

North Carolina

**Corporation Income and Business
Franchise Taxes**

Statistics and Trends

Tax Year 2015

February 2018



NCDOR

**Revenue Research Section
Financial Services Division**

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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 these taxpayers contribute to the State's tax revenues. The report includes both historical series of data and detailed reports for tax year 2015 (TY15)¹.

This report is based upon data submitted by corporations and limited liability companies filing as corporations on the CD-405, CD-401S, and CD-425 forms. The data were retrieved from the Department's Integrated Tax Administration System (ITAS) on December 5, 2017. All returns may not have been audited by this date. As such, the data may reflect errors made by taxpayers. The Revenue Research staff did examine the downloaded data in order to correct errors that were determined to have resulted from scanning the returns into ITAS.

Corporate tax returns are included in this report if they were filed for calendar year 2015 or for a tax year beginning sometime in 2015.

The relevant 2015 corporate tax forms and instructions are available for review on the following Department of Revenue website: www.ncdor.gov/taxes/corporate-income-franchise-tax/corporate-tax-forms-and-instructions

This report is divided into five sections. Section I presents information related to the business franchise tax; Section II has information related to the corporation income tax; Section III presents data on the trends in these tax returns from tax year 2010 through tax year 2015; Section IV compares tax liabilities by the start month of the corporations' tax years; and Section V breaks out key statistics by major industry sectors.

The following table presents key summary statistics for the business franchise and corporation income taxes for TY15.

	C-Corps	S-Corps
Number of returns	77,241	156,034
Number of returns with nonzero net franchise tax	65,982	145,728
Amount of net franchise tax	559,465,805	73,326,555
Number of returns with nonzero net income tax	26,406	7,823
Amount of net income tax	1,034,816,948	78,816,959

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 allow the company to file a composite return on their behalf.

¹ Franchise tax statistics in this report are referred to as tax year 2015 because they are reported on 2015 corporate income tax returns. However, they are technically tax year 2016 liabilities.

OVERVIEW OF TAXES COVERED BY THIS REPORT

The following descriptions of the General Business Franchise Tax and Corporation Income Tax reflect the tax law in effect for 2015. These descriptions are not official interpretations of the Revenue Laws and should not be relied upon as representing the position of the Department of Revenue.

FRANCHISE TAX

The general business franchise tax is levied on business corporations doing business in the State (including those electing S corporation status). The tax is imposed on the largest of three alternative asset bases. These bases are (a) the amount of the 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 choose to file as S corporations in North Carolina became liable for tax beginning in 2009 (due on TY2008 returns).

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 and apportioned to North Carolina may be reduced by the value of their State net loss, percentage depletion over cost depletion, and qualified contributions to North Carolina donees. The net taxable income is taxed at a rate of 5.0%.²

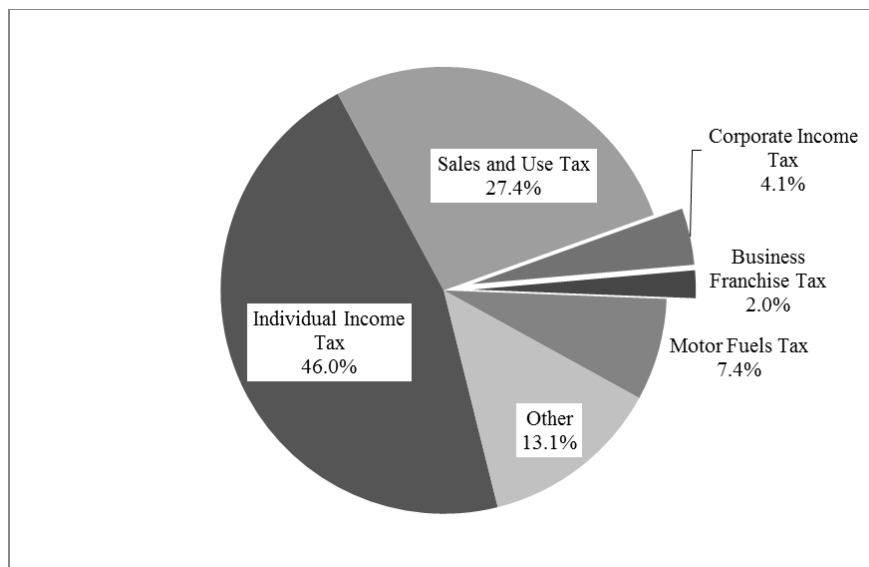
A taxpayer must add back 85% of the amount of bonus depreciation taken for federal income tax purposes during the tax year. This amount can then be deducted in equal installments over the next 5 tax years. Similar provisions existed for tax years 2008 through 2014. The State also adopted lower limits on Section 179 expensing for TY15, requiring an 85% addback of excess federal expensing.

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 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 2015-16 were \$26.2 billion. (Licenses and fees are included in this amount, but unemployment insurance contributions are not.) Net collections for the corporation income tax and the business franchise tax accounted for \$1.6 billion (6.1%) of the total.

The corporation taxes included in this report comprise 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, FY 15-16



Note: The “other” category includes the highway use tax (2.8% of total), motor vehicle licenses (2.7%), insurance premiums tax (1.9%), alcoholic beverage tax (1.4%), and tobacco products tax (1.1%), among others. Unemployment insurance contributions are not included in this graph.

² “State net loss” deduction is a new calculation that replaces the net economic loss deduction allowed in prior years. The main difference is that taxpayers no longer have to reduce the deduction by the amount of nontaxable income generated in the current year.

C CORPORATIONS

Overall, the net franchise tax liability for the C corporation returns in this report totaled \$559.5 million. (Net tax liability is the amount of tax liability after deducting tax credits.) After excluding filers that were not liable for franchise tax (11,137 returns), the average amount due from the remaining 66,104 returns was \$8,463. Half of these taxpayers owed \$81 or less; and 99% of taxpayers owed less than \$128,430 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 48.2% of the 2015 tax year returns, followed by investment in tangible property base (11.2%), and appraised values in property base (5.8%). Thirty-five percent of the returns listed no assets because: 1) the taxpayer was exempt from franchise tax (mainly non-profit entities); 2) the 2015 tax year return was a final return; or 3) the taxpayer had no assets.³

**Table 1.1
C Corporation Returns by Tax Base Utilized
Tax Year 2015**

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	26,881	8,264	1,733	1,240	38,118
\$23,668-\$100,000	-	7,197	1,829	1,111	10,137
\$100,001-\$1,000,000	-	12,414	2,885	1,522	16,821
\$1,000,001-\$5,000,000	-	5,037	1,054	400	6,491
\$5,000,001-\$20,000,000	-	2,396	596	102	3,094
\$20,000,001-\$40,000,000	-	793	234	44	1,071
\$40,000,001+	-	1,157	309	43	1,509
Total	26,881	37,258	8,640	4,462	77,241

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

³ There were 8,650 returns reporting that they were tax-exempt; of these, 7,381 reported no assets. There were 3,038 returns with a final return indicator, of which 2,454 reported no assets.

**SECTION I
FRANCHISE TAX**

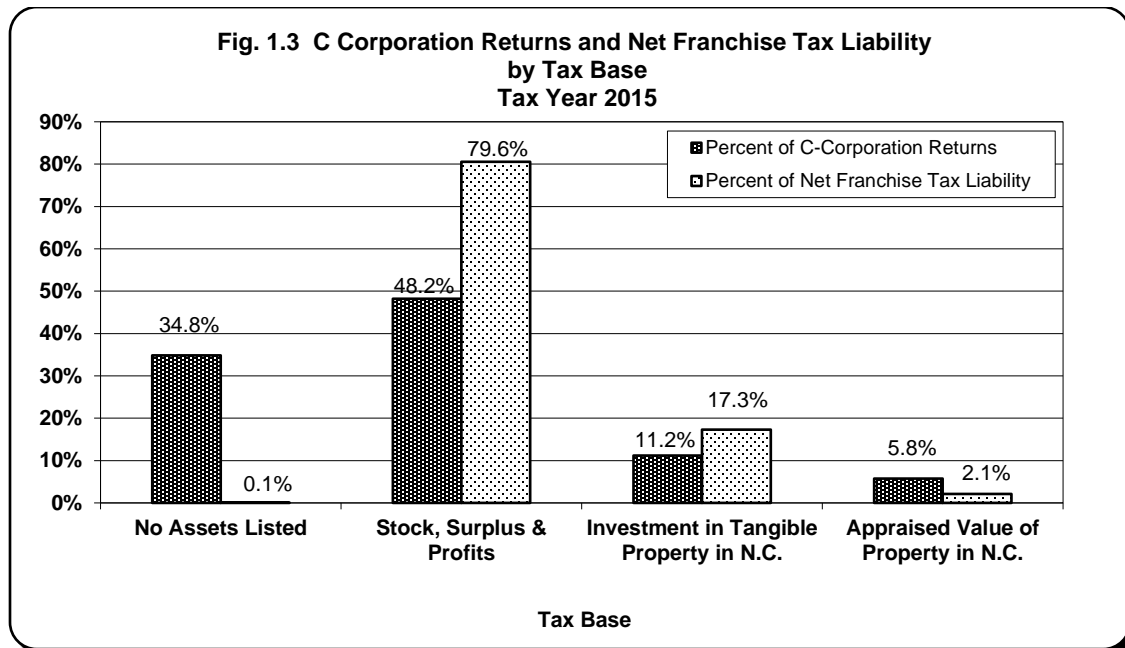
Table 1.2 compares the net franchise tax liability by tax base utilized. The greatest share of tax paid (80.6%) was under the capital stock, surplus and undivided profits base. Taxpayers using the investment in tangible property base paid 17.3% of the franchise tax, while the appraised value in property base represented only 2.1% of the net tax liability.

**Table 1.2
C Corporation Net Franchise Tax Liability by Tax Base Utilized
Tax Year 2015**

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	355,117	268,089	59,136	42,483	724,825
\$23,668-\$100,000	-	560,116	145,549	90,184	795,849
\$100,001-\$1,000,000	-	6,601,449	1,501,693	779,818	8,882,960
\$1,000,001-\$5,000,000	-	17,279,023	3,632,132	1,167,981	22,079,136
\$5,000,001-\$20,000,000	-	35,715,677	8,623,402	1,463,780	45,802,859
\$20,000,001-\$40,000,000	-	31,917,138	9,087,414	1,749,606	42,754,158
\$40,000,001+	-	358,369,335	73,607,760	6,448,923	438,426,018
Total	355,117	450,710,827	96,657,086	11,742,775	559,465,805

Note: Figures are based partially on unaudited returns.

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



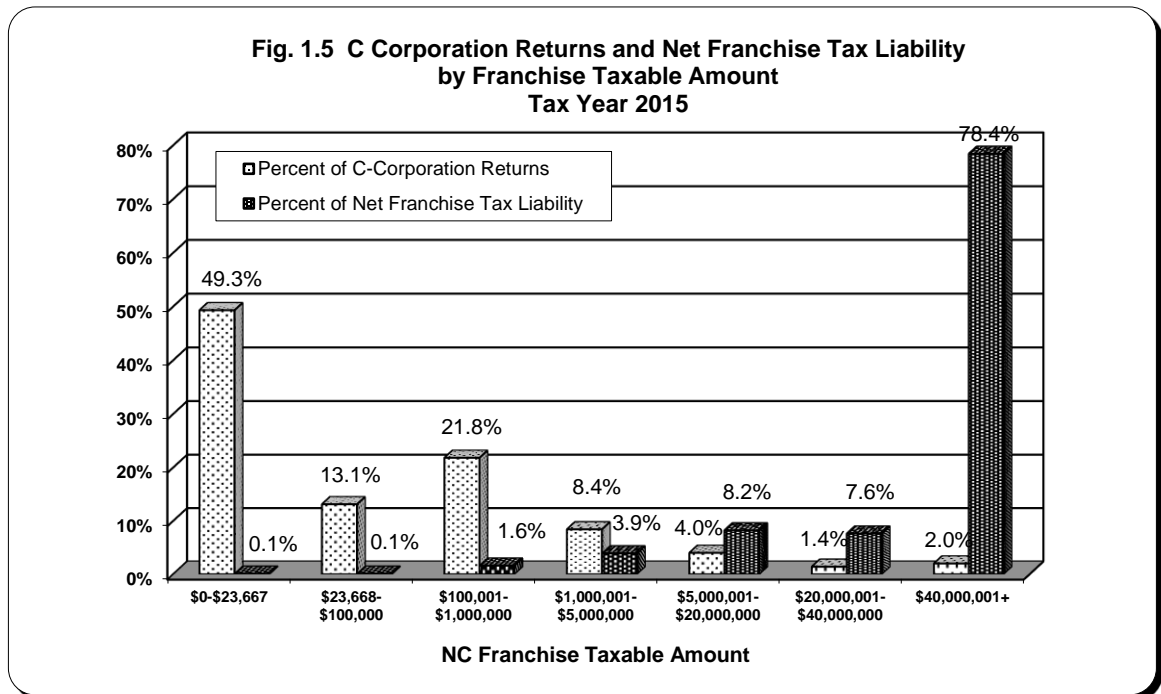
**SECTION I
FRANCHISE TAX**

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 2.0% of the returns, but paid 78.4% of net franchise tax.

**Table 1.4
C Corporation Returns and Net Franchise Tax Liability by Franchise Taxable Amount
Tax Year 2015**

Franchise Taxable Amount	Number of Returns	Percent	Net Franchise Tax Liability (\$)	Percent
\$0-\$23,667	38,118	49.3%	724,825	0.1%
\$23,668-\$100,000	10,137	13.1%	795,849	0.1%
\$100,001-\$1,000,000	16,821	21.8%	8,882,960	1.6%
\$1,000,001-\$5,000,000	6,491	8.4%	22,079,136	3.9%
\$5,000,001-\$20,000,000	3,094	4.0%	45,802,859	8.2%
\$20,000,001-\$40,000,000	1,071	1.4%	42,754,158	7.6%
\$40,000,001+	1,509	2.0%	438,426,018	78.4%
Total	77,241	100.0%	559,465,805	100.0%

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



**SECTION I
FRANCHISE TAX**

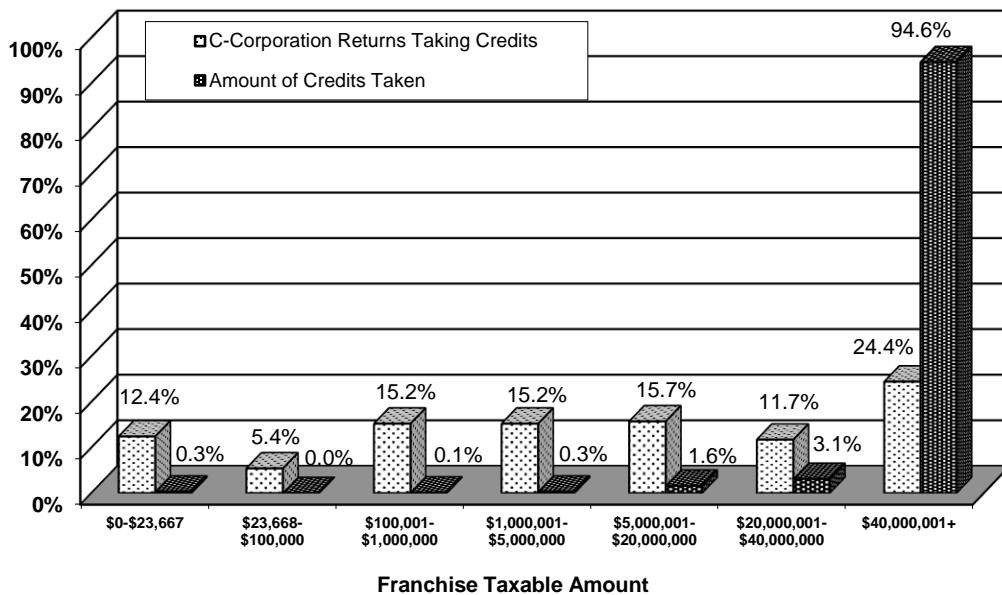
Table 1.6 and Figure 1.7 compare the number of C corporation returns taking franchise tax credits and amount of credits taken by taxable amount brackets. Only 1,473 (2.2%) of the taxable returns took credits. Returns with franchise taxable amount greater than \$40 million comprised only 24.4% of the returns taking credits, but 94.6% of the credits taken.

**Table 1.6
C Corporation Returns Taking Franchise Tax Credits and Amount of Credits Taken
Tax Year 2015**

Franchise Taxable Amount	Number of Returns Taking Credits		Amount of Credits Taken (\$)	
	Credits	Percent	Credits Taken	Percent
\$0-\$23,667	183	12.4%	321,981	0.3%
\$23,668-\$100,000	80	5.4%	10,738	0.0%
\$100,001-\$1,000,000	224	15.2%	61,686	0.1%
\$1,000,001-\$5,000,000	224	15.2%	324,734	0.3%
\$5,000,001-\$20,000,000	231	15.7%	1,458,825	1.6%
\$20,000,001-\$40,000,000	172	11.7%	2,914,147	3.1%
\$40,000,001+	359	24.4%	88,916,591	94.6%
Total	1,473	100.0%	94,008,702	100.0%

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

**Fig. 1.7 C Corporation Returns Taking Franchise Tax Credits and
Amount of Credits Taken
Tax Year 2015**



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 1.8% for those with lower taxable amounts.

Table 1.8
C Corporation Franchise Tax Credits Taken by Credit Type and Franchise Taxable Amount
Tax Year 2015

Income Tax Credits	All Returns		Taxable Amount ≤\$5,000,000		Taxable Amount \$5,000,001+	
	Number of Credits	Amount Claimed (\$)	Number of Credits	Amount Claimed (\$)	Number of Credits	Amount Claimed (\$)
Short Period Credit for Change in Income Year	419	6,031,744	251	508,025	168	5,523,719
+ Other Credits Claimed*	275	2,132,138	244	37,681	31	2,094,457
- Other Credits Not Taken **	--	(278,700)	--	(14,638)	--	(264,062)
+ Credits Subject to 50% Limit Taken	824	86,123,520	234	188,071	590	85,935,449
= Credits Taken	1,473	94,008,702	711	719,139	762	93,289,563

* Other credits include Renovating Historic Mill Facility, 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.

Note: Confidentiality prevents the disclosure of the individual credits and credit amounts. Figures are based on both audited and unaudited returns.

**SECTION I
FRANCHISE TAX**

S CORPORATIONS

Table 1.9 shows the distribution of S corporation returns by franchise tax base. The capital stock, surplus and undivided profits base was used on 47.2% of 2015 tax year returns, followed by investment in tangible property base (18.1%), and appraised values in property (11.9%). Twenty-three percent of the returns listed no assets because: 1) the taxpayer was exempt from franchise tax; 2) the 2015 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 2015**

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	35,636	30,267	8,435	7,235	81,573
\$23,668-\$100,000	-	19,639	8,748	4,715	33,102
\$100,001-\$1,000,000	-	19,439	9,009	5,366	33,814
\$1,000,001-\$5,000,000	-	3,435	1,533	1,080	6,048
\$5,000,001-\$20,000,000	-	681	396	170	1,247
\$20,000,001-\$40,000,000	-	83	64	10	157
\$40,000,001+	-	48	35	10	93
Total	35,636	73,592	28,220	18,586	156,034

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 (55.2%) 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 2015**

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	1,018,275	1,005,656	280,905	238,419	2,543,255
\$23,668-\$100,000	-	1,503,233	674,650	354,733	2,532,616
\$100,001-\$1,000,000	-	8,853,142	4,064,744	2,554,653	15,472,539
\$1,000,001-\$5,000,000	-	10,665,890	4,896,612	3,226,381	18,788,883
\$5,000,001-\$20,000,000	-	9,164,972	5,360,907	2,124,829	16,650,708
\$20,000,001-\$40,000,000	-	3,306,141	2,592,741	465,839	6,364,721
\$40,000,001+	-	5,998,202	3,980,899	994,732	10,973,833
Total	1,018,275	40,497,236	21,851,458	9,959,586	73,326,555

Note: Figures are based partially on unaudited returns.

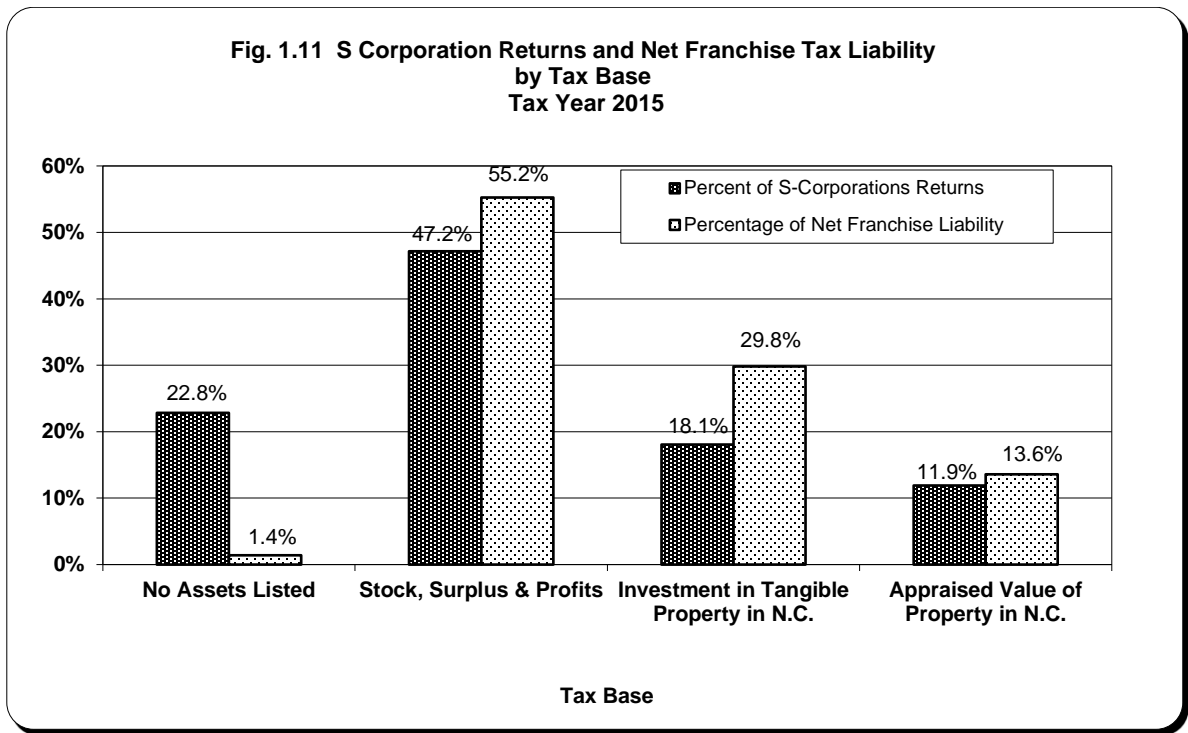


Table 1.12 and Figure 1.13 compare the distribution of S corporation returns and net franchise tax liability. The average tax was \$490, although half of taxpayers had a tax liability of \$35 or less. Thirty-six taxpayers had a net tax liability above \$100,000.

**Table 1.12
S Corporation Returns and Net Franchise Tax Liability by Franchise Taxable Amount
Tax Year 2015**

Franchise Taxable Amount	Number of Returns		Net Franchise Tax Liability (\$)	
	Number	Percent	Liability	Percent
\$0-\$23,667	81,573	52.3%	2,543,255	3.5%
\$23,668-\$100,000	33,102	21.2%	2,532,616	3.5%
\$100,001-\$1,000,000	33,814	21.7%	15,472,539	21.1%
\$1,000,001-\$5,000,000	6,048	3.9%	18,788,883	25.6%
\$5,000,001-\$20,000,000	1,247	0.8%	16,650,708	22.7%
\$20,000,001-\$40,000,000	157	0.1%	6,364,721	8.7%
\$40,000,001+	93	0.1%	10,973,833	15.0%
Total	156,034	100.0%	73,326,555	100.0%

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

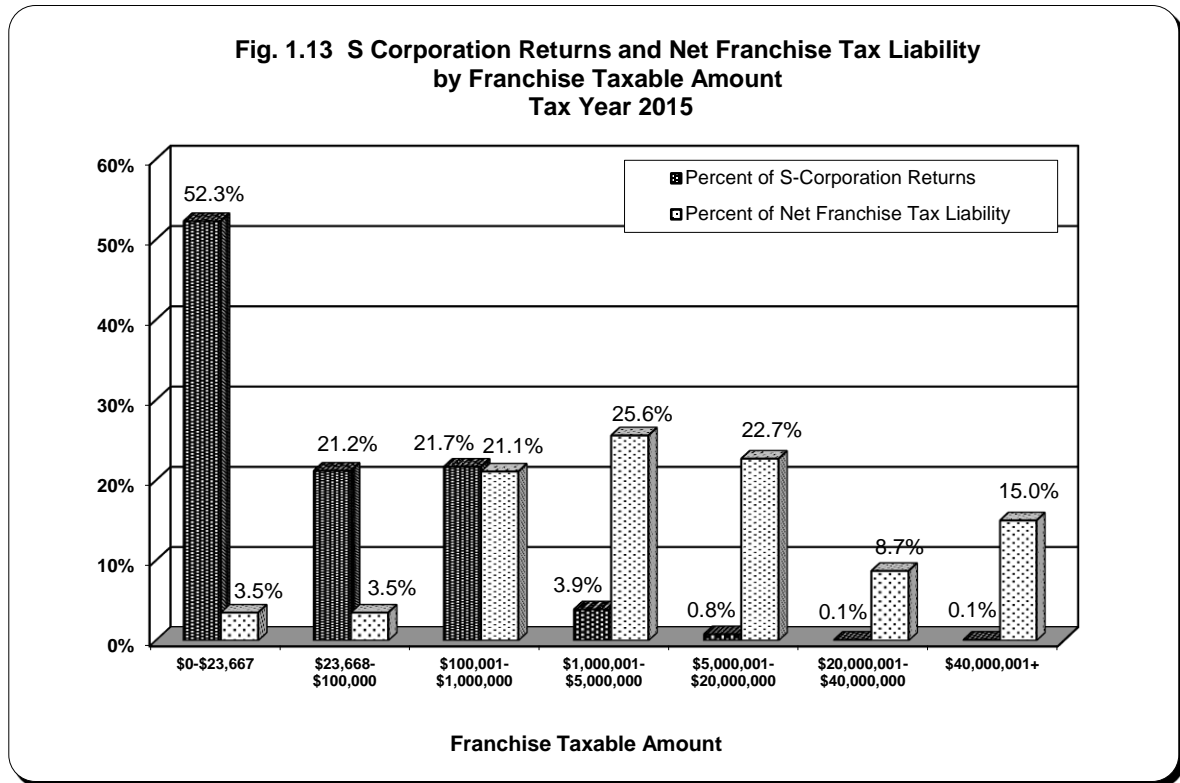


Table 1.14 and Figure 1.15 show the number of returns taking franchise tax credits and amount of credits taken. Returns with a franchise taxable amount greater than \$40 million comprised 0.3% of the returns taking credits and 48.5% of the credits taken.

**Table 1.14
S Corporation Returns Taking Franchise Tax Credits and Amount of Credits Taken
Tax Year 2015**

Franchise Taxable Amount	Number of Returns Taking Credits		Amount of Credits Taken (\$)	
		Percent		Percent
\$0-\$23,667	2,512	43.0%	88,197	4.5%
\$23,668-\$100,000	1,502	25.7%	119,111	6.1%
\$100,001-\$1,000,000	1,475	25.2%	260,770	13.4%
\$1,000,001-\$5,000,000	256	4.4%	140,989	7.2%
\$5,000,001-\$20,000,000	75	1.3%	272,835	14.0%
\$20,000,001-\$40,000,000	10	0.2%	119,902	6.2%
\$40,000,001+	15	0.3%	943,542	48.5%
Total	5,845	100.0%	1,945,346	100.0%

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

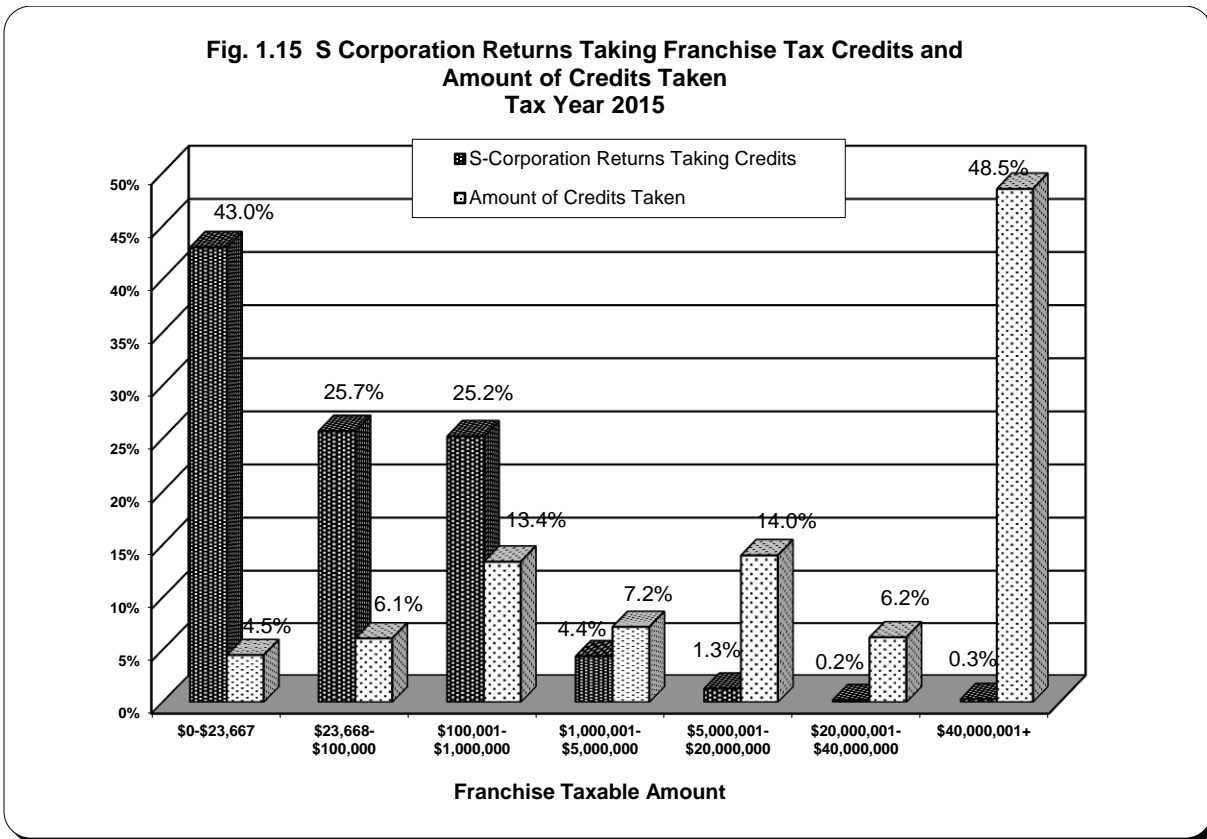


Table 1.16 shows the amount of franchise tax credits by credit type and franchise taxable amount.

**Table 1.16
S Corporation Franchise Tax Credits Taken by Credit Type and Franchise Taxable Amount
Tax Year 2015**

Income Tax Credits	All Returns		Taxable Amount ≤\$1,000,000		Taxable Amount \$1,000,001+	
	Number of Credits	Amount Claimed (\$)	Number of Credits	Amount Claimed (\$)	Number of Credits	Amount Claimed (\$)
Short Period Credit for Change in Income Year	251	105,235	215	13,471	36	91,764
+ Other Credits Claimed*	5,518	967,993	5,295	927,764	223	40,229
- Other Credits Not Taken **	--	(481,731)	--	(481,731)	--	--
+ Credits Subject to 50% Limit Taken	148	1,353,849	48	8,574	100	1,345,275
= Credits Taken	5,845	1,945,346	5,489	468,078	356	1,477,268

* This category includes LLC Additional Annual 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. Twenty-seven percent of the returns listed no assets because: 1) the taxpayer was exempt from franchise tax; 2) the 2015 tax year return was a final return; 3) or the taxpayer had no assets.

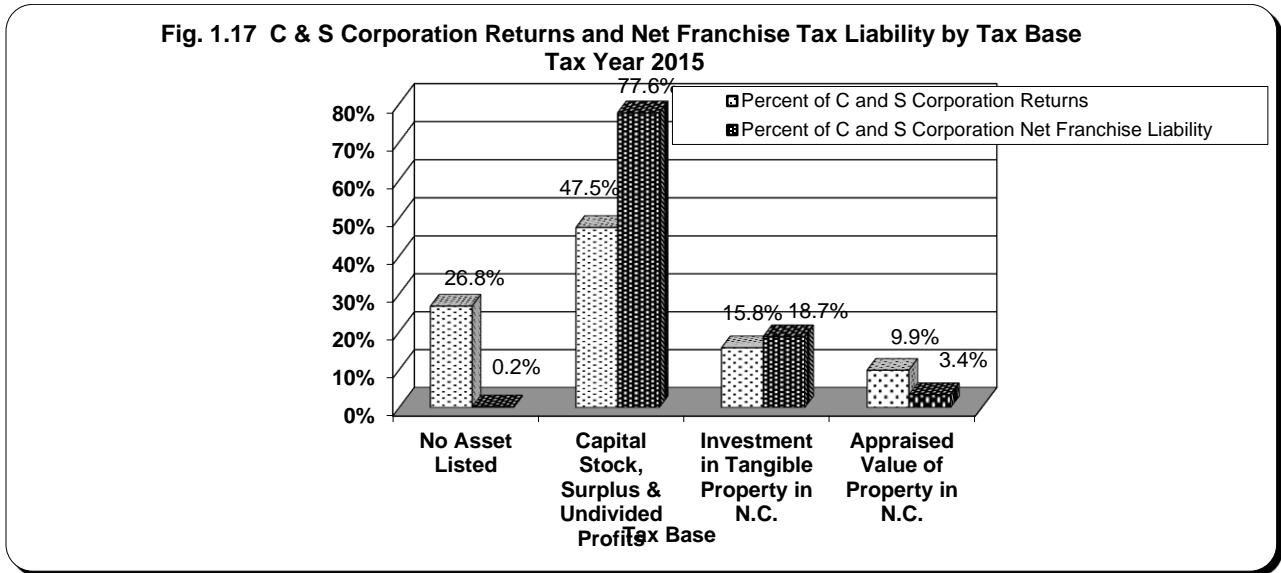
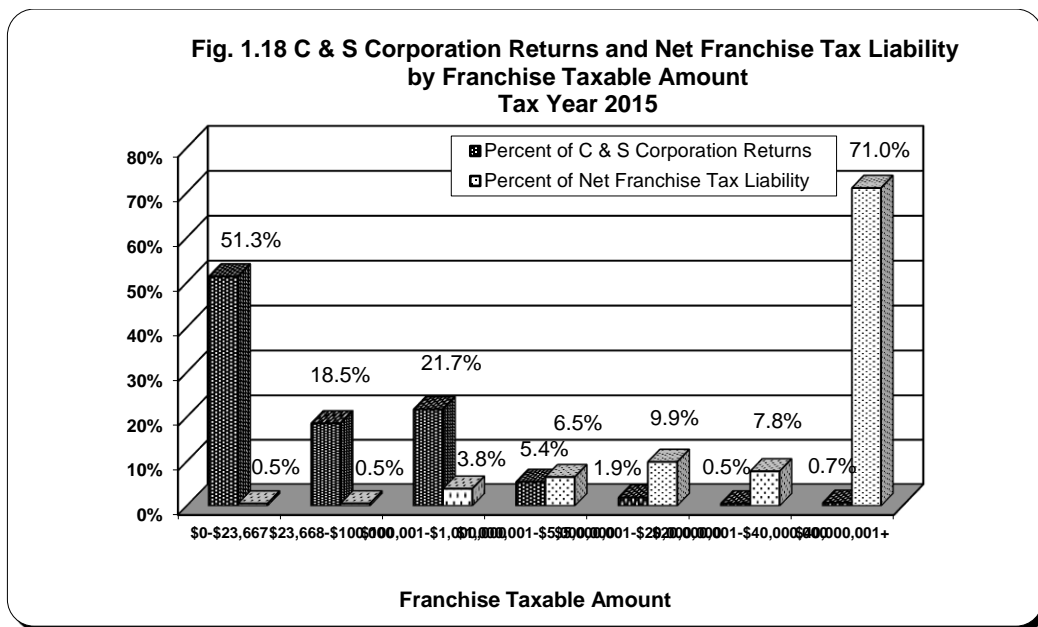
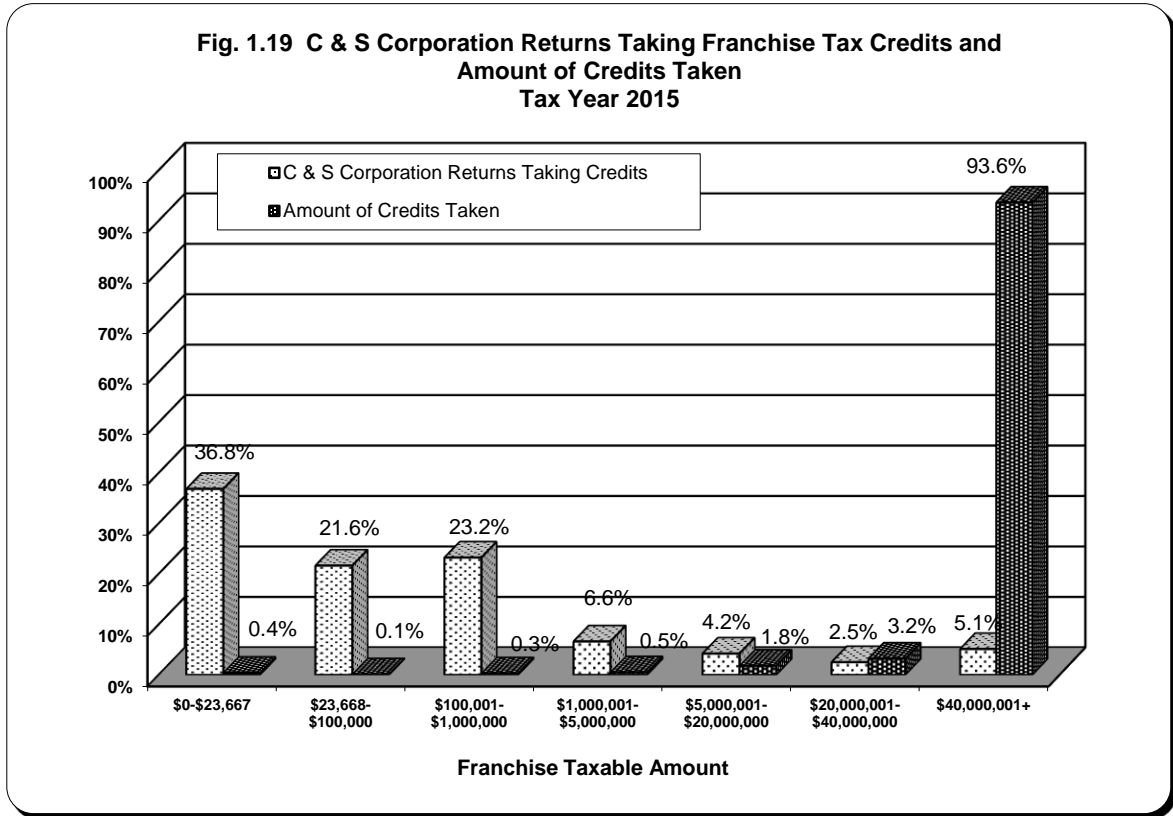


Figure 1.18 shows the number of C and S corporation returns and net franchise tax liability. Taxpayers with franchise taxable amount over \$20 million made up 1.1% of the returns, but paid 77.3% of net franchise tax.



**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 7,318 of the 215,782 taxable corporations took credits in tax year 2015. Corporations with over \$40 million as their franchise tax base took nearly 94% of all credits.



C CORPORATIONS

Of the 77,241 tax returns that were filed for tax year 2015, only 26,406 (34.2%) of them had a net tax liability (i.e., a positive tax liability after credits were applied).

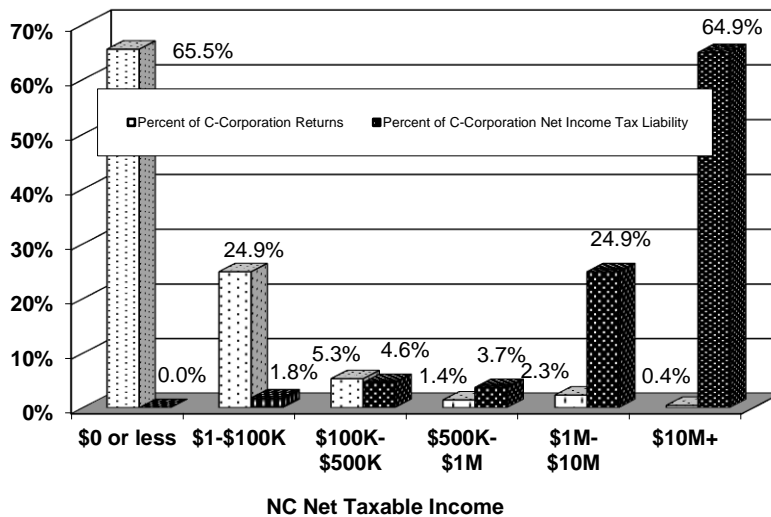
Table 2.1 and Figure 2.2 show the distribution of C corporation returns and net income tax liability by North Carolina net taxable income (as calculated on Line 25 of Form CD-405).

**Table 2.1
C Corporation Returns and Net Income Tax Liability by NC Net Taxable Income
Tax Year 2015**

NC Net Taxable Income	Number of Returns	Percent	Cumulative Percent	Net Income Tax Liability [\$]	Percent	Cumulative Percent
\$0 or less	50,605	65.5%	65.5%	0	--	--
\$1-\$15,000	11,311	14.6%	80.1%	2,507,842	0.2%	0.2%
\$15,001-\$30,000	3,065	4.0%	84.1%	3,323,318	0.3%	0.5%
\$30,001-\$50,000	2,179	2.8%	86.9%	4,286,340	0.4%	0.9%
\$50,001-\$100,000	2,736	3.5%	90.4%	9,723,737	0.9%	1.8%
\$100,001-\$500,000	4,131	5.3%	95.7%	47,346,959	4.6%	6.4%
\$500,001-\$1,000,000	1,103	1.4%	97.1%	38,135,374	3.7%	10.1%
\$1,000,001-\$10,000,000	1,788	2.3%	99.4%	257,781,449	24.9%	35.0%
\$10,000,001+	323	0.4%	99.8%	671,711,929	64.9%	99.8%
Total	77,241	100.0%	--	1,034,816,948	100.0%	--

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

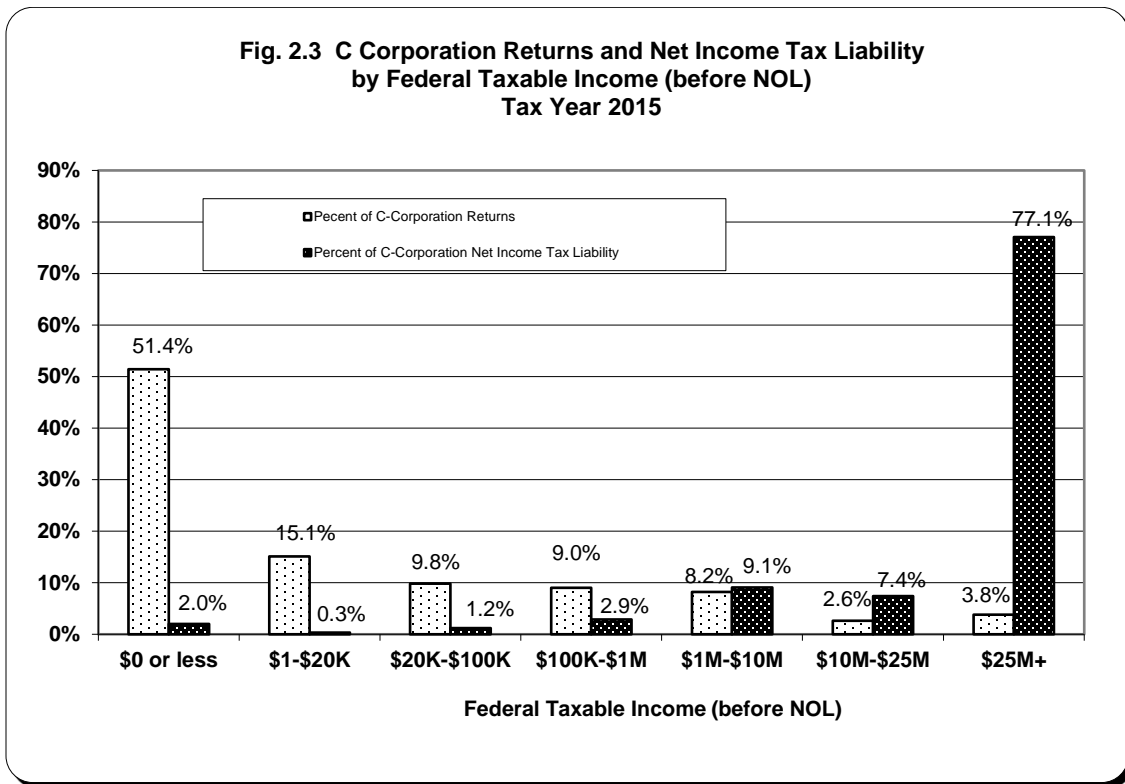
**Fig. 2.2 C Corporation Returns and Net Income Tax Liability
by NC Net Taxable Income
Tax Year 2015**



As shown in Table 2.1 and Figure 2.2 on the previous page, C corporations with a North Carolina Taxable Income of over \$1 million were liable for 89.8% of the C corporation income tax liability, but made up 2.7% of the corporations filing returns. Approximately 64% of the total C corporation net income tax liability was attributable to the 323 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 taxable income.

As shown in Figure 2.3, corporations with federal taxable income (before NOL) over \$25 million paid over three-quarters of North Carolina net income tax.



**SECTION II
INCOME TAX**

Table 2.4 compares the distribution of returns by apportionment percentage and federal taxable income. A corporation's apportionment percentage is used to determine how much of the corporation's total apportionable income may be taxed by North Carolina. For most types of companies, the percentage is based on how much of the corporation's 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 2015**

Federal Taxable Income (before NOL)	NC Apportionment Percentage					Total
	<5%	5% - 24%	25% - 49%	50% - 99%	100%	
\$0 or less	12,059	1,697	623	834	24,506	39,719
\$1 - \$20,000	840	225	97	211	10,253	11,626
\$20,001- \$100,000	1,405	375	162	372	5,289	7,603
\$100,001 - \$ 1,000,000	3,482	764	273	553	1,880	6,952
\$1,000,001 - \$10,000,000	4,743	822	273	287	247	6,372
\$10,000,001-\$25,000,000	1,623	254	73	w	w	2,005
\$25,000,001+	2,543	336	53	w	w	2,964
Total	26,695	4,473	1,554	2,321	42,198	77,241

Note: Figures are based partially on unaudited returns. A "w" in a field signifies that the value is withheld for taxpayer confidentiality.

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 54.6% of the returns filed for tax year 2015. However, these corporations accounted for only 7.3% 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 2015**

Federal Taxable Income (before NOL)	NC Apportionment Percentage					Total [\$]
	<5% [\$]	5% - 24% [\$]	25% - 49% [\$]	50% - 99% [\$]	100% [\$]	
\$0 or less	14,999,003	1,787,451	721,967	1,251,573	1,556,113	20,316,107
\$1 - \$20,000	24,753	18,084	13,530	167,091	2,792,309	3,015,767
\$20,001- \$100,000	1,015,264	116,167	150,413	887,902	9,884,902	12,054,648
\$100,001 - \$ 1,000,000	1,037,515	1,818,629	1,645,362	6,863,135	18,902,404	30,267,045
\$1,000,001 - \$10,000,000	12,205,730	13,268,221	16,461,005	25,848,320	26,565,035	94,348,311
\$10,000,001-\$25,000,000	14,994,995	16,251,921	16,072,209	w	w	77,007,564
\$25,000,001+	355,078,593	284,112,989	127,246,851	w	w	797,807,506
Total	399,355,853	317,373,462	162,311,337	80,196,612	75,579,684	1,034,816,948

Note: Figures are based partially on unaudited returns. A "w" in a field signifies that the value is withheld for taxpayer confidentiality.

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

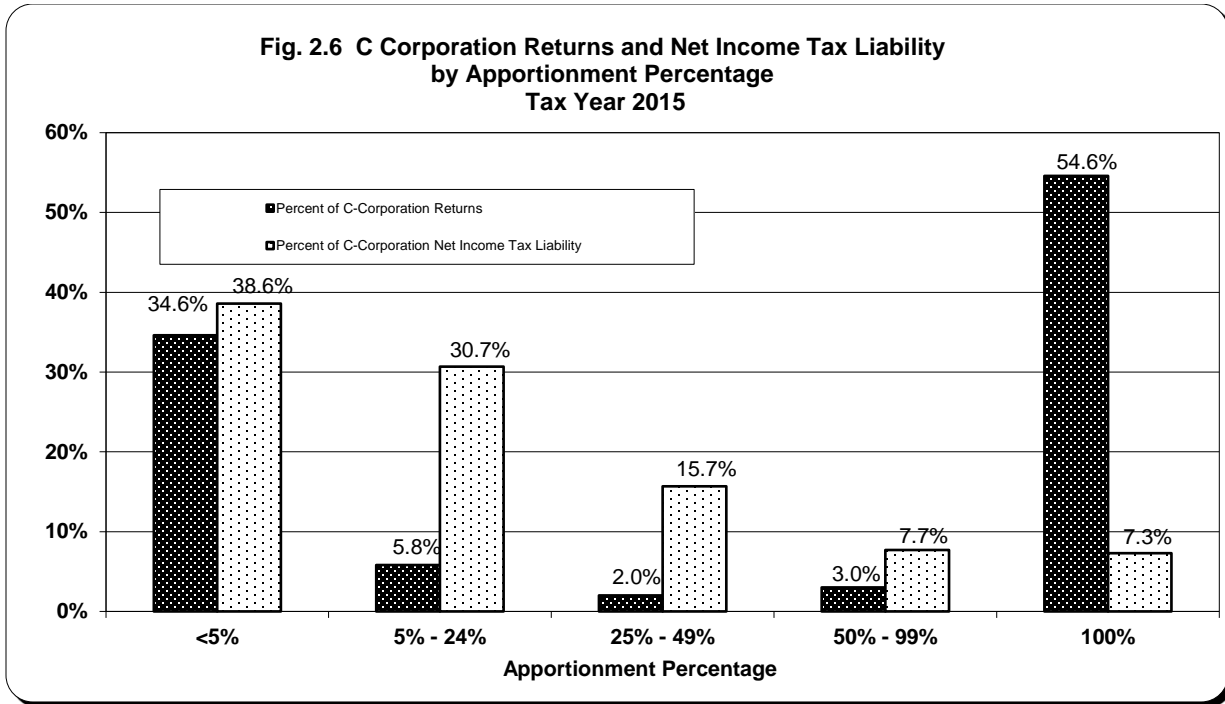


Table 2.7 on the next page shows statistics on the calculation of net tax liability at various steps, starting with federal taxable income. Returns are divided into taxable and nontaxable returns, where taxable returns are defined as those with a positive tax liability before credits are applied. The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

Out of 77,241 returns, 34.2% were taxable returns and 65.8% were nontaxable returns. Taxable returns with a federal taxable income over \$25 million made up 2.9% of the returns but accounted for 77.1% of the tax liability.

Of the 39,719 returns with federal taxable income of zero or less, 1,271 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 37,542 returns that did show a federal taxable income, 12,386 did not have a North Carolina liability. One can trace through the calculations in Table 2.7 to see what factors contributed to the elimination of tax liability for these latter companies. From federal taxable income of \$149.9 billion, there was a reduction of \$50.6 billion due to NC adjustments, a reduction of \$5.0 billion due to nonapportionable income, a reduction of \$91.6 billion due to apportioning income to North Carolina, and a reduction of \$7.8 billion due to Net Economic Loss carryforwards.⁴

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 2015 was for the bonus depreciation allowances created by the Protecting Americans from Tax Hikes (PATH) Act of 2015 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 \$110.1 million.

⁴ Eligible contributions have been deducted by taxpayers in determining their federal taxable income. For the calculation of NC taxable income on Form CD-405, these contributions are added back under adjustments to federal income. Then, contributions are deducted on separate lines of the return using the State's rules. A similar procedure is used for depletion adjustments.

**SECTION II
INCOME TAX**

**Table 2.7
C Corporation Income Tax Calculation Detail by Federal Taxable Income (Before NOL)
Tax Year 2015**

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 [\$]	(=) Apportioned to NC [\$]
<u>Taxable Returns</u>							
\$0 or less	1,271	(8,977,417,796)	22,692,843,307	43,954,087	(43,425,102)	13,327,716,217	387,180,309
\$1-\$20,000	7,193	46,574,686	33,880,039	176,224	3,237,004	13,084,145	63,957,352
\$20,001-\$100,000	5,151	252,793,942	78,052,115	1,085,863	21,981,590	66,128,882	241,649,722
\$100,001-\$1,000,000	4,536	1,691,640,546	538,837,726	11,305,123	68,439,254	1,503,120,226	647,613,669
\$1,000,001-\$10,000,000	4,473	17,069,340,018	3,101,433,911	79,108,947	435,484,097	17,626,051,818	2,030,129,067
\$10,000,001-\$25,000,000	1,524	24,301,153,111	2,267,620,223	98,650,112	408,915,407	24,340,927,792	1,720,280,023
\$25,000,001+	2,259	680,249,817,313	6,893,513,961	5,646,195,401	3,827,948,768	658,749,190,318	18,919,996,787
Total, Taxable	26,407	714,633,901,820	35,606,181,282	5,880,475,757	4,722,581,018	715,626,219,398	24,010,806,929
<u>Nontaxable Returns</u>							
\$0 or less	38,448	(301,295,155,065)	864,328,380	16,237,884	102,379,446	(290,582,244,511)	(9,967,199,504)
More than \$0	12,386	149,853,166,222	(50,636,903,099)	435,349,952	4,983,874,895	91,606,902,868	2,190,135,408
Total, Nontaxable	50,834	(151,441,988,843)	(49,772,574,719)	451,587,836	5,086,254,341	(198,975,341,643)	(7,777,064,096)

FTI of Corporation	(+) Nonapportionable Income Allocated [\$]	(-) 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	31,174,896	463,414	413,880,485	20,694,060	377,953	20,316,107
\$1-\$20,000	w	w	4,255,251	319,504	60,380,343	3,019,228	3,461	3,015,767
\$20,001-\$100,000	w	w	18,675,567	1,744,189	241,737,078	12,087,003	32,355	12,054,648
\$100,001-\$1,000,000	w	w	48,571,748	3,983,590	611,249,321	30,562,528	295,483	30,267,045
\$1,000,001-\$10,000,000	w	w	102,041,508	8,008,990	1,976,651,539	98,832,674	4,484,363	94,348,311
\$10,000,001-\$25,000,000	w	w	75,792,543	4,798,255	1,657,884,703	82,894,263	5,886,699	77,007,564
\$25,000,001+	w	w	927,239,751	57,689,136	17,936,239,603	896,812,030	99,004,524	797,807,506
Total, Taxable	186,126,050	14,151,565	1,207,751,264	77,007,078	22,898,023,072	1,144,901,786	110,084,838	1,034,816,948
<u>Nontaxable Returns</u>								
\$0 or less	(53,908,896)	11,775,611	4,826,144,300	29,007,800	(14,888,036,111)	-	-	-
More than \$0	22,976,625	15,250,045	7,782,499,178	1,029,148	(5,585,666,277)	-	-	-
Total, Nontaxable	(30,932,271)	27,025,656	12,608,643,478	30,036,948	(20,473,702,388)	-	-	-

Note: Figures are based on both audited and unaudited returns. A "w" indicates that the number is withheld to protect confidentiality.

**SECTION II
INCOME TAX**

Income Tax Credits: Table 2.8 shows the number of taxpayers taking income tax credits, broken out by the percentage of income tax offset by the credits. Over 98% of the 26,636 returns with positive tax liability before credits did not take any income tax credits. Fifty-one percent of the 484 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 70.2% of the total credits taken.

**Table 2.8
Number of C Corporation Taxable Returns Taking Credits as a Percentage of Tax Liability
Tax Year 2015**

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-\$50,000	16,523	w	w	w	22	16,326
\$50,001-\$100,000	2,713	w	w	w	17	2,736
\$100,001-\$500,000	4,057	w	w	15	39	4,131
\$500,001-\$1,000,000	1,058	13	w	w	23	1,103
\$1,000,001-\$10,000,000	1,585	52	20	27	104	1,788
\$10,000,001+	216	30	13	22	42	323
Total	26,152	105	53	79	247	26,636

Note: Figures are based partially on unaudited returns. The table does not include returns that had zero or negative taxable income. A "w" in a cell indicates that the data are withheld to protect confidentiality.

**Table 2.9
Amount of C Corporation Tax Credits Taken as a Percentage of Tax Liability
Tax Year 2015**

NC Taxable Income	Income Tax Credits as a Percentage of Tax				
	0.1%-9.9%	10%-19.9%	20%-39.9%	40%+	Total
	[\$]	[\$]	[\$]	[\$]	[\$]
\$1-\$50,000	w	w	w	12,054	14,379
\$50,001-\$100,000	w	w	w	31,844	36,110
\$100,001-\$500,000	w	w	52,002	264,855	341,996
\$500,001-\$1,000,000	23,557	w	w	402,602	519,898
\$1,000,001-\$10,000,000	410,306	534,128	1,230,791	9,367,914	11,543,139
\$10,000,001+	9,114,585	9,237,108	12,080,614	67,197,009	97,629,316
Total	9,551,429	9,810,821	13,446,310	77,276,278	110,084,838

Note: Figures are based partially on unaudited returns. A "w" in a cell indicates that the data are withheld to protect confidentiality.

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.

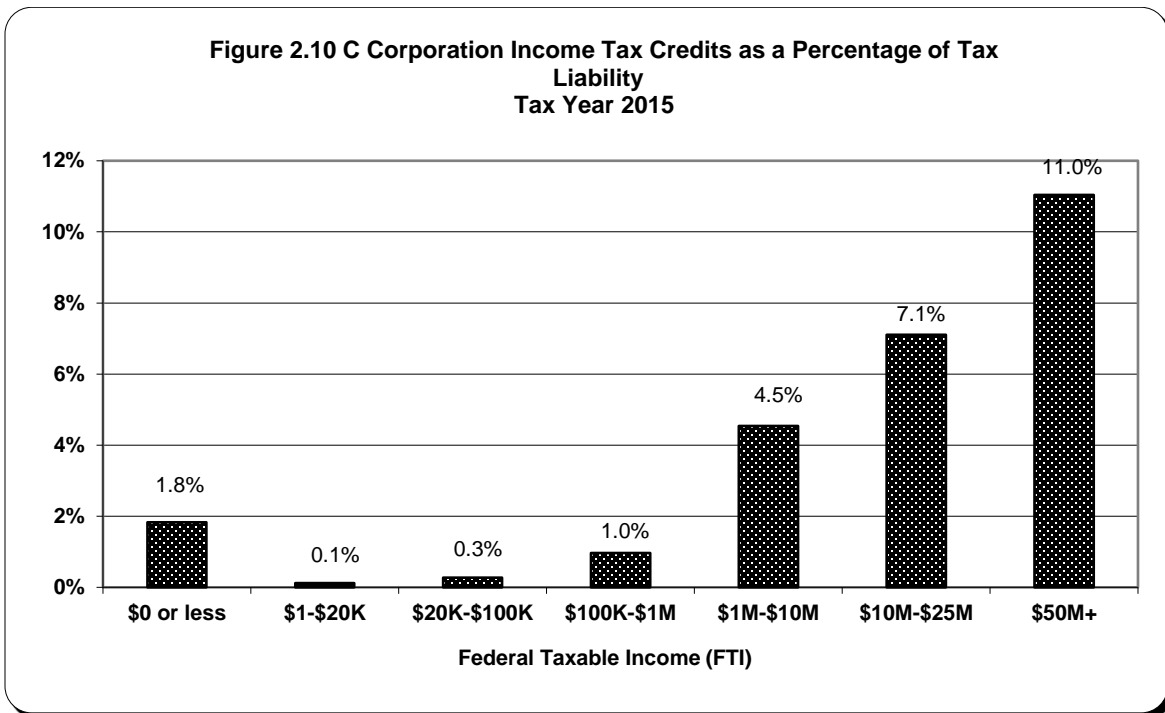


Table 2.11 provides the distribution of income tax credits by credit type and NC net taxable income.

**Table 2.11
C Corporation Income Tax Credits by Credit Type and NC Taxable Income (NCTI)
Tax Year 2015**

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	9	2,442,995	w	w	w	w
Other Non-Limited Credits **	8	91,251,017	w	w	w	w
Credit Carryover from Previous Years (Taken only)	7	1,728,281	w	w	w	w
Tax Credit Subject to 50% of Tax Limit (Taken only)	470	106,935,179	169	936,280	301	105,998,899
Credits Claimed	504	202,357,472	w	w	w	w
Credits Not Taken ***	--	92,272,634	--	w	--	w
Credits Taken	484	110,084,838	174	912,383	310	109,172,455

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

** This category includes Rehabilitating a Historic Structure, Rehabilitating Historic Mill Facility, Qualified Business Investments, and Investment in Recycling Facilities.

*** Most corporation income tax credits are reduced by 5% 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 through to shareholders, who pay tax on the income according to the individual income tax rate schedule. S corporations that have shareholders who are not North Carolina residents may pass the tax liability to those shareholders only if the nonresidents have agreed to pay North Carolina taxes on their share of the corporation's income. For nonresident shareholders who fail to sign such an agreement, the S corporations must file a composite return and pay the tax for the shareholders. The tax for nonresidents filing composite is calculated according to the individual income tax rate schedule, but the collections are considered corporate income tax receipts.

Table 2.12 and Figure 2.13 show the number of returns and net income tax liability by North Carolina taxable income. Corporations with taxable income of \$1 million or more accounted for 63.2% of the tax liability, but only 1.5% of returns.

The total net tax liability of \$78.8 million shown in Table 2.12 belies the importance of taxation of the net income of S corporations since most taxable income is passed to shareholders.

**Table 2.12
S-Corporation Returns and Net Income Tax Liability by NC Taxable Income
Tax Year 2015**

NC Taxable Income*	Number of Returns	Percent	Number With Tax Due for Nonresidents	Net Tax Liability [\$]	Percent
\$0 or less	52,285	33.5%	0	0	0.0%
\$1-\$15,000	32,513	20.8%	3,666	907,250	1.2%
\$15,001-30,000	16,105	10.3%	893	1,049,396	1.3%
\$30,001-\$50,000	13,548	8.7%	675	1,428,686	1.8%
\$50,001-\$100,000	16,666	10.7%	868	3,259,304	4.1%
\$100,001-\$500,000	19,776	12.7%	1,211	13,833,324	17.6%
\$500,001-\$1,000,000	2,831	1.8%	248	8,545,068	10.8%
\$1,000,001-\$10,000,000	2,202	1.4%	245	27,043,046	34.3%
\$10,000,001+	108	0.1%	17	22,750,885	28.9%
Total	156,034	100.0%	7,823	78,816,959	100.0%

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

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

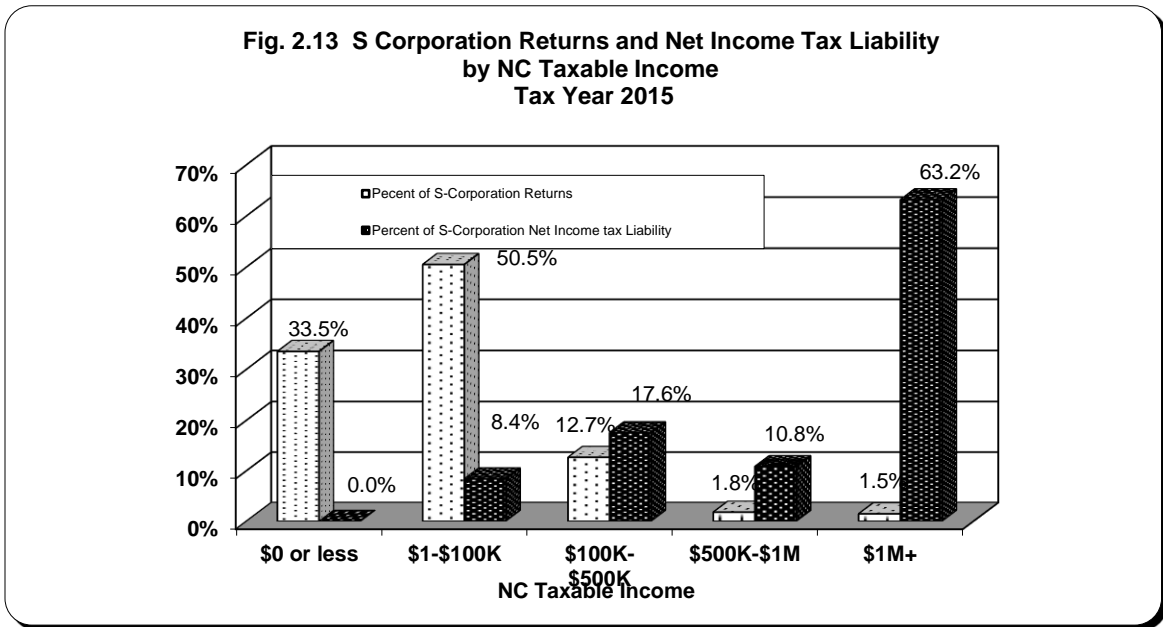
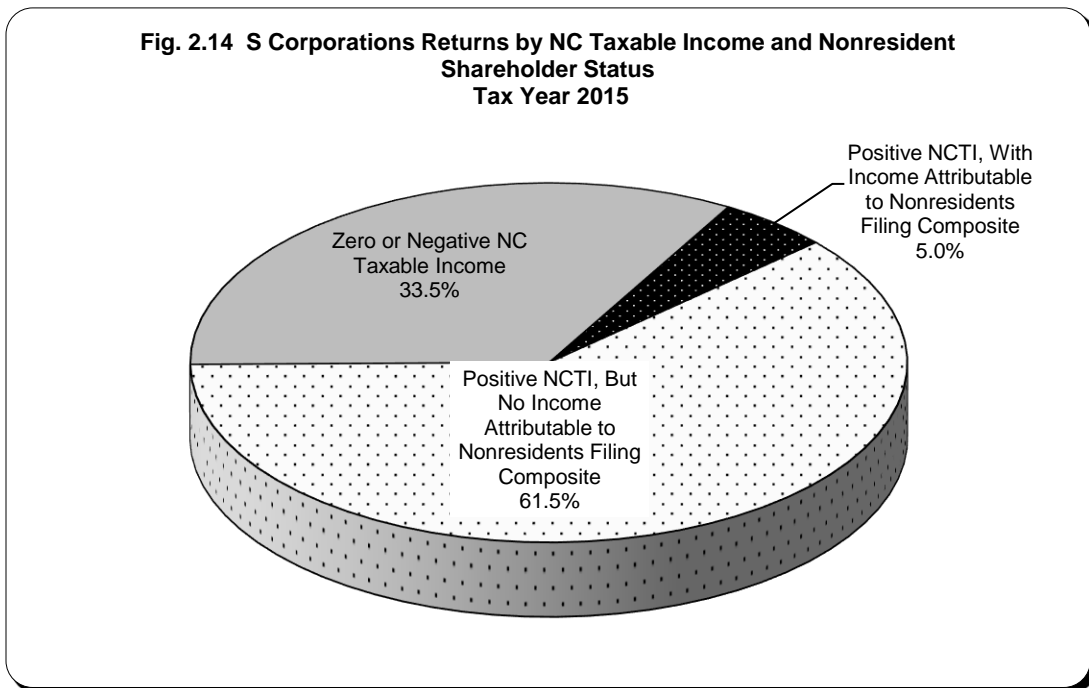


Figure 2.14 illustrates the distribution of returns by North Carolina taxable income and nonresident shareholder filing status. Only 5% of S corporation returns had a tax liability attributable to nonresidents who chose to allow the S corporation to file a composite return on their behalf.



**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 2015**

		(+)	(+)	(-)	(-)	(=)	(+)
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	52,285	3,965,306,480	(1,302,897,857)	1,358,554,343	2,851,311,222	(1,547,456,942)	(18,921,121)
Positive, But No Income Attributable to Nonresidents Filing Composite	95,914	40,709,866,435	801,755,702	831,796,223	26,513,538,033	14,166,287,881	221,707,644
Positive, With Income Attributable to Nonresidents Filing Composite	7,835	46,269,902,110	448,182,414	1,894,180,926	43,156,766,444	1,667,137,154	63,708,866
Total	156,034	90,945,075,025	(52,959,741)	4,084,531,492	72,521,615,699	14,285,968,093	266,495,389

	(=)	(+)	(=)			(-)	(=)
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	(1,566,378,063)	1,485,409,140	(80,968,923)	2,122	-	-	-
Positive, But No Income Attributable to Nonresidents Filing Composite	14,387,995,525	(14,387,995,525)	-	2,156,329	187,441	-	187,441
Positive, With Income Attributable to Nonresidents Filing Composite	1,730,846,020	(258,313,097)	1,472,532,923	2,292,644	84,585,351	5,955,833	78,629,518
Total	14,552,463,482	(13,160,899,482)	1,391,564,000	4,451,095	84,772,792	5,955,833	78,816,959

Note: Figures are based partially on unaudited returns.

**SECTION II
INCOME TAX**

Table 2.16 shows the income tax credits by credit type and taxable income. Corporations with taxable income over \$1 million took 98% 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 2015**

Income Tax Credits	All Returns		Taxable Income <\$1,000,001		Taxable Income \$1,000,001+	
	Number of Credits	Amount Claimed (\$)	Number of Credits	Amount Claimed (\$)	Number of Credits	Amount Claimed (\$)
Credits Taken	45	5,955,833	27	116,570	18	5,839,263

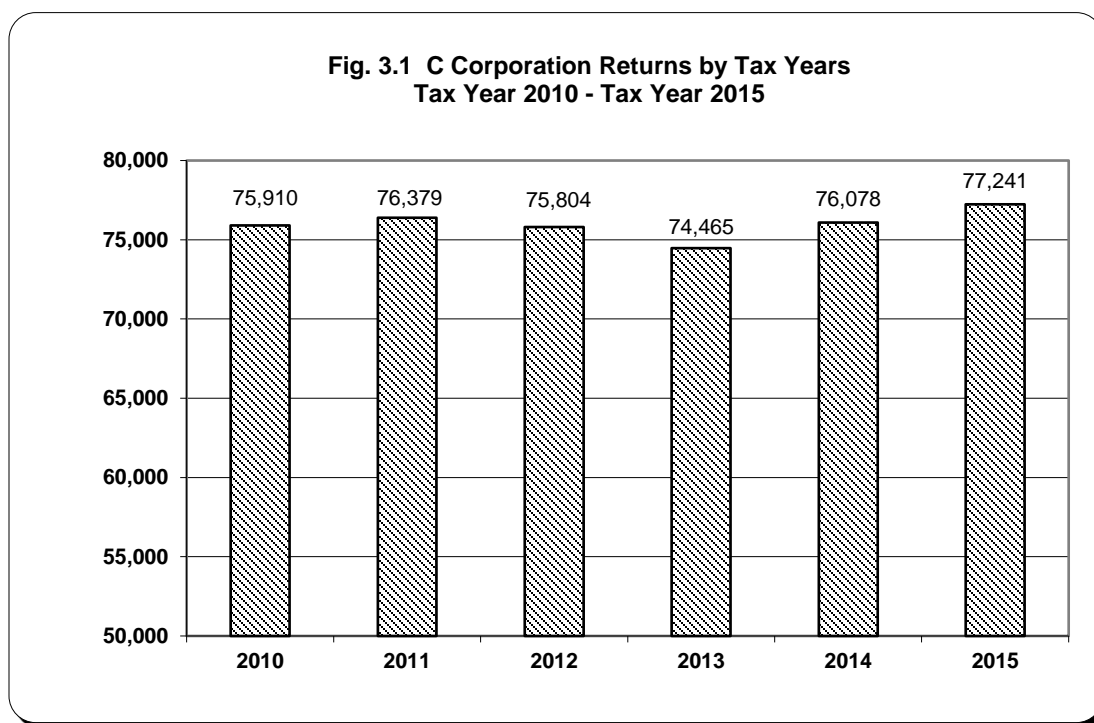
Note: Confidentiality prevents the disclosure of individual credits and credits amounts.

C CORPORATIONS

In this section, data on corporate returns are presented for tax years 2010 through 2015. For years prior to these, see the earlier editions of this publication.

Table 3.1 compares the number of C corporation returns by tax year. Since the 2007 recession, there was a general decline from a peak of 80,552 returns, but the number of returns has seen a rebound in 2014 and 2015. Data from the IRS Statistics of Income Division also shows a decline in the number of Form 1120 filers nationally between 2008 and 2013.⁵

The number of first-time filers, as reported on the tax form, was 4,868 in 2015 and 4,560 in 2014. This was higher than the prior two years: 3,904 in 2013 and 4,270 in 2012. The number of new filers was approximately 5,000 annually during the period from 2005 through 2007.



⁵ Annual statistical reports are available at <https://www.irs.gov/statistics/soi-tax-stats-table-16-returns-of-active-corporations-form-1120>.

Figure 3.2 shows the net tax liability for both the franchise tax and the corporation income tax from 2010 through 2015. Although the income tax is of a greater magnitude than the franchise tax, the income tax exhibits more cyclical behavior.

The decreases in income tax revenues in 2014 and 2015 reflect mainly the decrease in the tax rates in these years. In 2014, the income tax rate decreased from 6.9% to 6.0%; it was reduced further in 2015 to 5.0%.

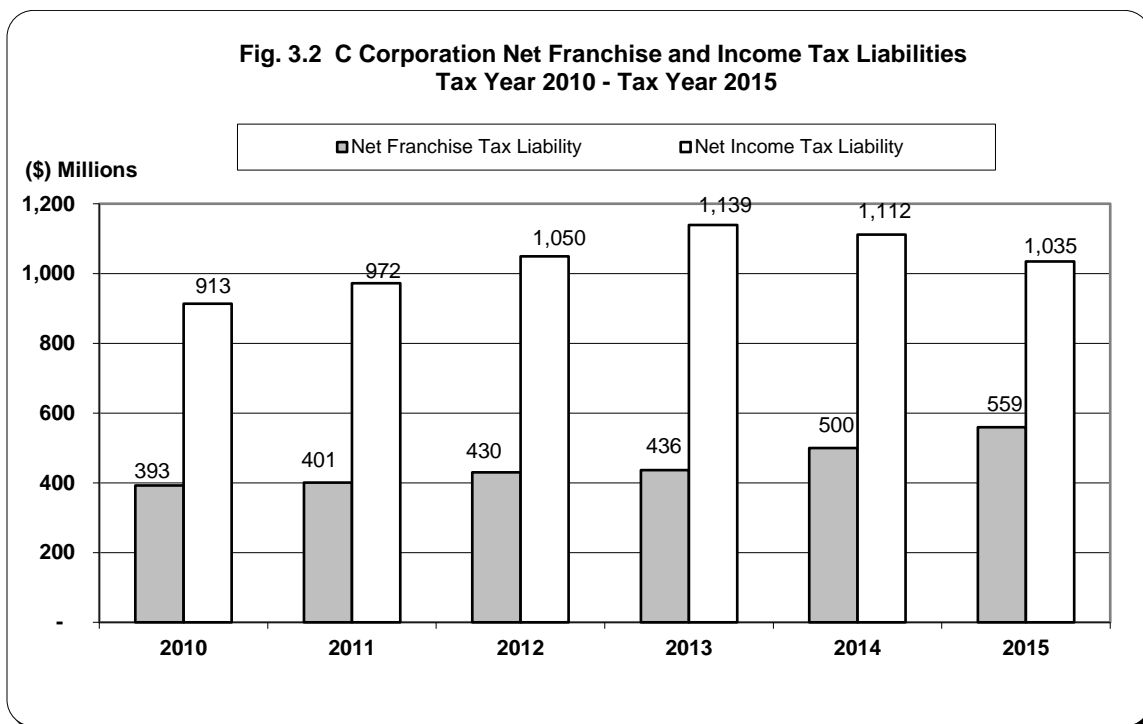


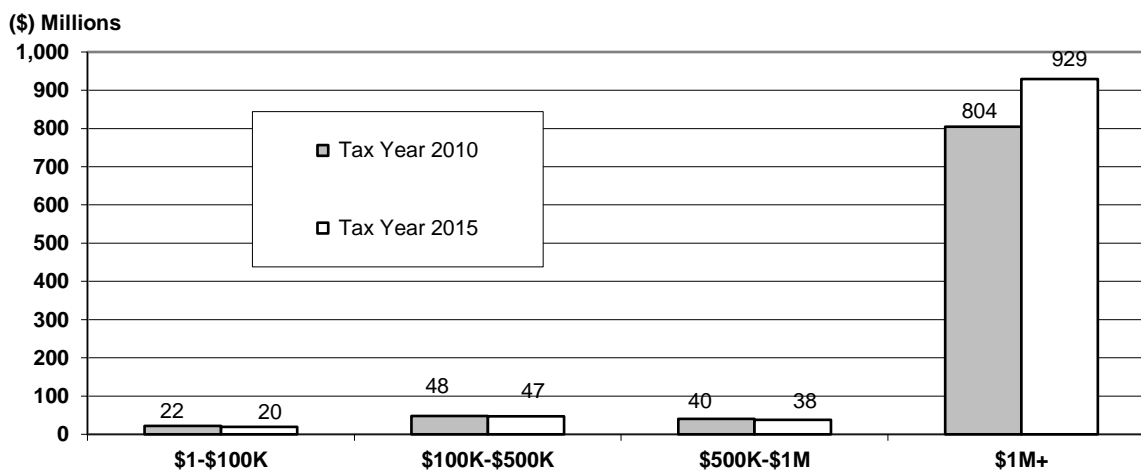
Table 3.3 and Figure 3.4 compare the net income tax liability of C corporations in tax year 2010 and tax year 2015 by NC taxable income brackets. The strongest growth has been for returns with NC taxable income above \$10 million.

**Table 3.3
C Corporation Net Income Tax Liability by NC Taxable Income
Tax Year 2010 & Tax Year 2015**

NC Taxable Income	Net Income Tax Liability TY 2010	Net Income Tax Liability TY 2015	% Difference
\$0 or less	(662,588)	--	--
\$1-\$15,000	3,119,892	2,507,842	-19.62%
\$15,001-\$30,000	3,806,704	3,323,318	-12.70%
\$30,001-\$50,000	4,839,205	4,286,340	-11.42%
\$50,001-\$100,000	10,526,118	9,723,737	-7.62%
\$100,001-\$500,000	47,623,123	47,346,959	-0.58%
\$500,001-\$1,000,000	39,999,922	38,135,374	-4.66%
\$1,000,001-\$10,000,000	254,620,191	257,781,449	1.24%
\$10,000,001+	549,625,419	671,711,929	22.21%
Total	913,497,986	1,034,816,948	13.28%

Note: The tax rate in 2010 was 6.9% and the tax rate in 2015 was 5.0%.

**Fig. 3.4 C Corporation Net Income Tax Liability by NC Taxable Income
Tax Year 2010 & Tax Year 2015**



S CORPORATIONS

Table 3.5 compares the number of S corporation returns by tax years 2010 through 2015. Over the long term, the number of returns has grown. The rate of growth of the number of S corporations slowed after the 2007 recession. In tax year 2012, the number of filers decreased slightly from the prior year. However, the number of returns increased 6% between tax years 2012 and 2015.

Due to recent increases in individual income tax rates at the federal level relative to corporate rates, conversions of C corporations into S corporations may have slowed. There are a larger number of initial filers among S corporations: in tax year 2015, there were 9,544 S corporations claiming to be first time filers. However, this is below the average of over 11,000 new filers for the period from 2005 through 2008.

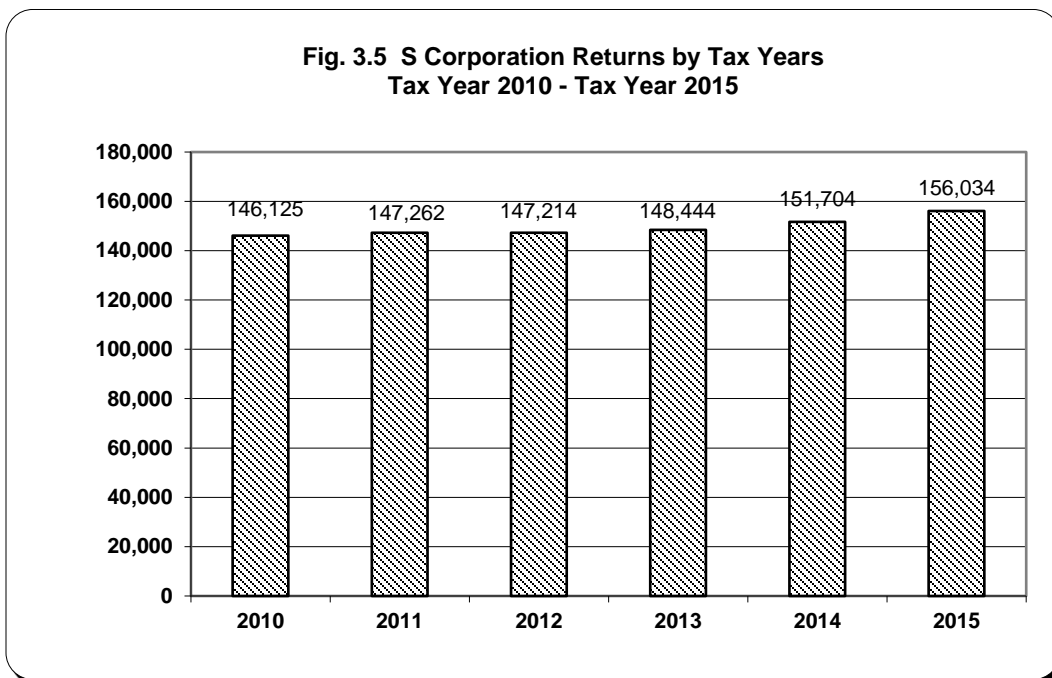


Figure 3.6 illustrates the relative amounts of net tax liabilities for 2010 through 2015 for S corporations. As discussed in Section II, the income tax liability for S corporations only includes taxes paid for nonresident shareholders filing a composite return. Therefore, comparisons across time may be misleading if certain larger taxpayers alter their behavior in this regard.

For 2014, the income tax rate for individuals was changed from a graduated rate structure with tax rates from 6% to 7.75% to a flat tax with a 5.8% rate. The rate declined to 5.75% in 2015. This has affected the calculation of income tax for S corporations.

The trend in the franchise tax liability is consistent with that shown for C corporations – small annual changes, even during the recession. The franchise tax has been increasing each year. For 2012, the amount increased by 3.7% over the prior year, and it increased an additional 3.3% in 2013 and by 4.7% in 2014. In 2015, the increase was 7.6%.

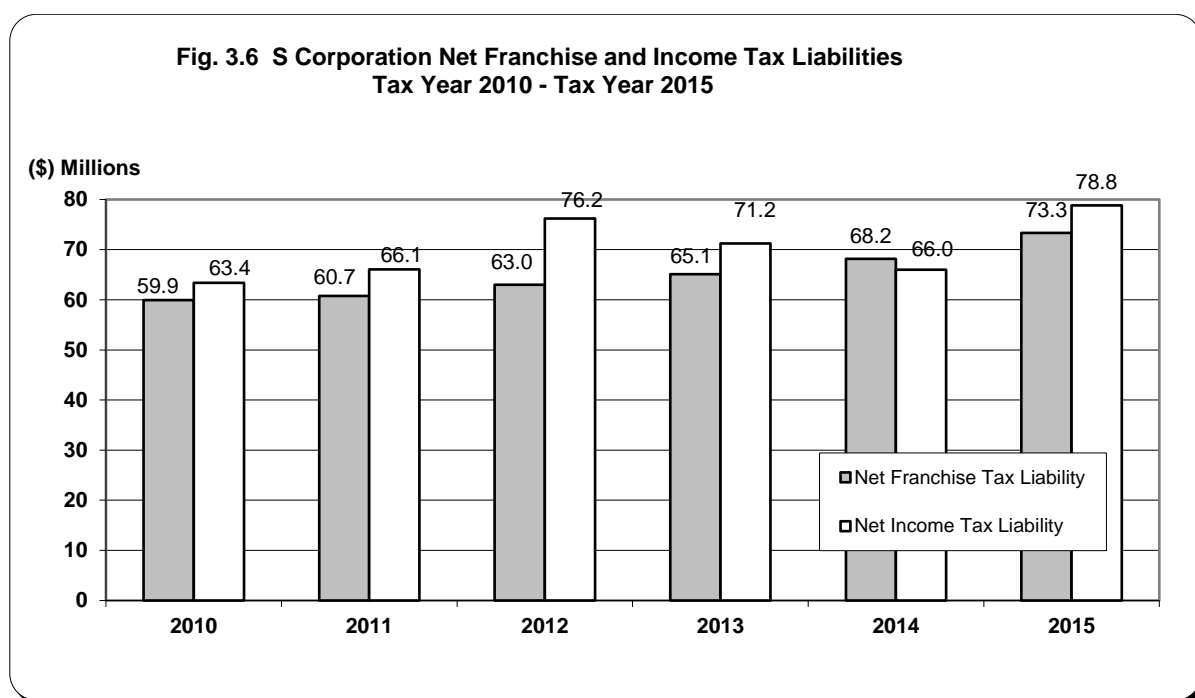
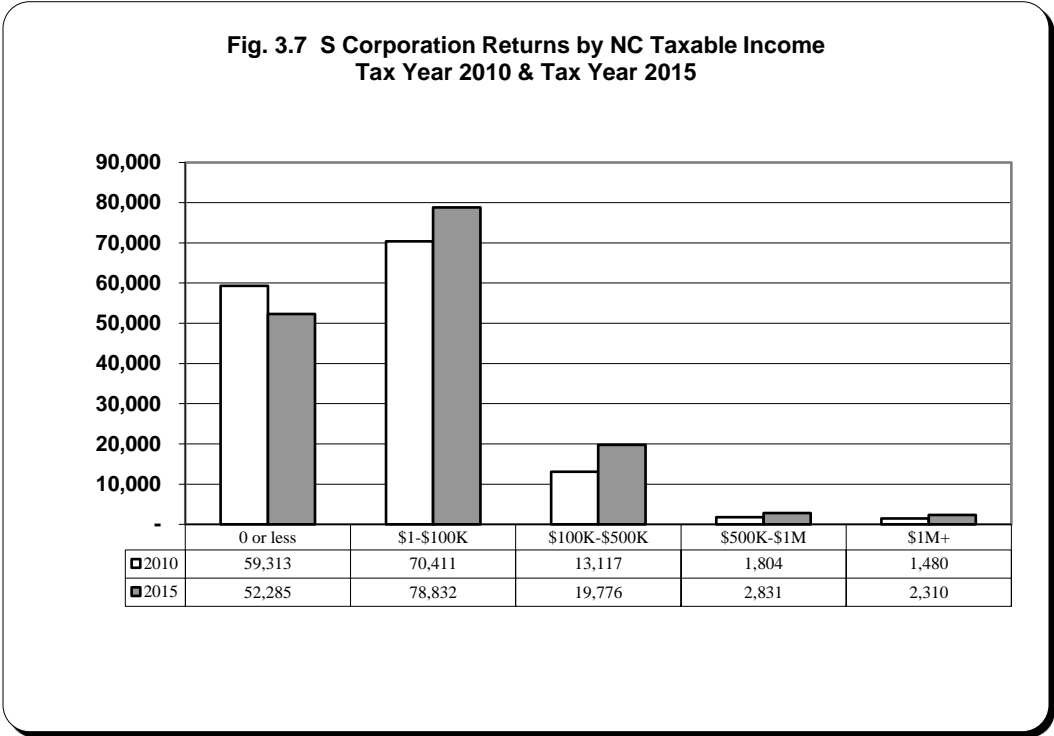


Figure 3.7 compares the number of S corporation returns in tax years 2010 and 2015 by NC taxable income brackets. The total number of returns has grown in each bracket except those with zero or negative taxable income. The percentage growth has been greatest in the largest NC taxable income bracket. However, the returns are still predominantly those with less than \$100,000 in taxable income.



**SECTION IV
FISCAL YEAR STATISTICS**

Taxpayers may calculate their net income based on a calendar year or an alternative fiscal year that ends on the last day of any month other than December. Taxpayers may also use a 52/53 week fiscal year, as allowed under the IRS Code. This section reports tax statistics based on the month in which the fiscal year begins.

Table 4.1 shows the distribution of C corporate returns by the month in which their fiscal year begins, as well as for short-period returns. Calendar year returns comprised 69.8% of all returns. Their net franchise tax liability was 75.1% of the total, and their net income tax liability made up 74.8% of the total.

**Table 4.1
C Corporation Statistics by Fiscal Year Start Month
Tax Year 2015**

Tax Year Start Month	All Returns	Franchise Tax		Income Tax	
	Number of returns	Number	Amount (\$)	Number	Amount (\$)
January	53,931	44,746	420,028,475	17,693	774,535,197
February	1,041	1,002	18,396,599	388	29,949,117
March	645	619	2,027,941	265	4,396,280
April	3,149	3,019	19,871,420	1,310	39,749,395
May	961	898	3,154,885	374	8,876,626
June	984	911	4,341,533	377	16,279,221
July	4,251	3,665	17,167,984	1,661	28,875,560
August	910	855	6,717,538	382	11,716,228
September	924	863	4,195,697	396	8,312,044
October	3,375	3,119	22,369,296	1,381	43,089,377
November	1,213	1,157	6,055,733	477	11,645,699
December	652	619	1,901,462	261	4,783,948
Short-period returns	5,205	4,509	33,237,242	1,441	52,608,256
Total	77,241	65,982	559,465,805	26,406	1,034,816,948

Note: For this table, short-period returns are all returns where the recorded tax year is less than 360 days. These were mainly corporations that changed their accounting periods during the year, existed less than 12 months, or adopted the tax year of an affiliated corporation.

For S corporations, calendar year filers comprised 93.5% of the 156,034 returns. There were 7,946 short-period returns included in the S corporation returns.

**SECTION V
INDUSTRY SECTORS**

C-CORPORATIONS

Table 5.1 shows franchise and income tax liabilities by major industry sector. The manufacturing sector had the largest tax liability for both the franchise tax and the income tax, paying approximately 36% of the total amount. Other sectors with relatively high shares of tax liability include finance and insurance, professional services, wholesale, retail, and information.

**Table 5.1
C Corporation Franchise Tax and Income Tax Liability by Industry Sector
Tax Year 2015**

Industry Sector	All Returns	Franchise Tax		Income Tax	
	Number of returns	Number	Amount (\$)	Number	Amount (\$)
Agriculture, Forestry, Fishing and Hunting	1,117	1,080	2,437,166	411	6,195,506
Mining	147	142	2,957,184	48	3,440,264
Utilities	223	205	40,088,582	63	11,681,889
Construction	5,990	5,796	8,531,005	2,170	33,190,540
Manufacturing	7,746	7,515	187,685,174	3,245	388,244,002
Wholesale	5,354	5,209	36,484,136	2,525	74,004,787
Retail	5,535	5,297	36,155,841	2,091	69,314,894
Transportation	1,989	1,913	6,905,490	822	18,689,864
Couriers and Warehousing	178	173	778,088	75	2,347,307
Information	2,276	2,138	40,053,100	709	51,971,344
Finance and Insurance	6,596	6,061	89,861,891	2,315	174,146,655
Real Estate and Rental & Leasing	11,107	6,538	38,699,601	2,430	65,123,854
Professional, Scientific and Technical Services	9,698	9,242	29,659,706	3,457	78,285,338
Management of Companies / see note	2,006	1,888	12,994,497	624	11,293,855
Administration & Support and Waste Management & Remediation Services	2,900	2,372	9,068,065	995	13,976,038
Educational Services	417	365	713,950	160	1,447,817
Health Care and Social Assistance	2,942	2,757	7,337,930	954	12,205,736
Arts, Entertainment and Recreation	925	790	1,631,424	311	889,478
Accommodations and Food Services	2,028	1,927	4,315,569	970	11,942,891
Other Services	3,682	2,815	2,289,399	1,172	5,219,638
Unidentifiable	4,385	1,759	818,007	859	1,205,251
Total	77,241	65,982	559,465,805	26,406	1,034,816,948

Note: The amounts in this table are based partially on unaudited returns. In some cases, revisions were made to the NAICS codes reported by taxpayers. If it was evident that a taxpayer reported an old NAICS or SIC code, these were converted to newer codes. Also, holding companies often listed their NAICS code as "Management of Companies." One hundred nineteen (119) of these taxpayers were reassigned to other industries based on information concerning the main business of these companies. (These reassignments were made by staff of the Revenue Research Section, mainly for four of the industry sectors: manufacturing; retail; information; and finance and insurance.) In addition, all bank holding companies (NAICS=551111) were reassigned to the Finance & Insurance sector.

**SECTION V
INDUSTRY SECTORS**

S CORPORATIONS

Table 5.2 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) manufacturing; (3) real estate and rental & leasing; 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 5.2
S Corporation Franchise Tax and Income Tax Liability by Industry Sector
Tax Year 2015**

Industry Sector	All Returns	Franchise Tax		Income Tax	
	Number of returns	Number	Amount (\$)	Number	Amount (\$)
Agriculture, Mining & Utilities	3,843	3,648	3,349,092	70	1,162,531
Construction	23,377	22,061	8,343,880	992	6,059,301
Manufacturing	6,850	6,492	10,475,908	904	17,630,474
Wholesale	6,419	5,997	6,603,253	681	7,512,336
Retail	15,738	14,689	12,421,105	350	4,348,049
Transportation	4,439	4,191	1,475,800	240	2,158,679
Couriers and Warehousing	471	441	186,608	29	158,830
Information	2,450	2,258	993,040	233	977,112
Finance and Insurance	6,396	5,956	2,788,336	469	12,046,115
Real Estate and Rental & Leasing	16,625	15,543	9,507,299	550	4,811,004
Professional, Scientific and Technical Services	25,016	23,138	4,135,854	1,831	7,820,365
Management of Companies	939	874	1,914,437	238	5,989,509
Administration & Support and Waste Management & Remediation Services	6,600	6,097	1,403,933	426	4,052,161
Educational Services	1,026	921	139,465	48	803,704
Health Care and Social Assistance	10,340	9,801	3,191,847	110	670,228
Arts, Entertainment and Recreation	3,773	3,441	1,042,650	308	700,804
Accommodations and Food Services	7,674	7,087	3,127,400	124	1,130,282
Other Services	11,463	10,648	1,851,184	177	645,915
Unidentifiable	2,595	2,445	375,464	43	139,560
Total	156,034	145,728	73,326,555	7,823	78,816,959

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 V
INDUSTRY SECTORS**

Table 5.3 shows the North Carolina net taxable income of S corporations in tax year 2015 by industry sector. This is the income that is passed through to shareholders who then report this income on their individual income tax returns. The industry sectors with the largest net taxable income are (1) construction; (2) professional, scientific and technical services; (3) manufacturing; (4) retail; (5) health care and social assistance; and (6) wholesale.

**Table 5.3
S Corporation NC Net Taxable Income by Industry Sector
Tax Year 2015**

Industry Sector	Net Taxable Income		
	Number of returns	Amount (\$)	Share of total amount
Agriculture, Forestry, Fishing and Hunting	3,399	371,759,370	2.6%
Mining	107	3,309,329	0.0%
Utilities	143	5,174,798	0.0%
Construction	21,151	1,913,087,323	13.1%
Manufacturing	6,257	1,861,418,776	12.8%
Wholesale	5,945	1,123,699,963	7.7%
Retail	15,008	1,265,048,426	8.7%
Transportation	4,094	358,379,751	2.5%
Couriers and Warehousing	437	38,447,486	0.3%
Information	2,237	170,179,950	1.2%
Finance and Insurance	5,495	1,112,893,768	7.6%
Real Estate and Rental & Leasing	15,145	944,516,598	6.5%
Professional, Scientific and Technical Services	22,971	1,887,910,940	13.0%
Management of Companies	801	426,542,109	2.9%
Administration & Support and Waste Management & Remediation Services	6,085	527,960,131	3.6%
Educational Services	979	53,087,977	0.4%
Health Care and Social Assistance	9,880	1,130,428,302	7.8%
Arts, Entertainment and Recreation	3,481	233,350,692	1.6%
Accommodations and Food Services	7,338	632,142,720	4.3%
Other Services	11,013	444,087,770	3.1%
Unidentifiable	1,847	49,037,303	0.3%
Total	143,813	14,552,463,482	

Note: Amounts shown in the table include accounts with negative values for net taxable income. Calculations are based partially on unaudited returns. In some cases, revisions were made to the NAICS codes reported by taxpayers. If it was evident that a taxpayer reported an old NAICS or SIC code, these were converted to newer codes.