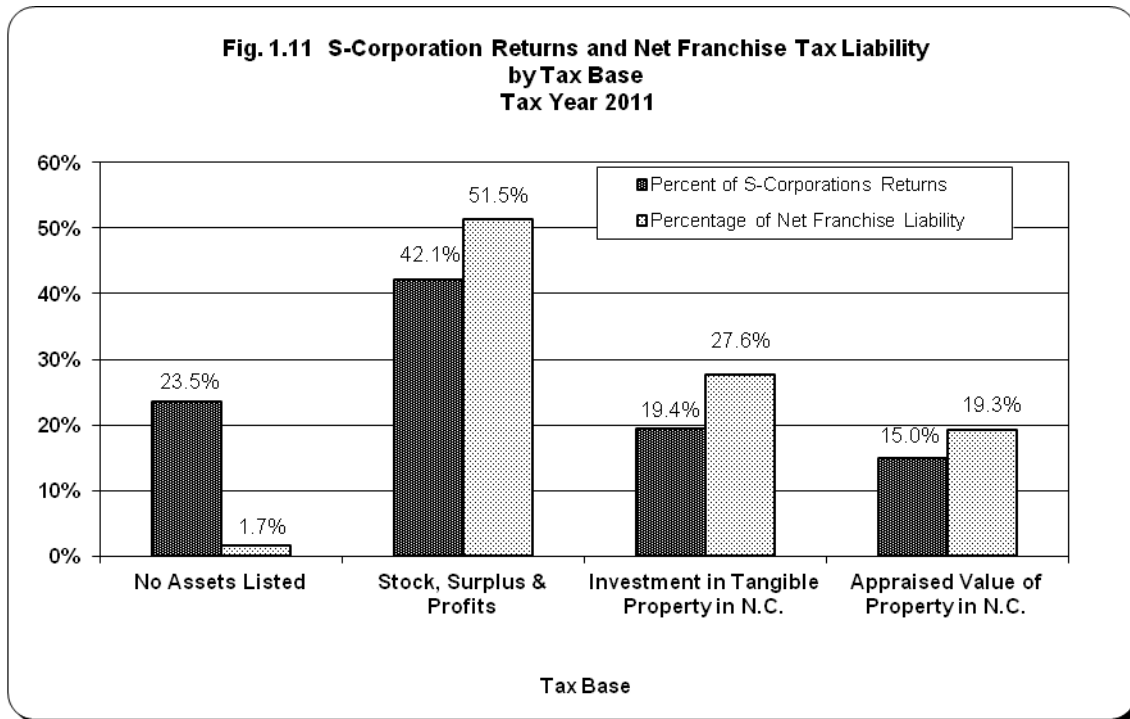


Table 1.12 and Figure 1.13 compare the distribution of S-corporation returns and net franchise tax liability. The average tax was \$429, although half of taxpayers had a tax liability of \$35 or less. Of the tax brackets shown in the table, taxpayers with franchise taxable amount between \$1 million and \$5 million paid the largest share of net franchise tax.

**Table 1.12
S-Corporation Returns and Net Franchise Tax Liability by Franchise Taxable Amount
Tax Year 2011**

| Franchise Taxable Amount | Number of Returns | | Net Franchise Tax Liability (\$) | |
|---------------------------|-------------------|---------------|----------------------------------|---------------|
| | Number | Percent | Liability | Percent |
| \$0-\$23,667 | 80,441 | 54.6% | 2,574,651 | 4.2% |
| \$23,668-\$100,000 | 30,569 | 20.8% | 2,370,458 | 3.9% |
| \$100,001-\$1,000,000 | 29,596 | 20.1% | 13,639,511 | 22.5% |
| \$1,000,001-\$5,000,000 | 5,402 | 3.7% | 16,795,776 | 27.7% |
| \$5,000,001-\$20,000,000 | 1,081 | 0.7% | 14,014,875 | 23.1% |
| \$20,000,001-\$40,000,000 | 106 | 0.1% | 4,101,007 | 6.8% |
| \$40,000,001+ | 67 | 0.0% | 7,237,253 | 11.9% |
| Total | 147,262 | 100.0% | 60,733,531 | 100.0% |

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

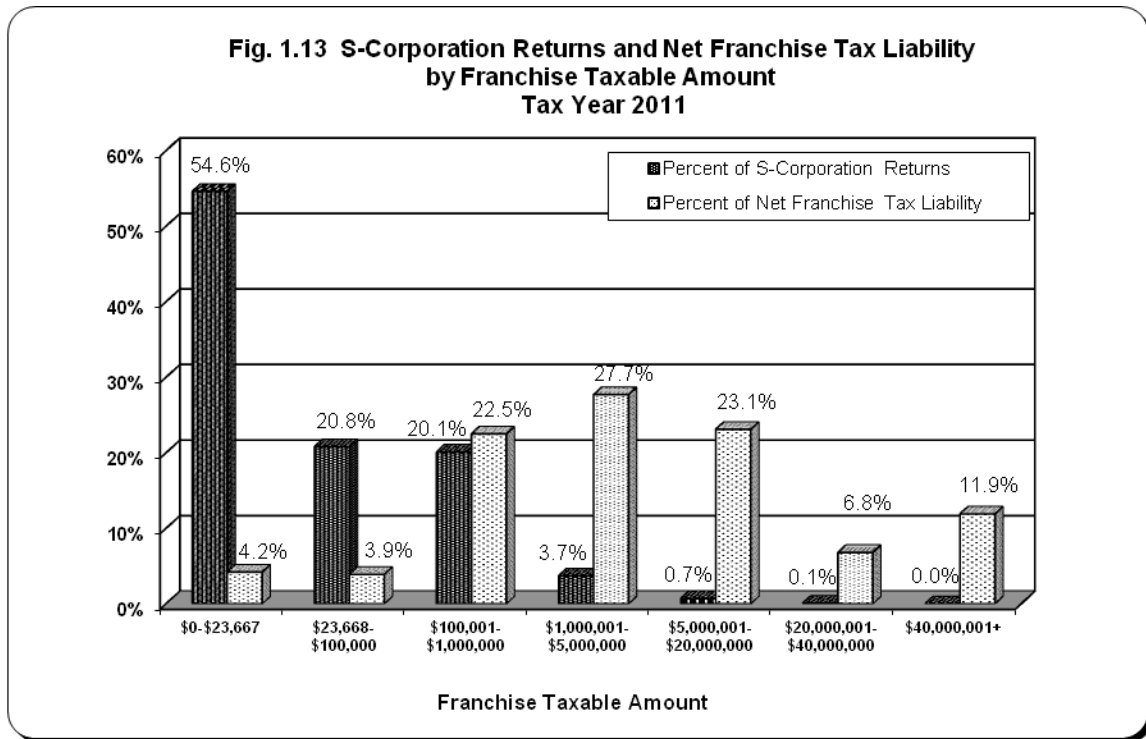


Table 1.14 and Figure 1.15 show the number of returns taking franchise tax credits and amount of credits taken. Returns with a franchise taxable amount greater than \$40 million comprised 0.4% of the returns taking credits and 33.5% of the credits taken.

**Table 1.14
S-Corporation Returns Taking Franchise Tax Credits and Amount of Credits Taken
Tax Year 2011**

| Franchise Taxable Amount | Number of Returns Taking Credits | | Amount of Credits Taken (\$) | |
|---------------------------|----------------------------------|---------------|------------------------------|---------------|
| | | Percent | | Percent |
| \$0-\$23,667 | 1,150 | 39.6% | 40,216 | 2.7% |
| \$23,668-\$100,000 | 675 | 23.2% | 52,543 | 3.5% |
| \$100,001-\$1,000,000 | 794 | 27.3% | 151,987 | 10.1% |
| \$1,000,001-\$5,000,000 | 179 | 6.2% | 152,436 | 10.1% |
| \$5,000,001-\$20,000,000 | 80 | 2.8% | 379,198 | 25.2% |
| \$20,000,001-\$40,000,000 | 14 | 0.5% | 224,308 | 14.9% |
| \$40,000,001+ | 12 | 0.4% | 503,821 | 33.5% |
| Total | 2,904 | 100.0% | 1,504,509 | 100.0% |

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

**SECTION I
FRANCHISE TAX**

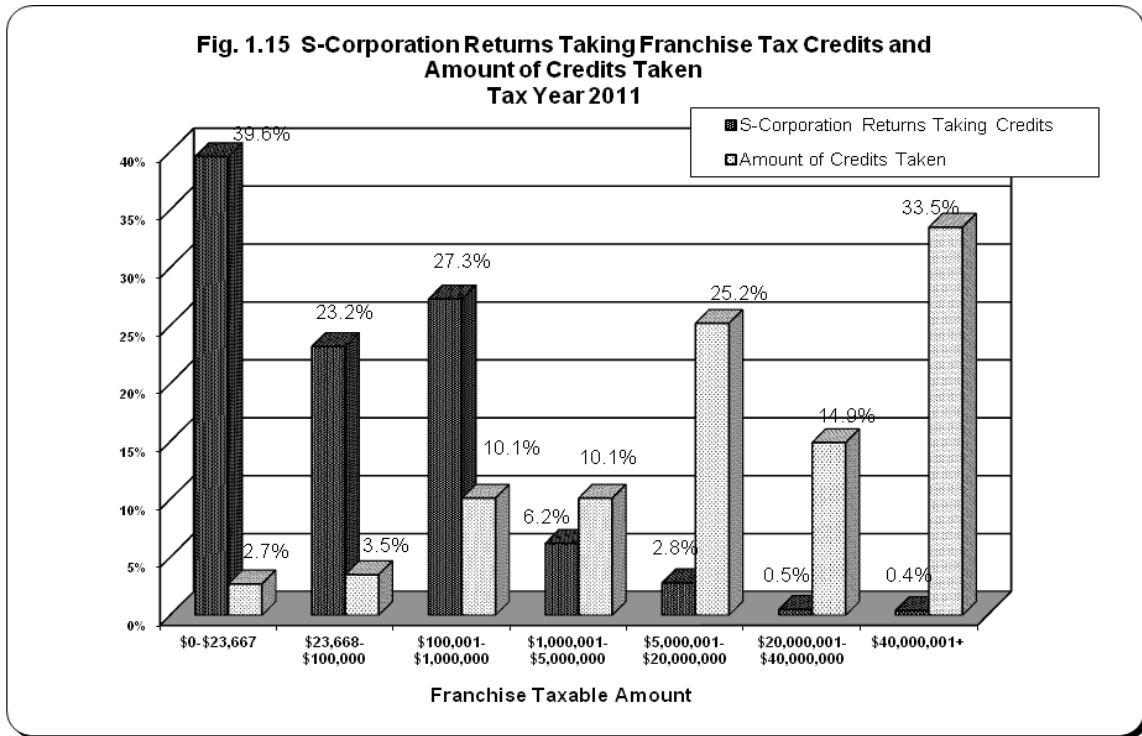


Table 1.16 shows the amount of franchise tax credits by credit type and franchise taxable amount.

**Table 1.16
S-Corporation Franchise Tax Credits Taken by Credit Type and Franchise Taxable Amount
Tax Year 2011**

| Income Tax Credits | All Returns | | Taxable Amount <\$5,000,001 | | Taxable Amount \$5,000,001+ | |
|---|-------------------|---------------------|-----------------------------|---------------------|-----------------------------|---------------------|
| | Number of Credits | Amount Claimed (\$) | Number of Credits | Amount Claimed (\$) | Number of Credits | Amount Claimed (\$) |
| Short Period Credit for Change in Income Year | 168 | 96,621 | 163 | 39,479 | 5 | 57,142 |
| + Other Credits Claimed* | 2,312 | 404,227 | 2,296 | 399,127 | 16 | 5,100 |
| - Other Credits Not Taken ** | -- | 196,967 | -- | 196,967 | -- | - |
| + Credits Subject to 50% Limit Taken | 452 | 1,200,628 | 365 | 155,543 | 87 | 1,045,085 |
| = Credits Taken | 2,904 | 1,504,509 | 2,798 | 397,182 | 106 | 1,107,327 |

* This category include Piped Natural Gas, LLC Report Fee and Other Non-Limited Franchise Credits

** Credits were not taken against tax because taxpayer's liability was less than the amount of credits claimed or because of taxpayer error.

Note: Confidentiality prevents the disclosure of the individual credits and credits amount. Figures are partially based on unaudited returns.

C & S CORPORATIONS COMBINED

Figure 1.17 compares the number of returns and net franchise tax liability for all C and S corporations combined by tax base used. The largest amount of net franchise tax was paid by the returns having capital stock, surplus and profits as the tax base. Twenty-seven percent of the returns listed no assets because: 1) the taxpayer was exempt from franchise tax; 2) the 2011 tax year return was a final return; 3) or the taxpayer had no assets.

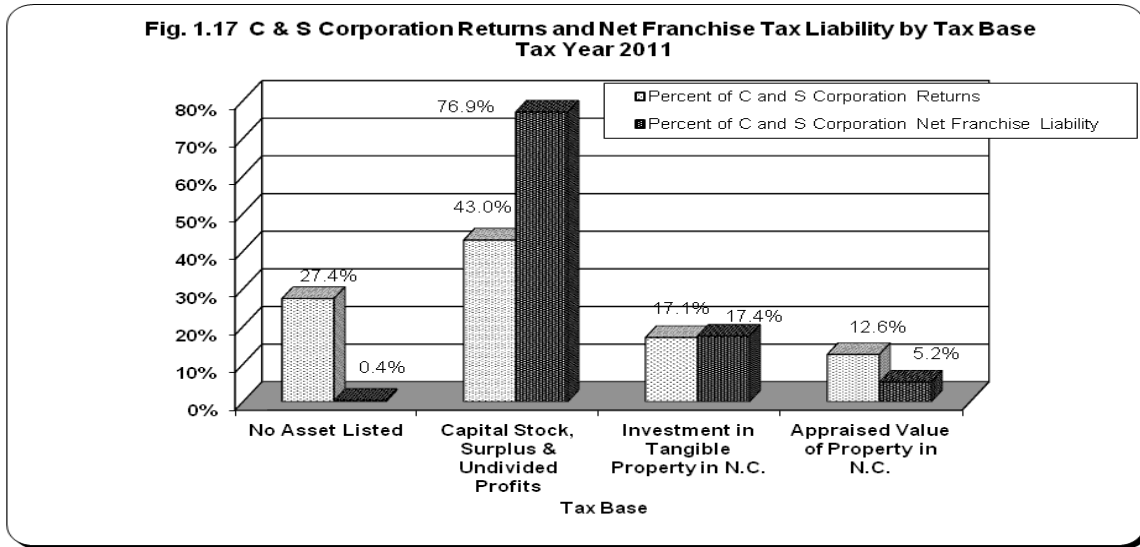
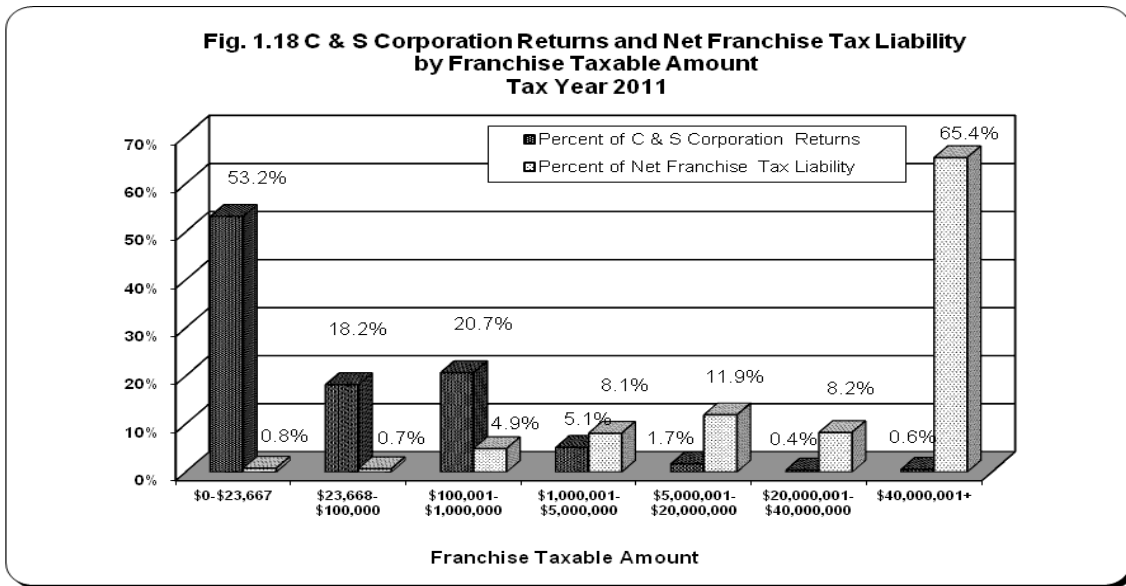
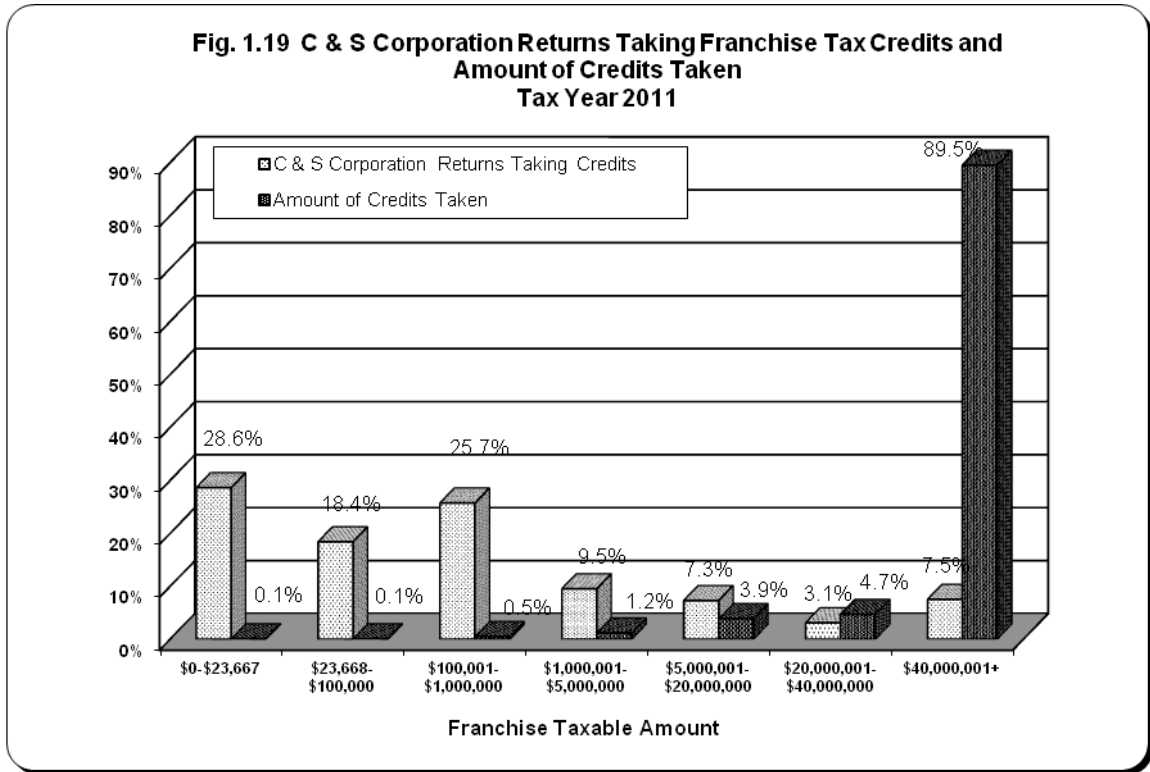


Figure 1.18 shows the number of C and S corporation returns and net franchise tax liability. The top 2.7% of returns, by taxable amount, paid 85.6% of the tax. Taxpayers with franchise taxable amount over \$20 million made up 1% of the returns, but paid 74% of net franchise tax.



**SECTION I
FRANCHISE TAX**

Figure 1.19 shows the distribution of C and S corporation returns that took franchise tax credits and the amount of credits taken. Only 4,697 of the 223,641 corporations took credits in tax year 2011. Corporations with over \$40 million as their franchise tax base took nearly 90% of credits.



C-CORPORATIONS

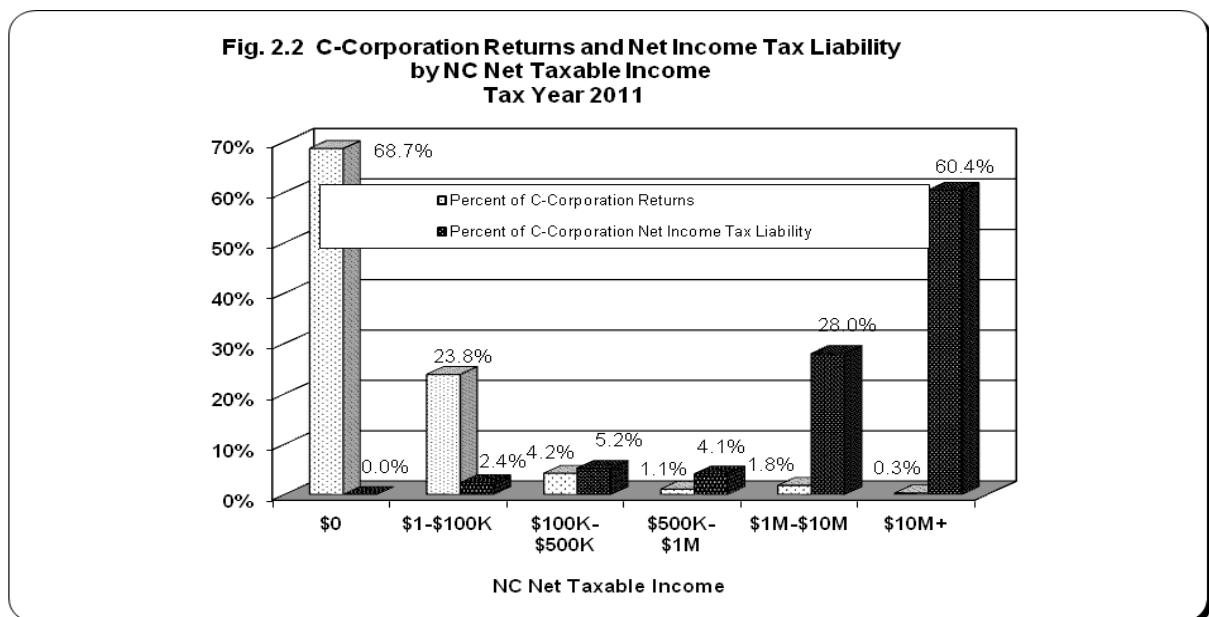
Although 76,379 tax returns were filed for tax year 2011, only 23,481 of them (30.7%) had a net tax liability (i.e., a positive tax liability after credits were applied). In addition, 1,807 taxpayers had a *negative* net tax liability, due to the application of the refundable Small Business Unemployment Insurance tax credit that was in effect during tax years 2010 and 2011.

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

**Table 2.1
C-Corporation Returns and Net Income Tax Liability by NC Net Taxable Income
Tax Year 2011**

| NC Net Taxable Income | Number of Returns | Percent | Cumulative Percent | Net Income Tax Liability [\$] | Percent | Cumulative Percent |
|---------------------------------|-------------------|---------------|--------------------|-------------------------------|---------------|--------------------|
| \$0 or less | 52,512 | 68.7% | 68.8% | -824,827 | -- | -- |
| \$1-\$15,000 | 11,346 | 14.9% | 83.6% | 3,090,028 | 0.3% | 0.2% |
| \$15,001-\$30,000 | 2,660 | 3.5% | 87.1% | 3,852,084 | 0.4% | 0.6% |
| \$30,001-\$50,000 | 1,908 | 2.5% | 89.6% | 5,086,291 | 0.5% | 1.1% |
| \$50,001-\$100,000 | 2,293 | 3.0% | 92.6% | 11,080,691 | 1.1% | 2.2% |
| \$100,001-\$500,000 | 3,214 | 4.2% | 96.8% | 50,694,134 | 5.2% | 7.4% |
| \$500,001-\$1,000,000 | 825 | 1.1% | 97.9% | 39,328,096 | 4.1% | 11.5% |
| \$1,000,001-\$10,000,000 | 1,383 | 1.8% | 99.7% | 272,113,784 | 28.0% | 39.5% |
| \$10,000,001+ | 238 | 0.3% | 100.0% | 587,279,550 | 60.4% | 99.9% |
| Total | 76,379 | 100.0% | -- | 971,699,831 | 100.0% | -- |

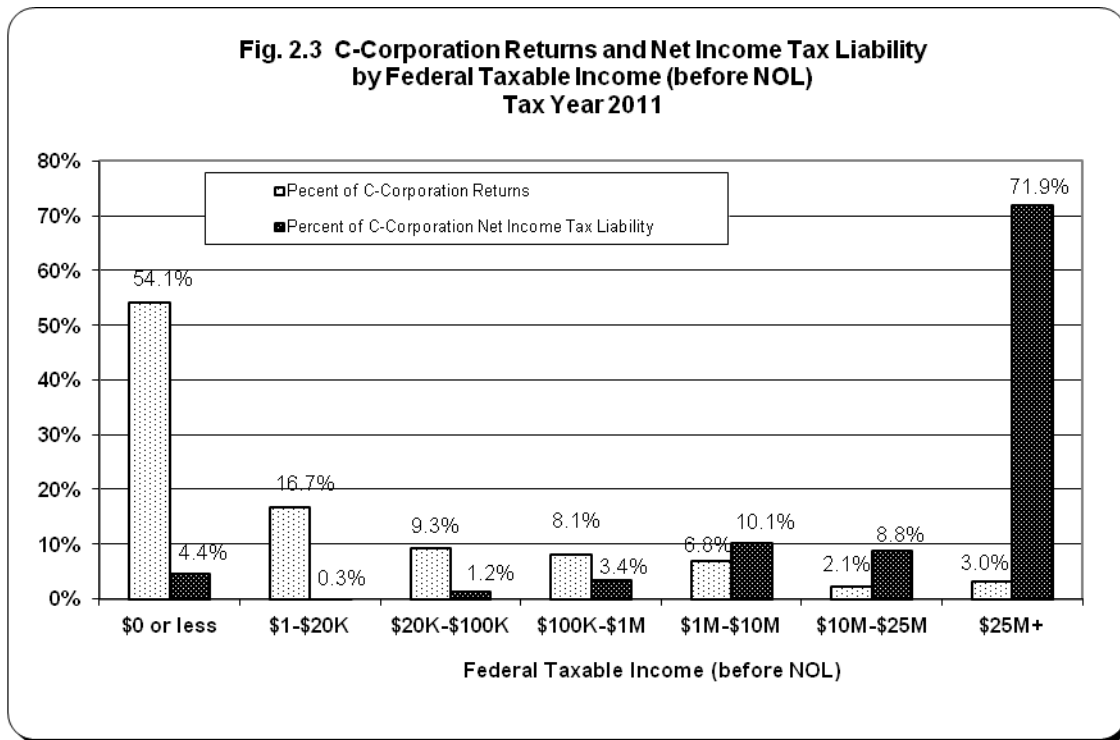
Note: Figures are partially based on unaudited returns. Breakout percentages may not add to totals due to rounding.



As shown in Table 2.1 and Figure 2.2 on the previous page, C-corporations with a North Carolina Taxable Income of over \$1 million represented 88.4% of the C-corporation income tax liability, but made up 2.1% of the corporations filing returns. Sixty percent of the total C-corporation net income tax liability was attributable to the 238 corporations with North Carolina Taxable Income of over \$10 million.

Figure 2.3 provides the distribution of returns and tax liability by federal taxable income *before Net Operating Loss carryforwards*. Therefore, this distribution gives a break-down of income based on a company's current-year national income.

As shown in Figure 2.3, corporations with federal taxable income (before NOL) over \$25 million paid over 71% of NC net income tax.



**SECTION II
INCOME TAX**

Table 2.4 compares the distribution of returns by apportionment percentage and federal taxable income. A corporation's apportionment percentage is used to determine how much of the corporation's total apportionable income may be taxed by North Carolina. For most types of companies, the percentage is based on how much of the corporation's property, payroll, and sales are in North Carolina, with sales being given a double weight.

**Table 2.4
C-Corporation Returns by Federal Taxable Income (Before NOL) and
Apportionment Percentage
Tax Year 2011**

| Federal Taxable Income (before NOL) | NC Apportionment Percentage | | | | | Total |
|--|-----------------------------|--------------|--------------|--------------|---------------|---------------|
| | <5% | 5% - 24% | 25% - 49% | 50% - 99% | 100% | |
| \$0 or less | 11,306 | 1,832 | 605 | 952 | 26,640 | 41,335 |
| \$1 - \$20,000 | 851 | 218 | 114 | 245 | 11,325 | 12,753 |
| \$20,001 - \$100,000 | 1,288 | 343 | 138 | 388 | 4,916 | 7,073 |
| \$100,001 - \$ 1,000,000 | 3,058 | 695 | 253 | 460 | 1,683 | 6,149 |
| \$1,000,001 - \$10,000,000 | 3,919 | 634 | 206 | 224 | 187 | 5,170 |
| \$10,000,001-\$25,000,000 | 1,373 | 160 | 53 | 30 | 13 | 1,629 |
| \$25,000,001+ | 2,007 | 213 | 36 | 12 | 2 | 2,270 |
| Total | 23,802 | 4,095 | 1,405 | 2,311 | 44,766 | 76,379 |

Note: Figures are based partially on unaudited returns.

Table 2.5 and Figure 2.6 show the net income tax liability by apportionment percentage and federal taxable income. C-corporations that operated exclusively within North Carolina, and so apportion all of their income to the state, made up 58.6% of the returns filed for tax year 2011. However, these corporations accounted for only 7.9% of the corporation income tax liability.

**Table 2.5
C-Corporation Net Income Tax Liability by Federal Taxable Income (Before NOL) and
Apportionment Percentage
Tax Year 2011**

| Federal Taxable Income (before NOL) | NC Apportionment Percentage | | | | | Total |
|--|-----------------------------|--------------------|--------------------|-------------------|-------------------|--------------------|
| | <5% [\$] | 5% - 24% [\$] | 25% - 49% [\$] | 50% - 99% [\$] | 100% [\$] | |
| \$0 or less | 17,047,750 | 20,404,547 | 1,005,447 | 3,825,630 | 629,661 | 42,913,035 |
| \$1 - \$20,000 | 23,955 | 28,664 | 40,441 | 76,863 | 2,641,311 | 2,811,234 |
| \$20,001 - \$100,000 | 379,768 | 209,359 | 142,804 | 911,805 | 9,774,579 | 11,418,315 |
| \$100,001 - \$ 1,000,000 | 1,218,809 | 2,065,149 | 1,639,132 | 6,633,455 | 21,134,690 | 32,691,235 |
| \$1,000,001 - \$10,000,000 | 13,188,799 | 15,764,142 | 14,566,699 | 27,815,789 | 26,950,331 | 98,285,760 |
| \$10,000,001-\$25,000,000 | 18,802,796 | 15,530,770 | 19,219,839 | 21,916,683 | 9,767,153 | 85,237,241 |
| \$25,000,001+ | 382,403,531 | 188,655,787 | 93,844,996 | 27,294,518 | 6,144,179 | 698,343,011 |
| Total | 433,065,408 | 242,658,418 | 130,459,358 | 88,474,743 | 77,041,904 | 971,699,831 |

Note: Figures are based partially on unaudited returns.

The State receives a significant portion of its corporation income taxes from a small number of large multi-state firms. Over fifty percent of corporation income tax was attributable to corporations with Federal Taxable Income of over \$25 million that apportioned less than 25% of their income to North Carolina. The economic success, sales patterns, and tax planning decisions of this relatively small number of large, multi-state companies can significantly affect North Carolina's corporation income tax revenues.

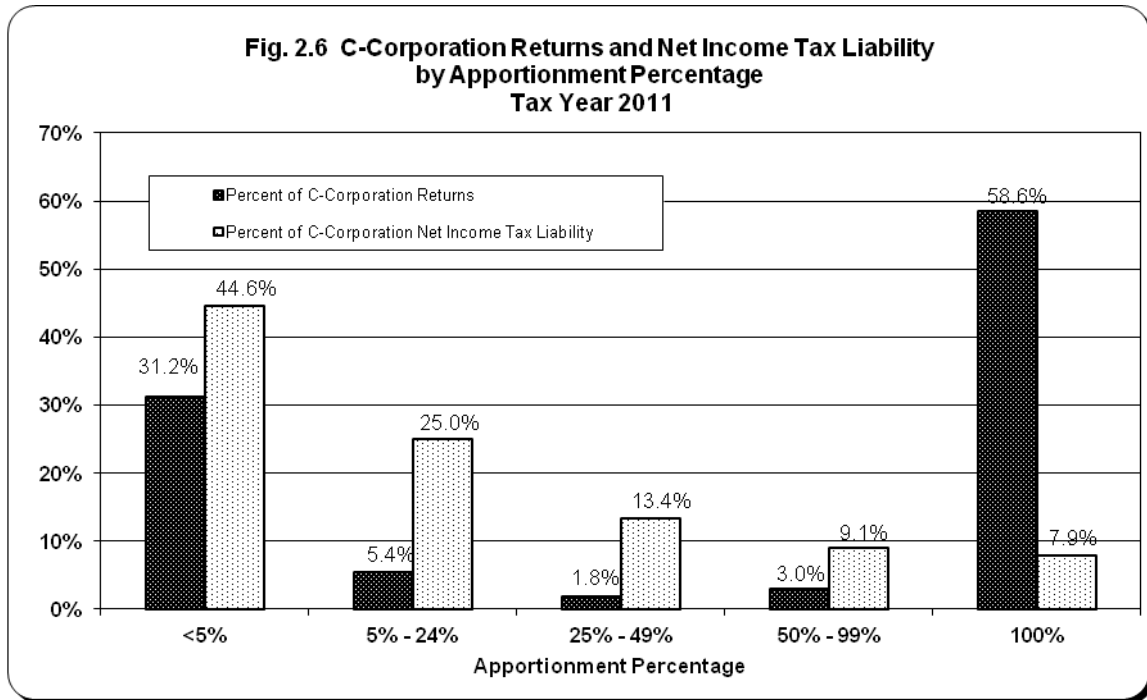


Table 2.7 on the next page shows statistics on the calculation of net tax liability at each step, starting with federal taxable income. Returns are divided into taxable and nontaxable returns, where taxable returns are defined as those with a positive tax liability before credits are applied. The taxable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

Out of 76,379 returns, 31% were taxable returns and 69% were nontaxable returns. Taxable returns with a federal taxable income over \$25 million made up 2.3% of the returns but accounted for 97% of the federal taxable income before NOL and 72% of the tax liability.

Of the 41,335 returns with federal taxable income of zero or less, 1,420 had a North Carolina tax liability as a result of adjustment to income or the allocation of nonapportionable income to North Carolina. Of the remaining 35,044 returns that did show a federal taxable income, 12,793 did not have a net North Carolina liability. One can trace through the calculations in Table 2.7 to see how these companies reduced their tax liability. From federal taxable income of \$135.5 billion, there was a reduction of \$12.4 billion due to adjustments, a reduction of \$5.4 billion due to nonapportionable income, a reduction of \$114.2 billion due to apportioning income to North Carolina, and a reduction of \$7.9 billion due to Net Economic Loss carryforwards.

Some corporations have negative federal taxable income but pay North Carolina taxes because provisions of the State tax code require that they add back certain amounts. One of those addbacks in 2011 was for the bonus depreciation allowances created by the Tax Relief Act of 2010 at the federal level. As such, these addbacks are only a temporary addition to tax, as they will be offset by future deductions.

Finally, North Carolina tax credits for businesses reduced overall C-Corporation tax liabilities by \$86.4 million.

**SECTION II
INCOME TAX**

**Table 2.7
C-Corporation Income Tax Calculation Detail by Federal Taxable Income (Before NOL)
Tax Year 2011**

| FTI of Corporation | Number of Returns | Federal Taxable Income, Before NOL [\$] | (+) Adjustments to Federal Income [\$] | (-) Contributions to Donees Outside NC [\$] | (-) Nonapportionable Income [\$] | (-) Reduction Due To Apportionment [\$] | (=) Income Apportioned to NC [\$] |
|----------------------------------|-------------------|--|--|---|--|---|---|
| <u>Taxable Returns</u> | | | | | | | |
| \$0 or less | 1,420 | (22,792,885,375) | 41,725,557,433 | 73,408,633 | (142,868,021) | 18,301,243,547 | 700,887,899 |
| \$1-\$20,000 | 7,503 | 44,874,170 | 34,675,390 | 160,306 | (50,080) | 29,545,246 | 49,894,088 |
| \$20,001-\$100,000 | 4,419 | 211,285,750 | 209,554,841 | 1,268,963 | 1,235,767 | 228,476,483 | 189,859,378 |
| \$100,001-\$1,000,000 | 3,811 | 1,417,296,656 | 637,411,631 | 9,011,282 | 35,961,862 | 1,479,326,498 | 530,408,645 |
| \$1,000,001-\$10,000,000 | 3,580 | 13,655,803,008 | 4,080,682,247 | 75,594,293 | 105,943,190 | 15,990,411,719 | 1,564,536,053 |
| \$10,000,001-\$25,000,000 | 1,212 | 19,241,916,465 | 4,987,646,886 | 108,055,540 | 117,508,604 | 22,603,199,595 | 1,400,799,612 |
| \$25,000,001+ | 1,726 | 451,254,045,404 | 53,266,556,133 | 3,656,559,578 | 3,724,847,062 | 484,959,729,011 | 12,179,465,886 |
| Total, Taxable | 23,671 | 463,032,336,078 | 104,942,084,561 | 3,924,058,595 | 3,842,578,384 | 543,591,932,099 | 16,615,851,561 |
| <u>Nontaxable Returns</u> | | | | | | | |
| \$0 or less | 39,915 | (245,442,966,657) | 39,001,405,660 | 31,909,831 | (371,931,349) | (197,181,898,158) | (8,919,641,321) |
| More than \$0 | 12,793 | 135,501,681,145 | (12,360,829,957) | 528,856,639 | 5,421,722,075 | 114,175,720,319 | 3,014,552,155 |
| Total, Nontaxable | 52,708 | (109,941,285,512) | 26,640,575,703 | 560,766,470 | 5,049,790,726 | (83,006,177,839) | (5,905,089,166) |

| FTI of Corporation | (+) Nonapportionable Income Allocated to NC [\$] | (-) Percentage Depletion Over Cost Depletion [\$] | (-) Net Economic Loss [\$] | (-) Contributions to NC Donees [\$] | (=) Net Taxable Income [\$] | (-) Computed Income Tax [\$] | (-) Tax Credits [\$] | (=) Net Tax Liability [\$] |
|----------------------------------|--|---|----------------------------------|---|-----------------------------------|------------------------------------|----------------------------|----------------------------------|
| <u>Taxable Returns</u> | | | | | | | | |
| \$0 or less | w | w | 42,154,107 | 449,706 | 662,119,598 | 45,686,271 | 2,251,149 | 43,435,122 |
| \$1-\$20,000 | 215,453 | 151 | 4,260,794 | 305,698 | 45,542,898 | 3,142,493 | 153,750 | 2,988,743 |
| \$20,001-\$100,000 | 805,456 | 102,594 | 16,616,207 | 1,501,089 | 172,444,944 | 11,898,718 | 375,425 | 11,523,293 |
| \$100,001-\$1,000,000 | w | w | 45,366,021 | 3,622,598 | 485,753,245 | 33,517,760 | 806,152 | 32,711,608 |
| \$1,000,001-\$10,000,000 | w | w | 73,668,303 | 4,818,194 | 1,495,206,021 | 103,169,282 | 4,883,522 | 98,285,760 |
| \$10,000,001-\$25,000,000 | 2,212,218 | 139,621 | 77,249,963 | 6,159,618 | 1,319,462,628 | 91,042,924 | 5,805,683 | 85,237,241 |
| \$25,000,001+ | 7,166,815 | 17,749,770 | 978,658,483 | 36,451,819 | 11,153,772,629 | 769,610,306 | 71,267,295 | 698,343,011 |
| Total, Taxable | 27,725,606 | 17,992,604 | 1,237,973,878 | 53,308,722 | 15,334,301,963 | 1,058,067,754 | 85,542,976 | 972,524,778 |
| <u>Nontaxable Returns</u> | | | | | | | | |
| \$0 or less | (77,702,618) | 269,962 | 7,592,120,085 | 11,338,189 | (17,042,781,078) | - | 552,087 | (522,087) |
| More than \$0 | 7,499,250 | 124,123,465 | 7,892,021,846 | 30,183,542 | (7,200,784,912) | - | 272,860 | (302,860) |
| Total, Nontaxable | (70,203,368) | 124,393,427 | 15,484,141,931 | 41,521,731 | (24,243,565,990) | - | 824,947 | (824,947) |

Note: Figures are based on both audited and unaudited returns. Detail may not add to totals due to rounding or taxpayer error. A "w" indicates that the number is withheld to protect confidentiality.

**SECTION II
INCOME TAX**

Income Tax Credits: Nearly 95% of the 23,671 returns with positive tax liability before credits did not take any income tax credits. Forty-seven percent of the 1,272 returns taking credits had over 40% of their tax liability offset by income tax credits. As shown in Table 2.9, these returns accounted for nearly 63% of the total credits taken.

**Table 2.8
Number of C-Corporation Taxable Returns Taking Credits as a Percentage of Tax Liability
Tax Year 2011**

| NC Taxable Income | Income Tax Credits as a Percentage of Tax | | | | | Total |
|---------------------------------|---|------------|------------|------------|-------|--------|
| | 0% | 0.1% -9.9% | 10% -19.9% | 20% -39.9% | 40% + | |
| \$1-\$15,000 | 10,723 | 48 | 44 | 53 | 282 | 11,150 |
| \$15,001-30,000 | 2,481 | 48 | 33 | 29 | 69 | 2,660 |
| \$30,001-\$50,000 | 1,799 | 50 | 9 | 19 | 31 | 1,908 |
| \$50,001-\$100,000 | 2,178 | 45 | 15 | 19 | 36 | 2,293 |
| \$100,001-\$500,000 | 3,100 | 37 | 12 | 16 | 49 | 3,214 |
| \$500,001-\$1,000,000 | 774 | 8 | 6 | 9 | 28 | 825 |
| \$1,000,001-\$10,000,000 | 1,188 | 74 | 22 | 24 | 75 | 1,383 |
| \$10,000,001+ | 156 | 36 | 13 | 9 | 24 | 238 |
| Total | 22,399 | 346 | 154 | 178 | 594 | 23,671 |

Note: Figures are based partially on unaudited returns. The table does not include returns that had zero or negative taxable income.

**Table 2.9
Amount of C-Corporation Tax Credits Taken as a Percentage of Tax Liability
Tax Year 2011**

| NC Taxable Income | Income Tax Credits as a Percentage of Tax | | | | Total |
|---------------------------------|---|------------|------------|------------|------------|
| | 0.1% -9.9% | 10% -19.9% | 20% -39.9% | 40% + | |
| | [\$] | [\$] | [\$] | [\$] | [\$] |
| \$1-\$15,000 | 1,785 | 3,265 | 7,896 | 134,014 | 146,960 |
| \$15,001-30,000 | 4,215 | 7,026 | 13,750 | 91,378 | 116,369 |
| \$30,001-\$50,000 | 6,530 | 3,174 | 15,238 | 47,429 | 72,371 |
| \$50,001-\$100,000 | 8,233 | 11,048 | 24,742 | 99,476 | 143,499 |
| \$100,001-\$500,000 | 18,488 | 28,132 | 59,304 | 432,697 | 538,621 |
| \$500,001-\$1,000,000 | 17,372 | 39,628 | 130,739 | 654,894 | 842,633 |
| \$1,000,001-\$10,000,000 | 657,595 | 710,272 | 1,559,375 | 9,691,564 | 12,618,806 |
| \$10,000,001+ | 5,550,488 | 13,219,100 | 9,721,697 | 42,572,432 | 71,063,717 |
| Total | 6,264,706 | 14,021,645 | 11,532,741 | 53,723,884 | 85,542,976 |

Note: Figures are based partially on unaudited returns. The table does not include \$824,947 credits taken by taxpayers with zero or less taxable income.

Figure 2.10 shows the average amount of tax liability offset by tax credits for the various taxable income groups. The offset was greater for taxpayers with at least \$10 million in federal taxable income.

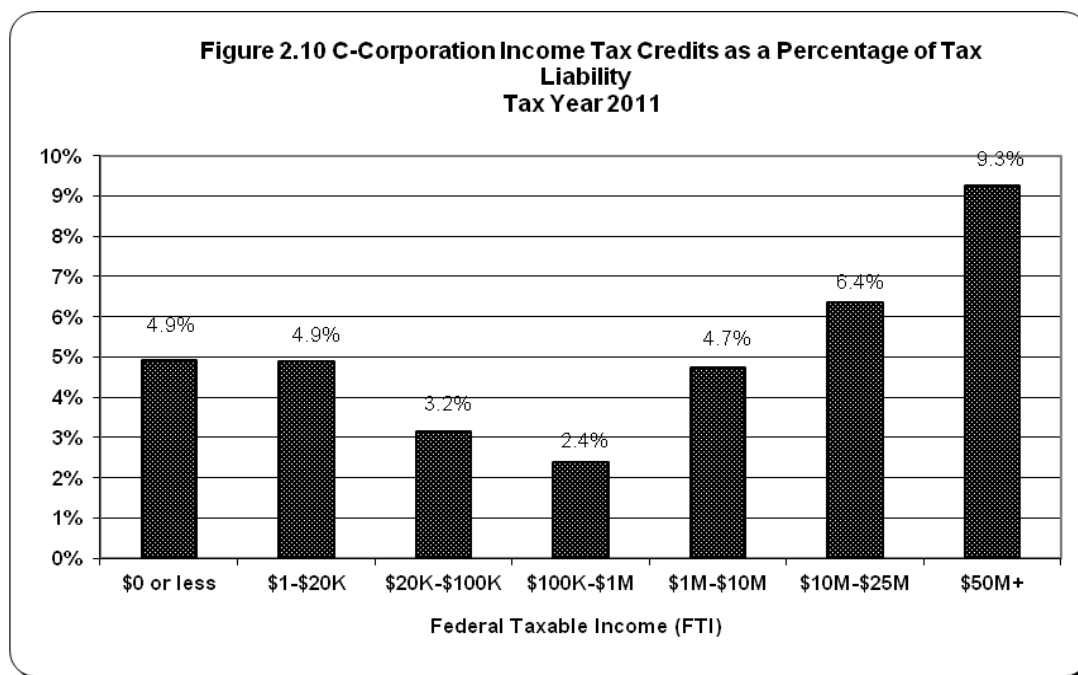


Table 2.11 provides the distribution of income tax credits by credit type and NC net taxable income.

**Table 2.11
C-Corporation Income Tax Credits by Credit Type and NC Taxable Income (NCTI)
Tax Year 2011**

| Income Tax Credits | All Returns | | NCTI up to \$1,000,000 | | NCTI > \$1,000,000 | |
|---|--------------------|--------------------|------------------------|-------------------|--------------------|--------------------|
| | Number of Credits* | Amount (\$) | Number of Credits | Amount (\$) | Number of Credits | Amount (\$) |
| Rehabilitating an Income-Producing Historic Structure | 11 | 9,822,631 | 3 | 271,903 | 8 | 9,550,728 |
| Small Business UI Contribution | 2,341 | 1,273,019 | w | w | w | w |
| Savings and Loan Supervisory Fees | 7 | 139,408 | w | w | w | w |
| Other Non-Limited Credits | 26 | 27,390,815 | 17 | 20,035,349 | 9 | 7,355,466 |
| Credit Carryover from Previous Years (Taken only) | 13 | 1,216,979 | w | w | w | w |
| Tax Credit Subject to 50% of Tax Limit (Taken only) | 548 | 81,900,437 | 288 | 1,514,617 | 260 | 80,385,820 |
| Others ** | 5 | 2,226,842 | w | w | w | w |
| Credits Claimed | 2,951 | 123,970,131 | 2,665 | 23,428,229 | 286 | 356,634,381 |
| Credits Not Taken *** | -- | 37,602,208 | -- | 20,742,829 | -- | 272,951,858 |
| Credits Taken | 2,897 | 86,367,923 | 2,620 | 2,685,400 | 277 | 83,682,523 |

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

** This category include Rehabilitating a Non-Income Producing Historic Structure, Major Computer Manufacturing Facilities, and Reinvestment by Major Recycling Facilities.

*** Most corporation income tax credits are reduced by 6.9% due to G.S. 105-130.5(a)(10). Also, credits may be reduced because a taxpayer's liability was less than the amount of credits claimed or due to taxpayer error.

Note: Calculations are based partially on unaudited returns. A "w" indicates that the number is withheld to protect confidentiality.

S-CORPORATIONS

S-corporations pass their income tax liability along to shareholders, who pay tax on the income according to the individual income tax rate schedule. S-corporations that have shareholders who are not North Carolina residents may pass the tax liability to those shareholders only if the nonresidents sign an agreement to pay North Carolina taxes on their share of the corporation's income. For nonresident shareholders who fail to sign such an agreement, the S-corporations must file a composite return and pay the tax for the shareholders. The tax for nonresidents filing composite is calculated according to the individual income tax rate schedule, but the collections are considered corporate income tax receipts.

Table 2.12 and Figure 2.13 show the number of returns and net income tax liability by North Carolina taxable income. Corporations with taxable income of \$1 million or more accounted for 62.4% of the tax liability, but only 1.1% of returns.

The total net tax liability of \$66.1 million shown in Table 2.12 belies the importance of taxation of the net income of S-corporations since most taxable income is passed to shareholders.

**Table 2.12
S-Corporation Returns and Net Income Tax Liability by NC Taxable Income
Tax Year 2011**

| NC Taxable Income* | Number of Returns | Percent | Number With Tax Due for Nonresidents | Net Tax Liability [\$] | Percent |
|---------------------------------|--------------------------|----------------|---|---------------------------------------|----------------|
| \$0 or less** | 56,994 | 38.70% | 142 | -18,809 | -0.03% |
| \$1-\$15,000 | 32,277 | 21.92% | 2,742 | 675,002 | 1.02% |
| \$15,001-30,000 | 14,984 | 10.18% | 762 | 852,860 | 1.29% |
| \$30,001-\$50,000 | 11,915 | 8.09% | 560 | 1,159,017 | 1.75% |
| \$50,001-\$100,000 | 13,342 | 9.06% | 645 | 2,468,344 | 3.74% |
| \$100,001-\$500,000 | 14,222 | 9.66% | 868 | 11,641,498 | 17.62% |
| \$500,001-\$1,000,000 | 1,938 | 1.32% | 194 | 8,059,337 | 12.20% |
| \$1,000,001-\$10,000,000 | 1,525 | 1.04% | 152 | 20,329,005 | 30.76% |
| \$10,000,001+ | 65 | 0.04% | 7 | 20,918,514 | 31.65% |
| Total | 147,262 | 100.00% | 6,072 | 66,084,768 | 100.00% |

* North Carolina taxable income is the sum of the corporation's total apportionable and allocable income plus separately stated items of income attributable to nonresidents filing composite return

**The Net Tax Liability in this bracket is negative due to refundability of certain tax credits.

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

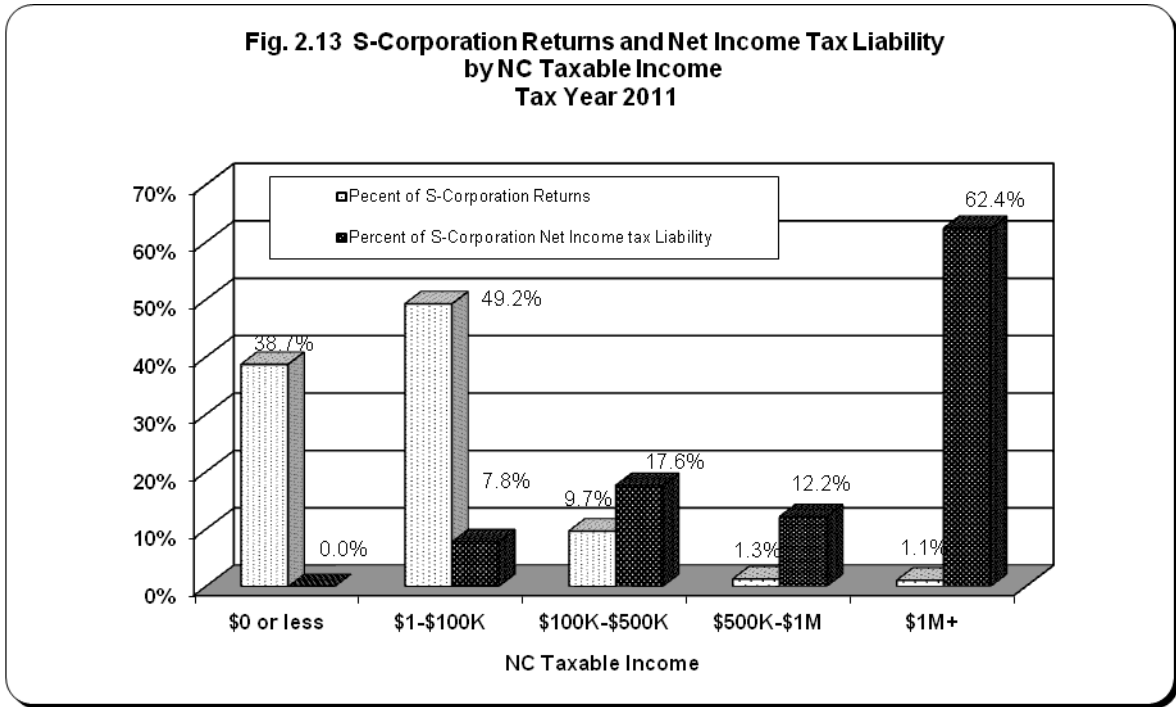
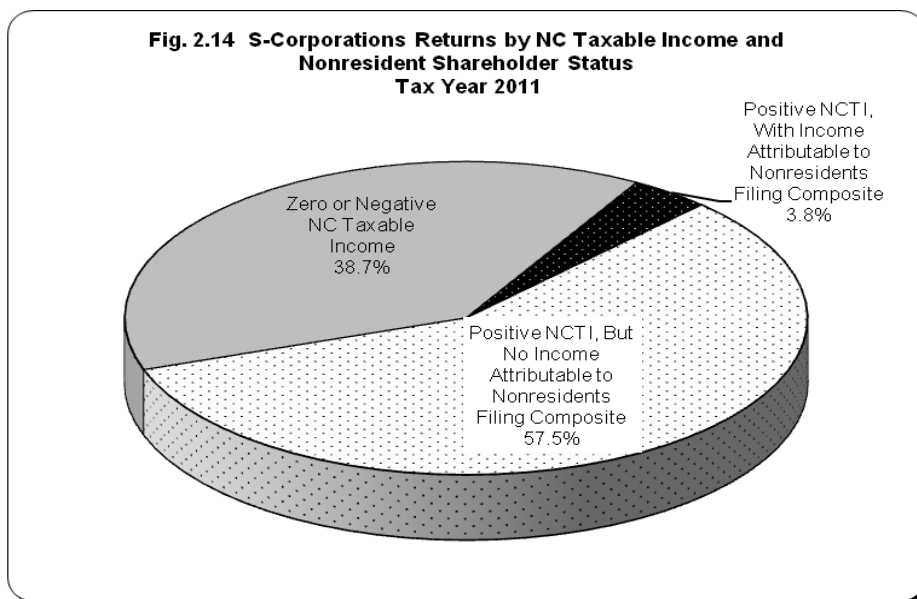


Figure 2.14 illustrates the distribution of returns by North Carolina taxable income and nonresident shareholder filing status. Only 3.8% of S-corporation returns had a tax liability attributable to nonresidents who chose to allow the S-corporation to file a composite return on their behalf.



**SECTION II
INCOME TAX**

Table 2.15 provides summary data for the main components of the progression from taxpayers' federal taxable income to North Carolina net tax liability.

**Table 2.15
S-Corporation Income Tax Calculation Detail
Tax Year 2011**

| | | (+) | (+) | (-) | (-) | (=) | (+) |
|---|-------------------|------------------------------------|---------------------------------------|---------------------------------|--|----------------------------------|---|
| NC Taxable Income | Number of Returns | Federal Corporation Income [\$] | Adjustments to Federal Income [\$] | Nonapportionable Income [\$] | Reduction Due To Apportionment [\$] | Income Apportioned to NC [\$] | Nonapportionable Income Allocated to NC [\$] |
| Zero or Negative | 56,994 | 1,556,448,607 | 39,024,290 | 1,683,224,148 | 1,915,244,235 | (2,002,995,486) | (104,238,487) |
| Positive, But No Income Attributable to Nonresidents Filing Composite | 84,682 | 27,889,834,337 | 1,896,895,815 | 786,455,646 | 18,755,031,842 | 10,245,242,664 | 187,263,070 |
| Positive, With Income Attributable to Nonresidents Filing Composite | 5,586 | 29,307,958,865 | 4,119,749,188 | 698,491,467 | 31,707,268,949 | 1,021,947,637 | -904,156 |
| Total | 147,262 | 58,754,241,809 | 6,055,669,293 | 3,168,171,261 | 52,377,545,026 | 9,264,194,815 | 82,120,427 |

| | (=) | (+) | (=) | | | (-) | (=) |
|---|-------------------------------|--|--|--|-----------------------------|---------------------|---------------------------|
| NC Taxable Income | NC Net Taxable Income [\$] | Adjustment for Shareholders Paying Tax on Shares [\$] | Taxable Income Attributable to Nonresidents Filing Composite [\$] | Separately Stated Income Attributable to Nonresidents Filing Composite [\$] | Computed Income Tax [\$] | Tax Credits [\$] | Net Tax Liability [\$] |
| Zero or Negative | (2,107,585,681) | 2,054,005,541 | (53,580,140) | 92,344 | 3,618 | 22,427 | (18,809) |
| Positive, But No Income Attributable to Nonresidents Filing Composite | 10,432,505,734 | (10,433,162,550) | (656,816) | 1,404,909 | 656,304 | 93,568 | 562,736 |
| Positive, With Income Attributable to Nonresidents Filing Composite | 1,023,720,253 | (136,629,975) | 887,090,278 | 1,753,452 | 66,405,034 | 864,193 | 65,540,841 |
| Total | 9,348,640,306 | (8,515,786,984) | 832,853,322 | 3,250,705 | 67,064,956 | 980,188 | 66,084,768 |

Note: Figures are based partially on unaudited returns. Detail may not add to totals due to rounding or taxpayer error.

**SECTION II
INCOME TAX**

Table 2.16 shows the income tax credits by credit type and taxable income. Corporations with taxable income over \$100,000 took 76% of the credits. Note that these reported credits are only those taken for shareholders filing a composite return; other tax credits have been passed through to the shareholders who can apply these credits against their individual income tax liability.

**Table 2.16
S-Corporation Income Tax Credits by Credit Type and NC Taxable Income
Tax Year 2011**

| Income Tax Credits | All Returns | | Taxable Income <\$100,001 | | Taxable Income \$100,001+ | |
|----------------------------|----------------------|---------------------------|------------------------------|---------------------------|------------------------------|---------------------------|
| | Number of Credits | Amount Claimed (\$) | Number of Credits | Amount Claimed (\$) | Number of Credits | Amount Claimed (\$) |
| Credits Claimed | 477 | 994,987 | 429 | 86,170 | 48 | 908,817 |
| Credits Not Taken * | -- | 14,799 | -- | 12,794 | -- | 2,005 |
| Credits Taken | 466 | 980,188 | 421 | 73,376 | 45 | 906,812 |

* Most corporation income tax credits are reduced by 6.9% due to G.S. 105-130.5(a)(10). Also, credits may be reduced because a taxpayer's liability was less than the amount of credits claimed or due to taxpayer error.

Note: Total number of credits is unavailable for Credits Not Taken. Confidentiality prevents the disclosure of other individual credits and credits amounts.

C-CORPORATIONS

In this section, data on corporate returns are presented for tax years 2005 through 2010. For years prior to these, see the “Tax Year 2005” edition of this publication. The 2006 and 2007 data were not previously analyzed in detail, but we have included those years for total returns and tax liabilities in this report.

Table 3.1 compares the number of C-corporation returns by tax year. In general, there has been a recent decline in the number of returns starting in 2007. The larger drop-off in the number of filers for tax years 2008 and 2009 may have a business cycle component. For 2011, there was a small increase over the prior year.

The number of first-time filers, as reported on the tax form, was 4,116 in 2011. This was an increase from 3,794 in 2010. The number of new filers was approximately 5,000 annually during the period from 2005 through 2007.

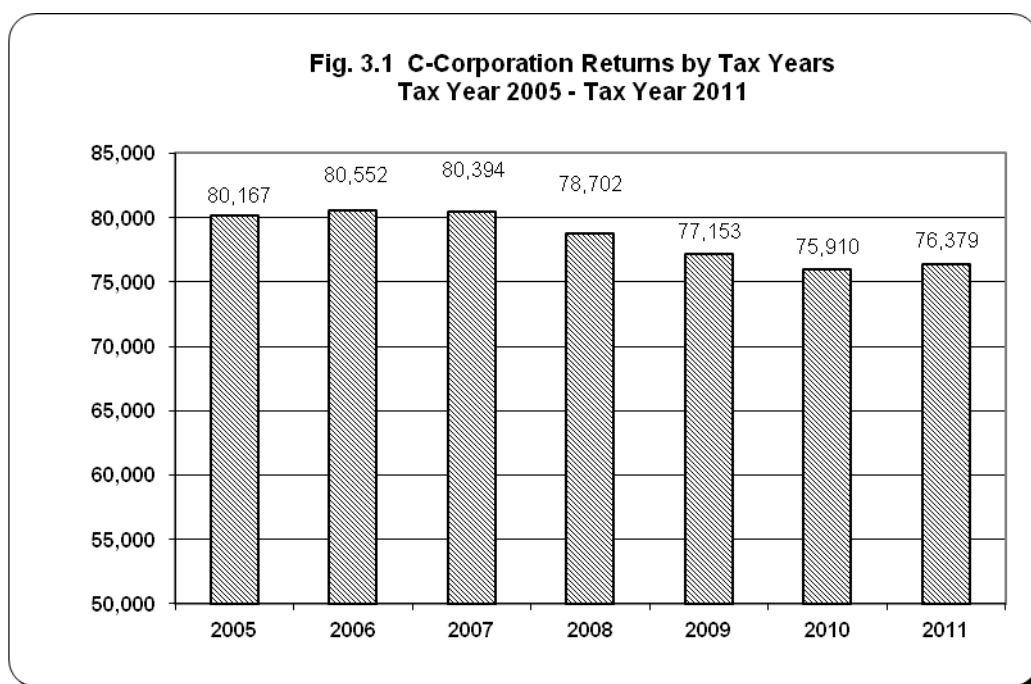


Figure 3.2 shows the net tax liability for both the franchise tax and the corporation income tax from 2005 through 2011. Although the income tax is of a greater magnitude than the franchise tax, the income tax exhibits more cyclical behavior. The income tax liability fell 21% from its peak in tax year 2006 to tax year 2009 (even with the surtax added for TY09 and TY10). The franchise tax, meanwhile, had only a \$5 million drop off its high in the prior year. Both taxes remained at approximately the same levels from 2009 to 2010. In TY11, the income tax liability was 6.4% higher than the prior year, while the franchise tax increased by 2.1%.

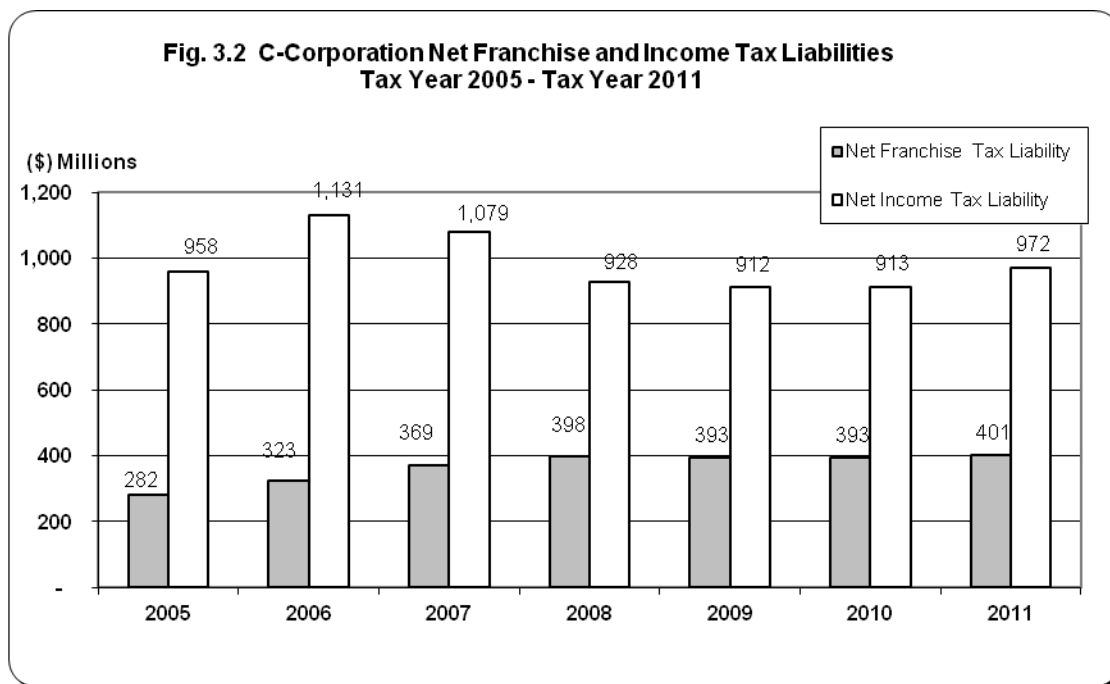


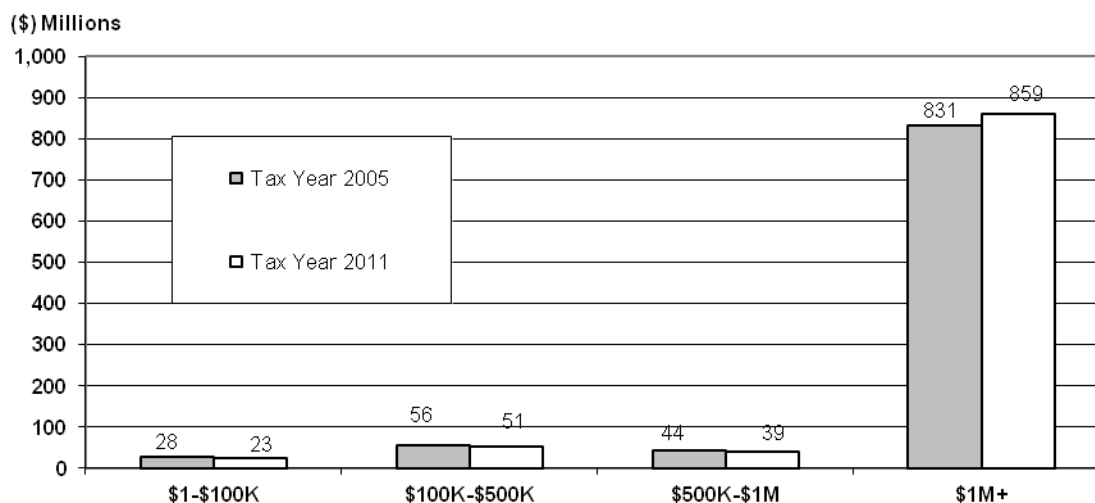
Table 3.3 and Figure 3.4 compare the net income tax liability of C-corporations in tax year 2005 and tax year 2010 by Taxable Income brackets. The only group that has shown an increase in tax liability is those with a taxable income in excess of \$10 million.

**Table 3.3
C-Corporation Net Income Tax Liability by NC Taxable Income
Tax Year 2005 & Tax Year 2011**

| NC Taxable Income | Net Income Tax Liability TY 2005 | Net Income Tax Liability TY 2011 | % Difference |
|--------------------------|----------------------------------|----------------------------------|--------------|
| \$0 or less | -- | -824,827 | -- |
| \$1-\$15,000 | 3,821,962 | 3,090,028 | -19.15% |
| \$15,001-\$30,000 | 4,635,939 | 3,852,084 | -16.91% |
| \$30,001-\$50,000 | 6,466,202 | 5,086,291 | -21.34% |
| \$50,001-\$100,000 | 13,493,716 | 11,080,691 | -17.88% |
| \$100,001-\$500,000 | 55,861,177 | 50,694,134 | -9.25% |
| \$500,001-\$1,000,000 | 43,581,032 | 39,328,096 | -9.76% |
| \$1,000,001-\$10,000,000 | 289,061,484 | 272,113,784 | -5.86% |
| \$10,000,001+ | 541,560,825 | 587,279,550 | 8.44% |
| Total | 958,482,337 | 971,699,831 | 1.38% |

Note: Calculations in the above table are based partially on unaudited returns.

**Fig. 3.4 C-Corporation Net Income Tax Liability by NC Taxable Income
Tax Year 2005 & Tax Year 2011**



S-CORPORATIONS

Table 3.5 compares the number of S-corporation returns by tax years 2005 through 2011. The rate of growth of the number of S-Corporations slowed in 2008 and showed a net decline between 2009 and 2010. In TY11, the number of filers increased by over 1,000.

There is a small but steady conversion of C-corporations into S-corporations in each of the last few years. There are also a larger number of initial filers each year among S-corporations. In tax year 2011, there were 7,673 new filers. However, this is below the average of over 11,000 new filers for the period from 2005 through 2008.

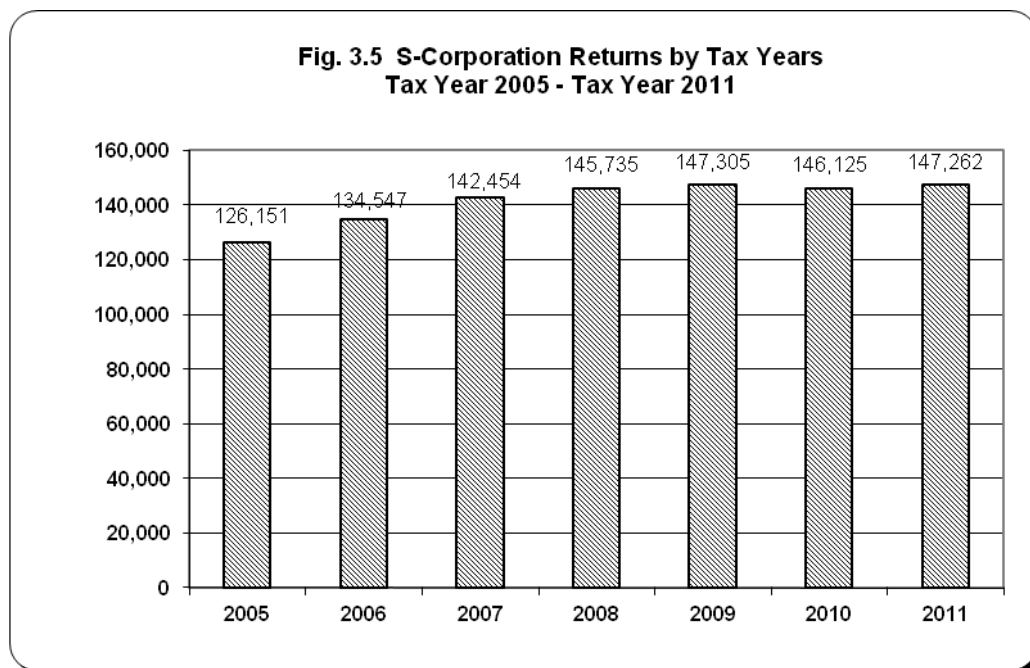


Figure 3.6 illustrates the relative amounts of net tax liabilities for 2005 through 2011 for S-corporations. As discussed in Section II, the income tax liability for S-corporations only includes taxes paid for shareholders filing a composite return.

The trend in the franchise tax liability is also consistent with that shown for C-corporations. The franchise tax has been increasing each year up through 2008. There was a slight decline of \$1.8 million for tax year 2009 and \$0.3 million for 2010. For 2011, the amount increased by \$0.8 million.

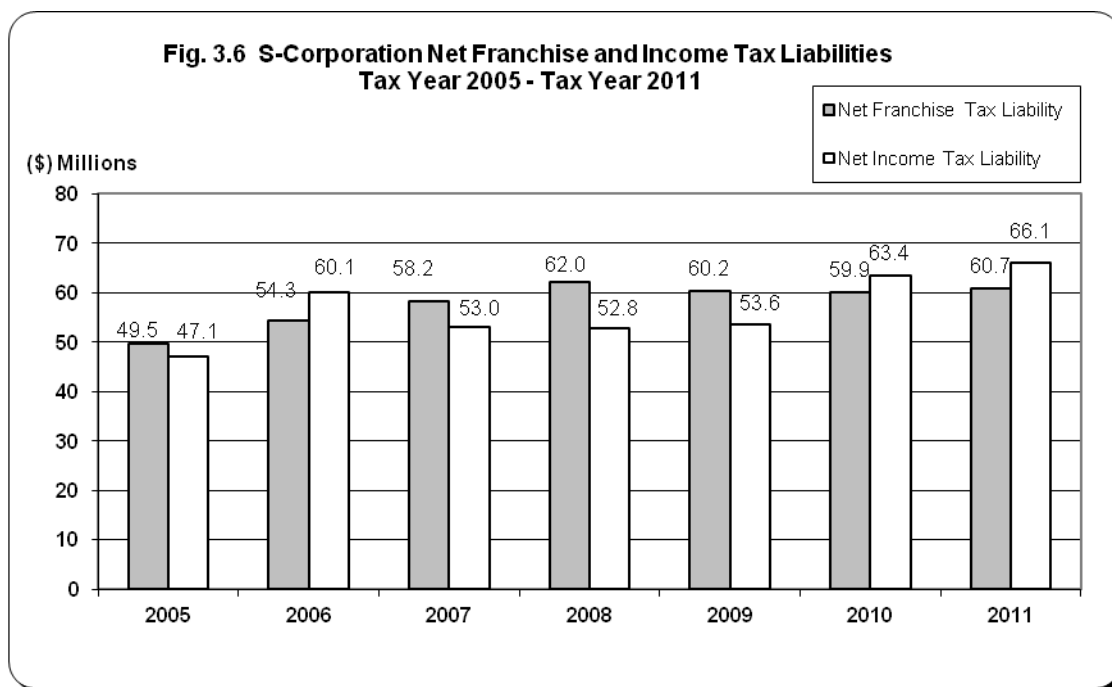
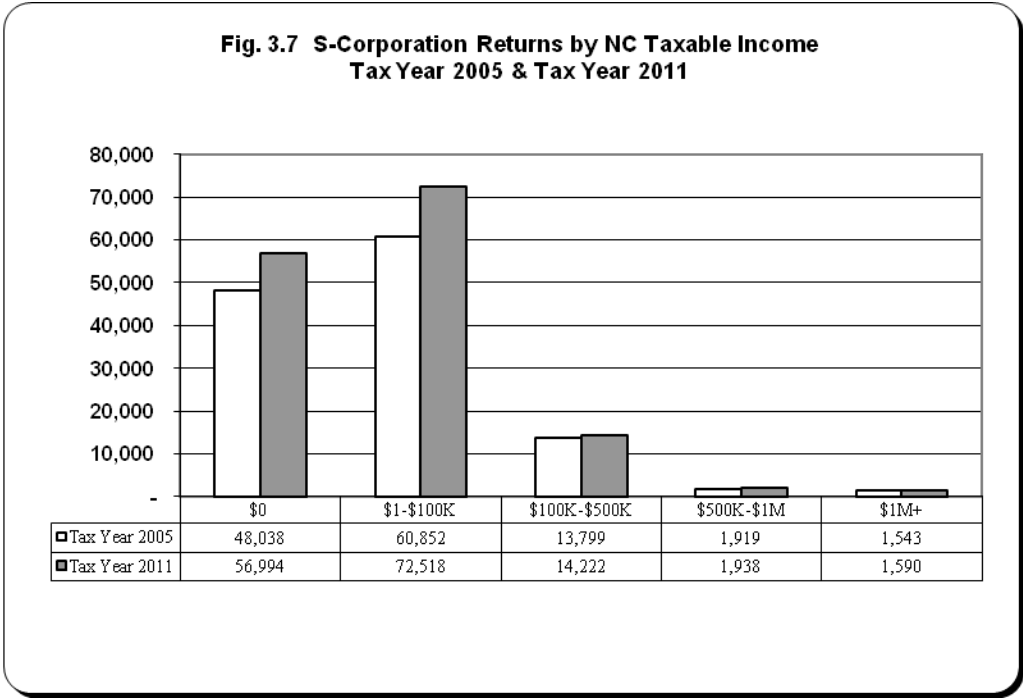


Figure 3.7 compares the number of S-corporation returns in tax years 2005 and 2011 by taxable income brackets. Although the number of returns had grown, a larger proportion of taxpayers were in the smallest taxable income categories.



C-CORPORATIONS

Table 4.1 shows franchise and income tax liabilities by major industry sector. The manufacturing sector had the largest tax liability for both the franchise tax and the income tax, paying approximately one-third of the total amount. Other sectors with relatively high shares of tax liability include finance and insurance, retail, and information.

**Table 4.1
C-Corporation Franchise Tax and Income Tax Liability by Industry Sector
Tax Year 2011**

| Industry Sector | All Returns | Franchise Tax | | Income Tax | |
|---|-------------------|---------------|--------------------|---------------|--------------------|
| | Number of returns | Number | Amount (\$) | Number | Amount (\$) |
| Agriculture, Forestry, Fishing and Hunting | 1,154 | 1,123 | 2,259,588 | 439 | 4,068,774 |
| Mining | 150 | 142 | 2,982,969 | 54 | 5,409,133 |
| Utilities | 198 | 176 | 2,552,664 | 50 | 12,060,510 |
| Construction | 6,597 | 6,334 | 6,883,084 | 2,009 | 11,469,313 |
| Manufacturing | 7,709 | 7,489 | 133,326,896 | 3,014 | 312,993,153 |
| Wholesale | 5,065 | 4,883 | 26,571,303 | 2,246 | 89,532,684 |
| Retail | 5,934 | 5,717 | 31,383,501 | 2,172 | 109,512,653 |
| Transportation | 1,961 | 1,880 | 5,419,712 | 768 | 24,435,367 |
| Couriers and Warehousing | 186 | 176 | 650,979 | 78 | 1,608,825 |
| Information | 2,051 | 1,932 | 37,245,041 | 679 | 81,962,015 |
| Finance and Insurance | 5,803 | 5,449 | 70,490,016 | 1,720 | 120,608,632 |
| Real Estate and Rental & Leasing | 10,693 | 6,581 | 21,028,052 | 2,358 | 41,135,293 |
| Professional, Scientific and Technical Services | 9,093 | 8,659 | 22,143,832 | 3,395 | 96,642,127 |
| Management of Companies / see note | 1,694 | 1,606 | 16,280,629 | 505 | 14,940,141 |
| Administration & Support and Waste Management & Remediation Services | 2,761 | 2,362 | 7,512,397 | 970 | 10,658,254 |
| Educational Services | 389 | 356 | 509,663 | 139 | 4,610,223 |
| Health Care and Social Assistance | 3,450 | 3,254 | 4,665,472 | 1,264 | 13,219,045 |
| Arts, Entertainment and Recreation | 903 | 800 | 1,245,697 | 324 | 1,427,479 |
| Accommodations and Food Services | 1,979 | 1,863 | 4,466,608 | 786 | 9,149,912 |
| Other Services | 3,581 | 2,907 | 1,892,661 | 1,219 | 5,075,389 |
| Unidentifiable | 5,028 | 2,670 | 1,095,149 | 1,099 | 1,180,909 |
| Total | 76,379 | 66,359 | 400,605,913 | 25,288 | 971,699,831 |

Note: The amounts in this table are based partially on unaudited returns. In some cases, revisions were made to the NAICS codes reported by taxpayers. If it was evident that a taxpayer reported an old NAICS or SIC code, these were converted to newer codes. Also, holding companies often listed their NAICS code as "Management of Companies." Eighty-five of these taxpayers were reassigned to other industries based on information concerning the main business of these companies. (These reassignments were made by staff of the Revenue Research Division, mainly for four of the industry sectors: manufacturing; retail; information; and finance and insurance.)

**SECTION IV
INDUSTRY SECTORS**

S-CORPORATIONS

Table 4.2 shows franchise and income tax liabilities by major industry sector for S-corporations. Industry sectors that pay a relatively high share of the franchise tax include (1) retail; (2) real estate and rental & leasing; (3) manufacturing; and (4) construction.

As mentioned in prior sections of this report, the income tax liability only includes the tax liability of certain nonresident shareholders. An alternative measure of relative tax liability is shown on the following page.

**Table 4.2
S-Corporation Franchise Tax and Income Tax Liability by Industry Sector
Tax Year 2011**

| Industry Sector | All Returns | Franchise Tax | | Income Tax | |
|---|-------------------|----------------|-------------------|--------------|-------------------|
| | Number of returns | Number | Amount (\$) | Number | Amount (\$) |
| Agriculture, Mining & Utilities | 3,546 | 3,420 | 2,655,034 | 57 | 710,512 |
| Construction | 23,254 | 21,996 | 7,054,564 | 812 | 4,678,824 |
| Manufacturing | 6,410 | 6,116 | 8,365,176 | 737 | 16,672,567 |
| Wholesale | 6,131 | 5,837 | 5,701,748 | 564 | 5,306,421 |
| Retail | 15,363 | 14,542 | 9,372,044 | 308 | 2,857,907 |
| Transportation | 3,979 | 3,744 | 1,043,087 | 193 | 2,000,758 |
| Couriers and Warehousing | 426 | 410 | 204,884 | 17 | 256,276 |
| Information | 2,236 | 2,107 | 791,544 | 148 | 740,778 |
| Finance and Insurance | 5,801 | 5,507 | 2,193,921 | 327 | 9,493,808 |
| Real Estate and Rental & Leasing | 15,629 | 14,906 | 9,217,002 | 440 | 1,982,650 |
| Professional, Scientific and Technical Services | 22,255 | 21,106 | 3,187,364 | 1,238 | 5,247,539 |
| Management of Companies | 742 | 702 | 1,218,296 | 132 | 8,189,607 |
| Administration & Support and Waste Management & Remediation Services | 6,072 | 5,733 | 1,076,386 | 348 | 4,200,166 |
| Educational Services | 879 | 817 | 121,350 | 46 | 716,030 |
| Health Care and Social Assistance | 9,291 | 8,922 | 1,977,795 | 99 | 581,746 |
| Arts, Entertainment and Recreation | 3,279 | 3,064 | 1,016,749 | 209 | 425,948 |
| Accommodations and Food Services | 7,132 | 6,742 | 2,616,226 | 128 | 1,192,343 |
| Other Services | 10,488 | 9,963 | 1,483,773 | 180 | 470,078 |
| Unidentifiable | 4,349 | 4,207 | 1,436,588 | 89 | 360,810 |
| Total | 147,262 | 139,841 | 60,733,531 | 6,072 | 66,084,768 |

Note: Calculations are based partially on unaudited returns. In some cases, revisions were made to the NAICS codes reported by taxpayers. If it was evident that a taxpayer reported an old NAICS or SIC code, these were converted to newer codes. Agriculture, Mining and Utilities were reported as one sector to protect confidentiality of taxpayers.

**SECTION IV
INDUSTRY SECTORS**

Table 4.3 shows the North Carolina net taxable income of S-corporations in tax year 2011 by industry sector. This is the income that is passed through to shareholders who then report this income on their individual income tax returns. The industry sectors with the largest net taxable income are (1) professional, scientific and technical services; (2) manufacturing; (3) health care and social assistance; and (4) retail trade.

**Table 4.3
S-Corporation NC Net Taxable Income by Industry Sector
Tax Year 2011**

| Industry Sector | Net Taxable Income | | |
|---|---------------------|----------------------|-----------------------|
| | Number of taxpayers | Amount (\$) | Share of total amount |
| Agriculture, Forestry, Fishing and Hunting | 3,126 | 194,858,411 | 2.1% |
| Mining | 106 | 10,082,911 | 0.1% |
| Utilities | 132 | 2,420,724 | 0.0% |
| Construction | 21,065 | 761,540,465 | 8.1% |
| Manufacturing | 5,893 | 1,215,491,480 | 13.0% |
| Wholesale | 5,670 | 788,486,494 | 8.4% |
| Retail | 14,600 | 880,565,001 | 9.4% |
| Transportation | 3,679 | 221,760,101 | 2.4% |
| Couriers and Warehousing | 391 | 24,487,918 | 0.3% |
| Information | 2,049 | 104,438,997 | 1.1% |
| Finance and Insurance | 4,956 | 515,046,190 | 5.5% |
| Real Estate and Rental & Leasing | 14,261 | 425,560,458 | 4.6% |
| Professional, Scientific and Technical Services | 20,442 | 1,570,159,503 | 16.8% |
| Management of Companies | 615 | 296,096,959 | 3.2% |
| Administration & Support and Waste Management & Remediation Services | 5,601 | 356,818,619 | 3.8% |
| Educational Services | 825 | 34,314,987 | 0.4% |
| Health Care and Social Assistance | 8,913 | 993,752,737 | 10.6% |
| Arts, Entertainment and Recreation | 3,048 | 192,020,284 | 2.1% |
| Accommodations and Food Services | 6,813 | 349,571,964 | 3.7% |
| Other Services | 10,010 | 293,237,939 | 3.1% |
| Unidentifiable | 3,210 | 115,603,100 | 1.2% |
| Total | 135,405 | 9,346,315,242 | |

Note: Calculations are based partially on unaudited returns. In some cases, revisions were made to the NAICS codes reported by taxpayers. If it was evident that a taxpayer reported an old NAICS or SIC code, these were converted to newer codes.