

North Carolina

**Corporation Income and Business
Franchise Taxes**

Statistics and Trends

Tax Year 2020

February 2023



NCDOR

Tax Research & Equity Division

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INTRODUCTION

This report contains statistics concerning business franchise and income taxes imposed on corporations, limited liability companies and related businesses under the Revenue Laws of North Carolina. It is designed to provide legislators, public officials, tax professionals, researchers, and other interested citizens of North Carolina with information about the characteristics of corporate taxpayers and how these taxpayers contribute to the State's tax revenues. The report includes both historical series of data and detailed reports for tax returns with tax years beginning in 2020 (TY20)¹.

This report is based upon data submitted by corporations and limited liability companies filing as corporations on the CD-405, CD-401S, and CD-425 forms. The data were retrieved from the Department's Integrated Tax Administration System (ITAS) in December 2022. 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 2020 or for a tax year beginning sometime in 2020. Short-year returns are included if their tax period begins in 2020.

The relevant 2020 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 2015 through tax year 2020; 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 TY20.

	TY 2020	
	C corporations	S corporations
Number of returns	85,384	179,291
Number of returns with nonzero net franchise tax	72,455	171,789
Amount of net franchise tax	\$755,643,454	\$87,209,445
Number of returns with nonzero net income tax	29,575	10,632
Amount of net income tax	\$821,455,470	\$174,853,251

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

¹ Franchise tax statistics in this report are referred to as tax year 2020 because they are reported on 2020 corporate income tax returns. However, they are technically tax year 2021 liabilities.

OVERVIEW OF TAXES COVERED BY THIS REPORT

The following descriptions of the General Business Franchise Tax and Corporation Income Tax reflect the tax law in effect for tax periods beginning in 2020 (2021 for Franchise Tax). These descriptions are designed to highlight the general attributes of the taxes, as well as changes from prior years. They are not official interpretations of the Revenue Laws and should not be relied upon as representing the position of the Department of Revenue.

FRANCHISE TAX

The general business franchise tax is levied on business corporations doing business in the State (including those electing S corporation status). The tax is imposed on the largest of three alternative asset bases. These bases are (a) the amount of the corporation's net worth, apportioned to the State (using the apportionment formula for corporation income); (b) 55% of the appraised value of property in the State subject to local taxation; or (c) the amount of investment in real and tangible personal property in the State, less accumulated depreciation, depletion, and amortization with respect to N.C. tangible property. The tax is \$1.50 per \$1,000 of taxable assets. Beginning with tax periods starting on or after Jan. 1, 2019, S corporations are subject to a \$200 tax on the first \$1 million in taxable assets and \$1.50 per \$1,000 of the amount over \$1 million.

Limited Liability Companies (LLC's) that elect to be taxed as corporations for federal income tax purposes became liable for franchise tax beginning in 2007 (as reported on TY2006 returns). LLC's that choose to file as S corporations in North Carolina became liable for tax beginning in 2009. Partnerships that elect to be taxed as corporations for federal income tax purposes became liable for franchise tax beginning in 2019.

The minimum franchise tax is \$200. The tax on holding companies that receive more than 80% of their gross income from subsidiaries is capped at \$150,000 if the company uses the net worth base. (The taxpayer must ensure this amount is not less than the tax calculated using the alternative bases.) For tax years beginning on or after Jan. 1, 2020, certain corporations that own copyrights, patents, or trademarks that represent more than 80% of their total assets or receive more than 80% of their gross income from royalties and license fees are eligible to be a holding company, whose franchise tax liability from the net worth tax base is capped at \$150,000.

A deduction from the investment in tangible property base for any indebtedness specifically incurred and existing solely for and as the result of the purchase of any real estate and any improvements made on the real estate was reinstated for taxable years beginning on or after Jan. 1, 2020.

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

For disaster declarations made on or after August 1, 2019, certain non-resident businesses that derived income in North Carolina solely from performing disaster-related work during a disaster response period at the request of a critical infrastructure company are exempt from franchise tax.

CORPORATION INCOME TAX

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

Beginning in tax year 2016, a new statute limited the deduction for the amount of net interest paid or accrued to a related member to the greater of (1) 15% of the taxpayer's adjusted taxable income and (2) the taxpayer's proportionate share of interest ultimately paid to an unrelated entity. This limitation does not apply if the related member is taxed on the interest income in North Carolina or another jurisdiction or if the related member is a bank.

Also effective for tax years beginning in 2016 and after, the adjustment for expenses related to the dividends-received deduction has been simplified. For all corporate taxpayers, the adjustment for expenses may not exceed an amount equal to 15% of the dividends. In prior years, bank holding companies and electric power holding companies were eligible to receive a credit against the increased tax liability as a result of this adjustment.²

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

Decoupling from federal Tax Cut and Jobs Act (TCJA) provisions. In addition to the decoupling related to bonus depreciation and Section 179 expensing, North Carolina also decoupled from several other TCJA provisions for tax year 2018 and forward. Among these are the Opportunity Zone Fund adjustments and provisions related to foreign-sourced income of multinational corporations.

Provisions related to recent federal legislation. North Carolina does not require an addback of income for expenses that were related to the forgiveness of a loan related to the Paycheck Protection Program and other pandemic-related assistance.³ North Carolina decoupled from the provision to increase the limit on deductions for business interest income from 30% to 50% of a taxpayer's adjusted taxable income for tax years 2019 and 2020.⁴

Critical infrastructure disaster relief exception. For disaster declarations made on or after August 1, 2019, certain non-resident businesses that derived income in North Carolina solely from performing disaster-related work during a disaster response period at the request of a critical infrastructure company are exempt from franchise tax. However, a corporation subject to North Carolina income tax must include in its State taxable income payments to affiliates or subsidiaries that are exempt under the disaster relief provision.

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

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

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

Effective for tax years beginning in 2017 and after, there is a deduction from federal taxable income for amounts paid from the State Emergency Response and Disaster Relief Reserve Fund for hurricane relief or assistance to the extent included in federal taxable income.

Effective for tax years beginning on or after Jan. 1, 2019, a taxpayer may deduct amounts received as an economic incentive under the Job Maintenance and Capital Development Fund, the Jobs Development Investment Grant Program, or the One North Carolina Fund.

Apportionment of multi-state business income. The portion of adjusted income that is subject to apportionment, less contributions to donees in other States, is apportioned to North Carolina based upon North Carolina's share of the corporation's sales.⁵ For taxable years beginning on or after Jan. 1, 2020, sales in the state are derived using **market-based sourcing**. Special rules apply to wholesale content distributors and banks. Alternative apportionment formulas apply to interstate carriers, railroads, air and water transportation companies, pipeline companies and electric power companies.

The Secretary of Revenue has the authority to approve an alternative method of apportionment if the taxpayer can establish evidence that the statutory formula operates to subject a greater portion of the corporation's income to tax than is attributable to its business in the State. Income not subject to apportionment is allocated to North Carolina if the business activity generating the income is located in North Carolina.

Total income allocated and apportioned to North Carolina may be reduced by the value of a corporation's State net loss, percentage depletion over cost depletion, and qualified contributions to North Carolina donees. The net taxable income is taxed at a rate of 2.5%.⁶

Eligible tax credits. Several business incentive tax credits had been repealed in recent years. Tax credits remaining include a credit for investing in a major recycling facility, a credit for constructing a cogenerating power plant, a credit for constructing a railroad intermodal facility, and historic rehabilitation tax credits. A tax credit for income-producing mill rehabilitation was reenacted under the mill rehabilitation tax credit statute that had previously expired. Additional provisions were created for rehabilitation of certain railroad stations. With the exception of the credit for constructing a cogenerating power plant, these credits are also available to be used against franchise tax liabilities.

Under NC G.S. 105-130.5(a)(10), if a C corporation takes a tax credit against the income tax, it must add this amount to its taxable income.

S corporations must file returns at the corporation level, but the income tax is paid by shareholders through the individual income tax. S corporations do sometimes make payments on behalf of nonresident shareholders, and these payments are treated as corporation income tax⁷. As a result, information concerning the income and tax liabilities of S corporations is included in this report.

⁵ In prior years, the apportionment factor was based on a combination of sales, property and payroll shares. The sales-only apportionment factor was phased in between 2016 and 2018.

⁶ The corporate income tax rate was 2.5% in Tax Year 2019, 3.0% in Tax Years 2017 and 2018, 4.0% in Tax Year 2016, 5.0% in Tax Year 2015, 6.0% in Tax Year 2014, and 6.9% in prior tax years.

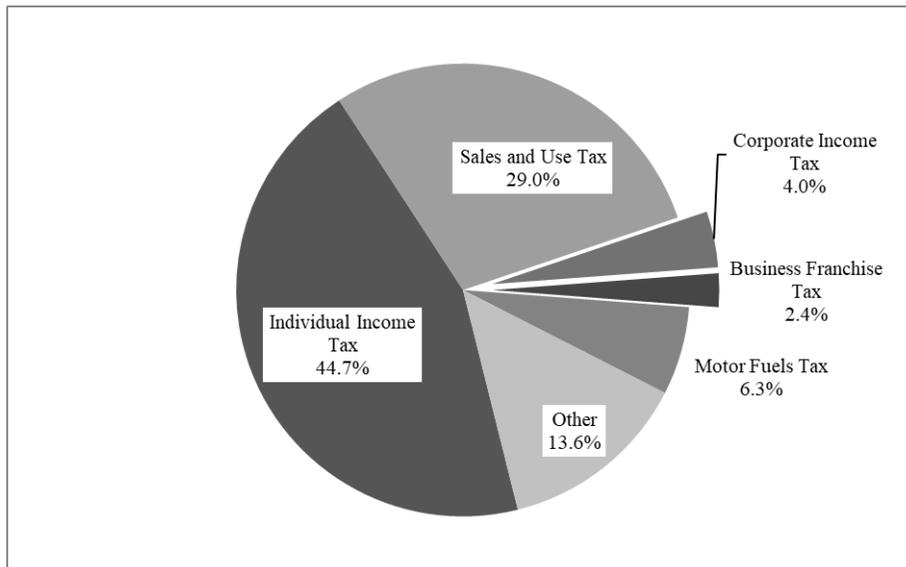
⁷ The tax rate applicable to S corporations is the individual income tax rate (5.25% in 2020), not the corporate income tax rate.

FRANCHISE AND CORPORATE INCOME TAXES AS A SHARE OF TOTAL STATE TAX REVENUES

The following chart illustrates the relative importance of corporation tax revenues to overall State tax collections. Adjusted State tax revenues in Fiscal Year 2020-21 were \$33.6 billion. (Licenses and fees are included in this amount, but unemployment insurance contributions are not.)⁸ Net collections for the corporation income tax and the business franchise tax accounted for \$2.16 billion (6.4%) of the total.

The combined corporation taxes included in this report comprise the fourth largest category of revenues for the State government, surpassing highway use taxes, motor vehicle licenses, the insurance gross premium tax, 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, Fiscal Year 2020-2021



Note: The “other” category includes the highway use tax (3.2% of total), motor vehicle licenses (3.0%), insurance premiums tax (2.2%), alcoholic beverage tax (1.6%), and tobacco products tax (0.9%), among others. Unemployment insurance contributions are not included in this graph.

⁸ Source: U.S. Census Bureau, Annual Survey of State Government Tax Collections. Individual Income Tax, Corporate Income Tax and Franchise Tax amounts were adjusted from the Census amounts to remove certain collections in July 2020 that were estimated to be paid as a result of the delay in the required payment and filing deadlines from April 15 through June 30, 2020, as relief related to the pandemic.

C CORPORATIONS

Overall, the net franchise tax liability for the C corporation returns in this report totaled \$755.6 million. (Net tax liability is the amount of tax liability after deducting tax credits.) After excluding filers that were not liable for franchise tax (12,969 returns), the average amount due from the remaining 72,415 returns was \$10,435. Fifty-nine percent of these taxpayers owed \$200 or less; and 99% of taxpayers owed \$172,055 or less.

In order to provide a distributional analysis for the franchise tax, returns have been broken out into 8 brackets based on their franchise taxable amount. The first two brackets (\$0 to \$23,667; \$34,668 to \$133,667) represent those taxpayers that would have the minimum \$200 amount of tax due before credits or were exempt from the franchise tax. The highest bracket (\$100,000,001+) includes taxpayers whose tax liability before credits would be at least \$150,000.

Table 1.1 shows the distribution of returns based on which tax base was used to calculate the taxable amount. The net worth base was used on 47.5% of the 2020 tax year returns, followed by investment in tangible property base (9.4%), and appraised values in property base (3.5%). Approximately forty percent of the returns listed no assets because: 1) the taxpayer was exempt from franchise tax (mainly non-profit entities); 2) the tax return was a final return; or 3) the taxpayer had no assets.⁹

**Table 1.1
C Corporation Returns by Tax Base Utilized
Tax Year 2020**

Franchise Taxable Amount	Number of C Corporation Returns				Total
	No Assets Listed	Net Worth	Investment in Tangible Property in N.C.	Appraised Value of Property in N.C.	
\$0-\$23,667	33,854	7,708	1,319	704	43,585
\$23,668-\$133,667	-	9,024	1,730	781	11,535
\$133,668-\$1,000,000	-	11,695	2,174	931	14,800
\$1,000,001-\$5,000,000	-	6,368	1,187	336	7,891
\$5,000,001-\$20,000,000	-	3,325	808	118	4,251
\$20,000,001-\$40,000,000	-	956	316	42	1,314
\$40,000,001-\$100,000,000	-	781	262	32	1,075
\$100,000,001+	-	682	221	30	933
Total	33,854	40,539	8,017	2,974	85,384

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

⁹ There were 10,149 returns reporting that they were tax-exempt; of these, 8,949 reported no assets. There were 2,932 returns with a final return indicator, of which 2,757 reported no assets. (102 returns had both indicators.)

**SECTION I
FRANCHISE TAX**

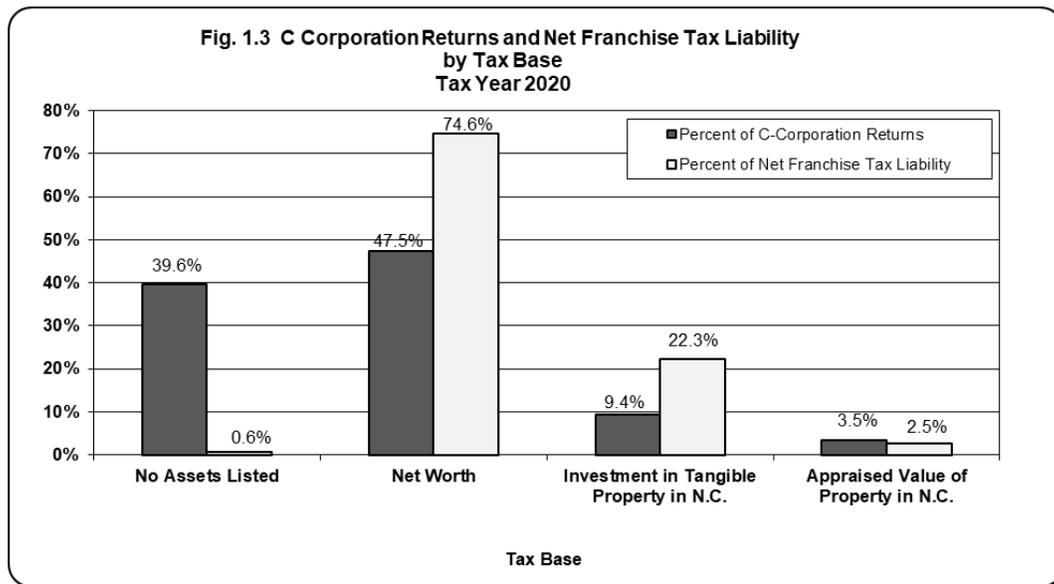
Table 1.2 compares the net franchise tax liability by tax base utilized. The greatest share of tax paid (74.6%) was under the net worth base. Taxpayers using the investment in tangible property base paid 22.3% of the franchise tax, while the appraised value in property base represented only 2.5% of the net tax liability.

**Table 1.2
C Corporation Net Franchise Tax Liability by Tax Base Utilized
Tax Year 2020**

Franchise Taxable Amount	Net Tax Liability (\$)				Total
	No Assets Listed	Net Worth	Investment in Tangible Property in N.C.	Appraised Value of Property in N.C.	
\$0-\$23,667	4,411,655	1,456,116	248,574	137,398	6,253,743
\$23,668-\$133,667	-	1,698,817	332,614	153,919	2,185,350
\$133,668-\$1,000,000	-	7,096,698	1,295,055	548,982	8,940,735
\$1,000,001-\$5,000,000	-	21,909,282	4,164,172	1,069,934	27,143,388
\$5,000,001-\$20,000,000	-	50,077,199	12,432,634	1,769,473	64,279,306
\$20,000,001-\$40,000,000	-	39,934,625	13,116,963	1,722,268	54,773,856
\$40,000,001-\$100,000,000	-	71,866,533	23,948,576	2,862,502	98,677,611
\$100,000,001+	-	369,665,802	112,894,528	10,829,135	493,389,465
Total	4,411,655	563,705,072	168,433,116	19,093,611	755,643,454

Note: Figures are based partially on unaudited returns.

Figure 1.3 illustrates graphically the summary data in Tables 1.1 and 1.2 as a percentage of total tax liability.



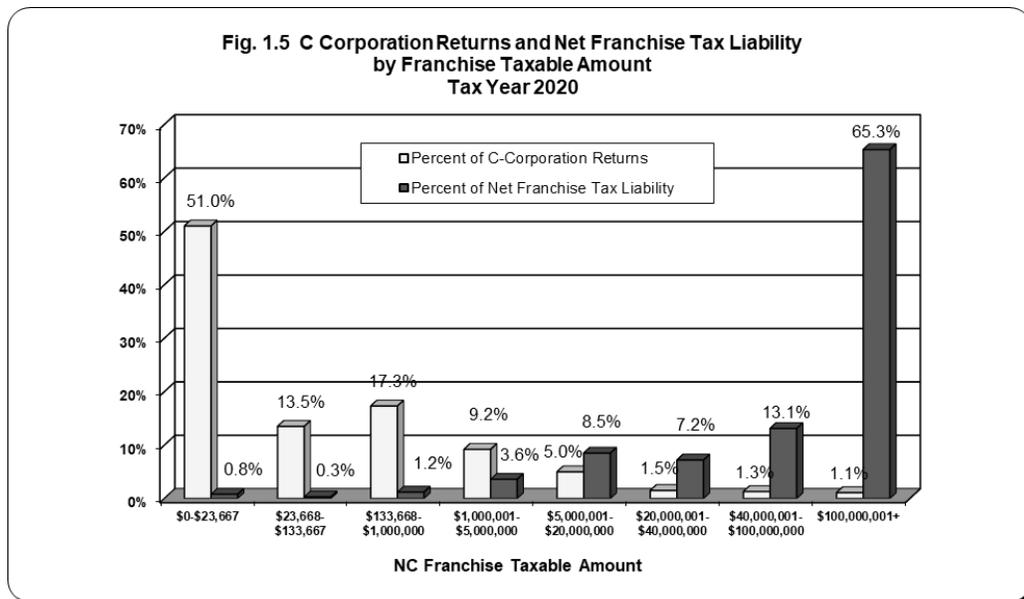
**SECTION I
FRANCHISE TAX**

Table 1.4 and Figure 1.5 provide the distribution of C corporation returns and net franchise tax liability by taxable amount. Taxpayers with franchise taxable amount of at least \$40 million made up only 2.4% 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 2020**

Franchise Taxable Amount	Number of Returns		Net Franchise Tax Liability (\$)	
	Number of Returns	Percent	Liability (\$)	Percent
\$0-\$23,667	43,585	51.0%	6,253,743	0.8%
\$23,668-\$133,667	11,535	13.5%	2,185,350	0.3%
\$133,668-\$1,000,000	14,800	17.3%	8,940,735	1.2%
\$1,000,001-\$5,000,000	7,891	9.2%	27,143,388	3.6%
\$5,000,001-\$20,000,000	4,251	5.0%	64,279,306	8.5%
\$20,000,001-\$40,000,000	1,314	1.5%	54,773,856	7.2%
\$40,000,001-\$100,000,000	1,075	1.3%	98,677,611	13.1%
\$100,000,001+	933	1.1%	493,389,465	65.3%
Total	85,384	100.0%	755,643,454	100.0%

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



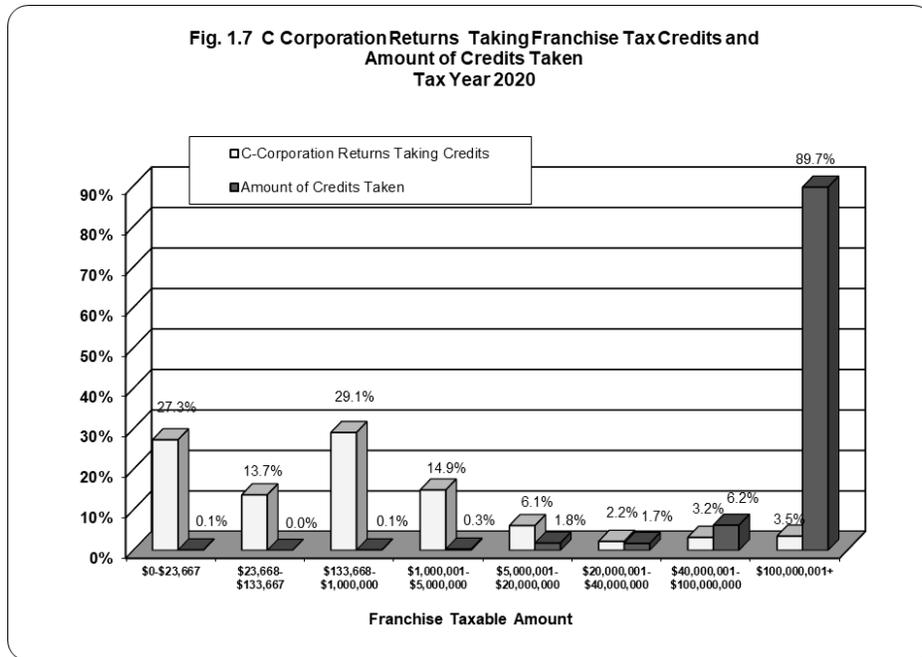
**SECTION I
FRANCHISE TAX**

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 2,376 (3.3%) of the taxable returns took credits.¹⁰ Returns with franchise taxable amount greater than \$100 million comprised only 3.5% of the returns taking credits, but these taxpayers had 89.7% of the credit amount taken.

**Table 1.6
C Corporation Returns Taking Franchise Tax Credits and Amount of Credits Taken
Tax Year 2020**

Franchise Taxable Amount	Number of Returns Taking Credits		Amount of Credits Taken (\$)	
	Count	Percent	Amount	Percent
\$0-\$23,667	666	27.3%	53,257	0.1%
\$23,668-\$133,667	335	13.7%	17,851	0.0%
\$133,668-\$1,000,000	711	29.1%	36,418	0.1%
\$1,000,001-\$5,000,000	364	14.9%	166,789	0.3%
\$5,000,001-\$20,000,000	150	6.1%	928,741	1.8%
\$20,000,001-\$40,000,000	53	2.2%	839,904	1.7%
\$40,000,001-\$100,000,000	77	3.2%	3,158,750	6.2%
\$100,000,001+	86	3.5%	45,369,377	89.7%
Total	2,442	100.0%	50,571,087	100.0%

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



¹⁰ There were 66 returns with no tax liability but were claiming \$2,002 in refundable short-period credits. These taxpayers are included in Table 1.6

**SECTION I
FRANCHISE TAX**

Table 1.8 shows the amount of franchise tax credits by credit type and franchise taxable amount. On average, credits offset 6.6% of tax liability for taxpayers whose taxable amount was above \$5 million and 0.6% for those with lower taxable amounts.

**Table 1.8
C Corporation Franchise Tax Credits Taken by Credit Type and Franchise Taxable Amount
Tax Year 2020**

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	1,863	4,460,307	1,690	166,436	173	4,293,871
+ Miscellaneous Credits Taken*	358	1,285,046	334	58,041	24	1,227,005
+ Credits Subject to 50% Limit Taken	240	44,825,734	67	49,838	173	44,775,896
= Credits Taken	2,442	50,571,087	2,076	274,315	366	50,296,772

* Misc. credits include Renovating an Historic Mill Facility, Rehabilitating an Historic Property, Recycling Facilities, and Additional Annual Report Fee Paid.

All available credits may not have been taken if non-refundable credits exceeded tax liability for a given taxpayer.

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

**SECTION I
FRANCHISE TAX**

S CORPORATIONS

Table 1.9 shows the distribution of S corporation returns by franchise tax base. The net worth base was used on 52.0% of 2020 tax year returns, followed by investment in tangible property base (14.9%), and appraised values in property (8.4%). Nearly twenty-five percent of the returns listed no assets because: 1) the taxpayer was exempt from franchise tax; 2) the tax return was a final return; or 3) the taxpayer had no assets. There were 172,991 S corporations with tax liability before tax credits were applied.¹¹

**Table 1.9
S Corporation Returns by Tax Base Utilized
Tax Year 2020**

Franchise Taxable Amount	Number of S Corporation Returns				Total
	No Assets Listed	Net Worth	Investment in Tangible Property in N.C.	Appraised value of Property in N.C.	
\$0-\$23,667	44,211	32,121	6,702	4,748	87,782
\$23,668-\$133,667	-	30,990	9,139	5,111	45,240
\$133,668-\$1,000,000	-	23,869	8,320	4,017	36,206
\$1,000,001-\$5,000,000	-	5,182	1,947	1,022	8,151
\$5,000,001-\$20,000,000	-	934	483	176	1,593
\$20,000,001-\$40,000,000	-	113	72	17	202
\$40,000,001+	-	58	46	13	117
Total	44,211	93,267	26,709	15,104	179,291

Note: Figures are based partially on unaudited returns. In cases where the bases were equal, the base listed earlier in the table (and on the return) was assigned. The amounts in the table include tax returns that had no tax liability before tax credits were applied.

Table 1.10 and Figure 1.11 provide net franchise tax liability by tax base utilized. The greatest share of tax paid (56.3%) was under the net worth base.

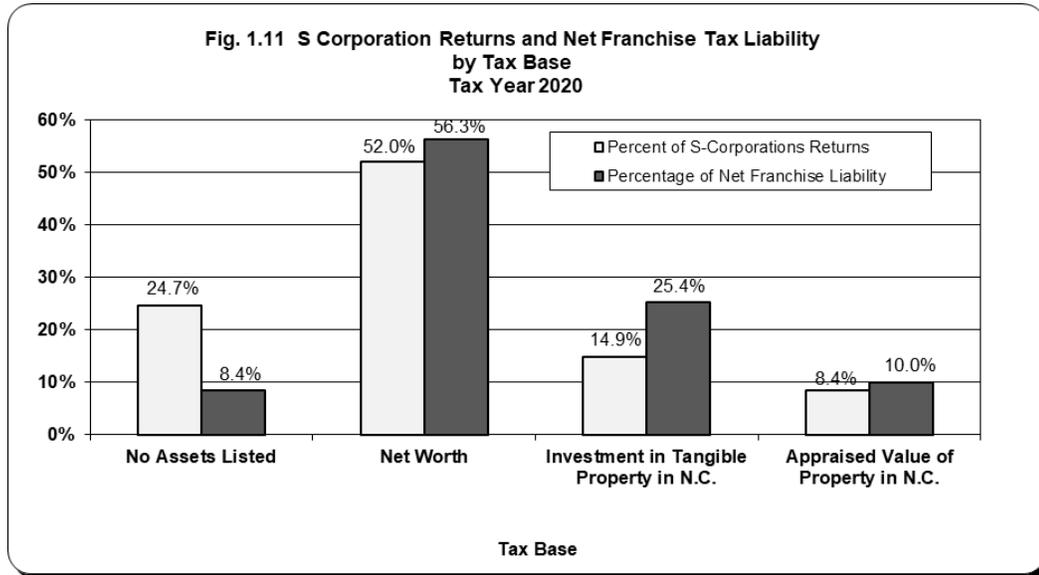
**Table 1.10
S Corporation Net Franchise Tax Liability by Tax Base Utilized
Tax Year 2020**

Franchise Taxable Amount	Net Tax Liability (\$)				Total
	No Assets Listed	Net Worth	Investment in Tangible Property in N.C.	Appraised Value of Property in N.C.	
\$0-\$23,667	7,324,029	5,877,380	1,230,322	850,773	15,282,504
\$23,668-\$133,667	-	5,693,383	1,667,103	926,898	8,287,384
\$133,668-\$1,000,000	-	4,451,474	1,520,471	744,363	6,716,308
\$1,000,001-\$5,000,000	-	9,224,209	3,652,747	1,762,571	14,639,527
\$5,000,001-\$20,000,000	-	11,470,392	6,010,853	1,993,692	19,474,937
\$20,000,001-\$40,000,000	-	4,450,182	2,845,034	659,454	7,954,670
\$40,000,001+	-	7,889,814	5,201,611	1,762,690	14,854,115
Total	7,324,029	49,056,834	22,128,141	8,700,441	87,209,445

**Not shown to maintain taxpayer confidentiality. These amounts are included in the totals.

Note: Figures are based partially on unaudited returns.

¹¹ In addition, 37 nontaxable returns claimed \$2,207 in refundable short-period tax credits. Taxpayers with no tax liability are those submitting a final return, for which no tax would be due.



Note: The sum of the percentages of net franchise liability add to more than 100% due to rounding.

Table 1.12 and Figure 1.13 compare the distribution of S corporation returns and net franchise tax liability. The average tax was \$504 for taxable returns, although 93.5% of taxable returns had a tax liability of \$200 or less. Forty-seven 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 2020**

Franchise Taxable Amount	Number of Returns		Net Franchise Tax Liability (\$)	
	Number	Percent	Amount	Percent
\$0-\$23,667	87,782	49.0%	15,282,504	17.5%
\$23,668-\$133,667	45,240	25.2%	8,287,384	9.5%
\$133,668-\$1,000,000	36,206	20.2%	6,716,308	7.7%
\$1,000,001-\$5,000,000	8,151	4.5%	14,639,527	16.8%
\$5,000,001-\$20,000,000	1,593	0.9%	19,474,937	22.3%
\$20,000,001-\$40,000,000	202	0.1%	7,954,670	9.1%
\$40,000,001+	117	0.1%	14,854,115	17.0%
Total	179,291	100.0%	87,209,445	100.0%

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

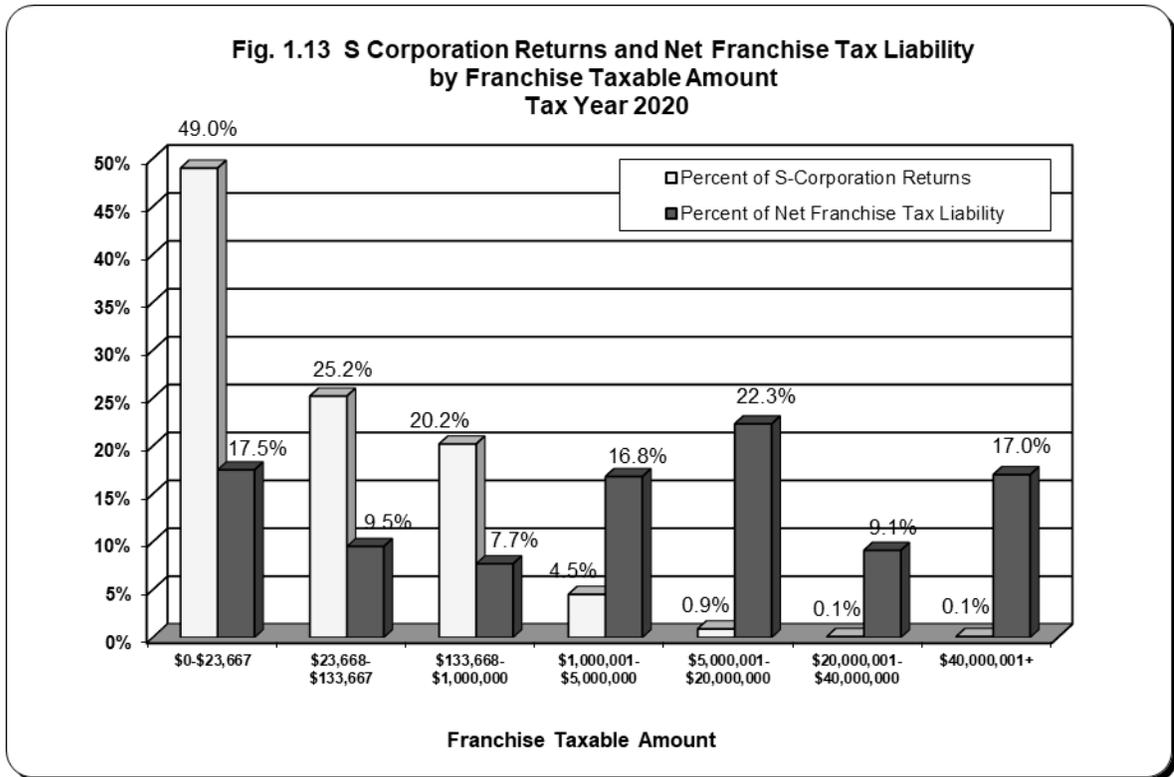


Table 1.14 and Figure 1.15 show the number of returns taking franchise tax credits and amount of credits taken. Returns with a franchise taxable amount greater than \$20 million comprised 0.1% of the returns taking credits and 25.5% of the credits taken.

**Table 1.14
S Corporation Returns Taking Franchise Tax Credits and Amount of Credits Taken
Tax Year 2020**

Franchise Taxable Amount	Number of Returns Taking Credits		Amount of Credits Taken (\$)	
	Number	Percent	Amount	Percent
\$0-\$23,667	6,062	44.0%	1,061,096	32.3%
\$23,668-\$133,667	4,157	30.2%	726,016	22.1%
\$133,668-\$1,000,000	2,970	21.5%	513,692	15.6%
\$1,000,001-\$5,000,000	522	3.8%	101,707	3.1%
\$5,000,001-\$20,000,000	59	0.4%	49,572	1.5%
\$20,000,001+	16	0.1%	837,196	25.5%
Total	13,786	100.0%	3,289,279	100.0%

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

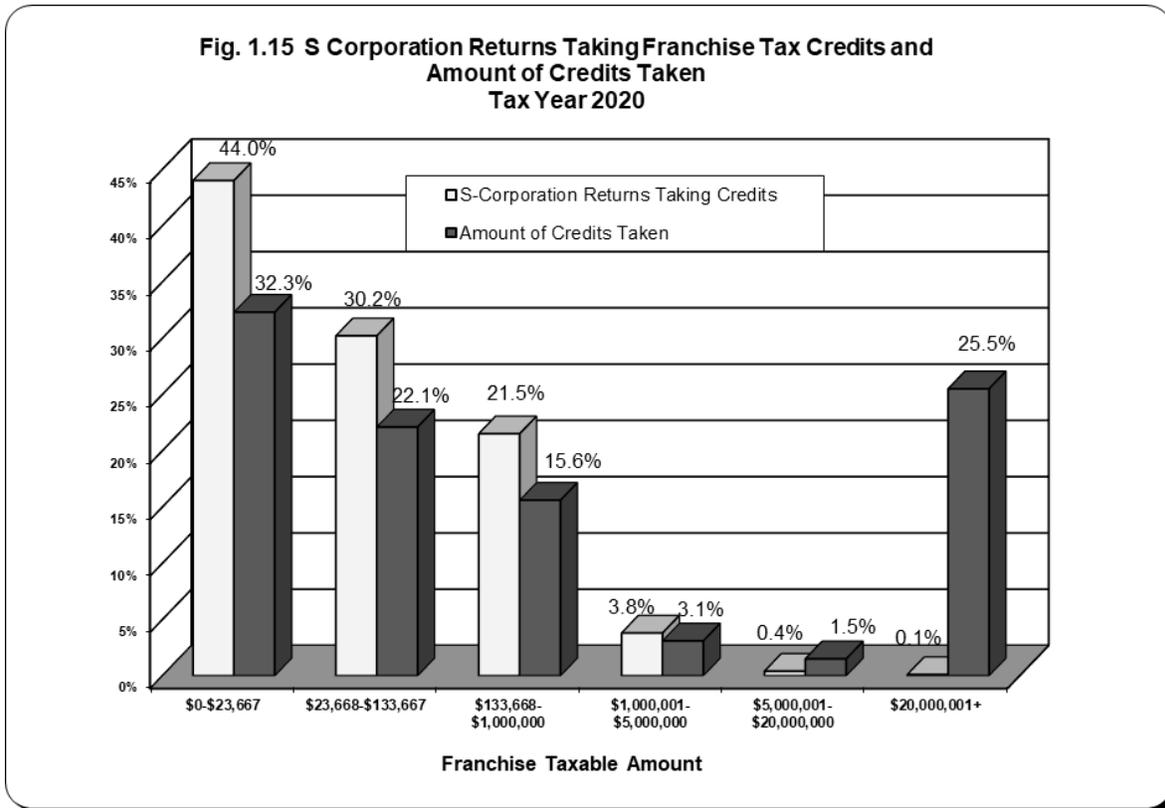


Table 1.16 shows the amount of franchise tax credits by credit type and franchise taxable amount.

**Table 1.16
S Corporation Franchise Tax Credits Taken by Credit Type and Franchise Taxable Amount
Tax Year 2020**

Income Tax Credits	All Returns		≤\$1,000,000		\$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	352	65,130	293	23,305	59	41,825
+ Miscellaneous Credits Claimed*	13,502	2,696,247	12,979	2,293,001	523	403,246
- Misc. Credits Not Taken**	--	(252,718)	--	(16,677)	--	(236,041)
+ Credits Subject to 50% Limit Taken	26	780,620	10	1,175	16	779,445
= Credits Taken	13,786	3,289,279	13,189	2,300,804	597	988,475

* This category includes LLC Additional Annual Report Fee and Historic Rehabilitation Credits

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

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

C & S CORPORATIONS COMBINED

Figure 1.17 compares the number of returns and net franchise tax liability for all C and S corporations combined by tax base used. Approximately 29.5% of the returns listed no assets because: 1) the taxpayer was exempt from franchise tax; 2) the tax return was a final return; 3) or the taxpayer had no assets. The net worth base was used by the largest number of corporations that reported assets.

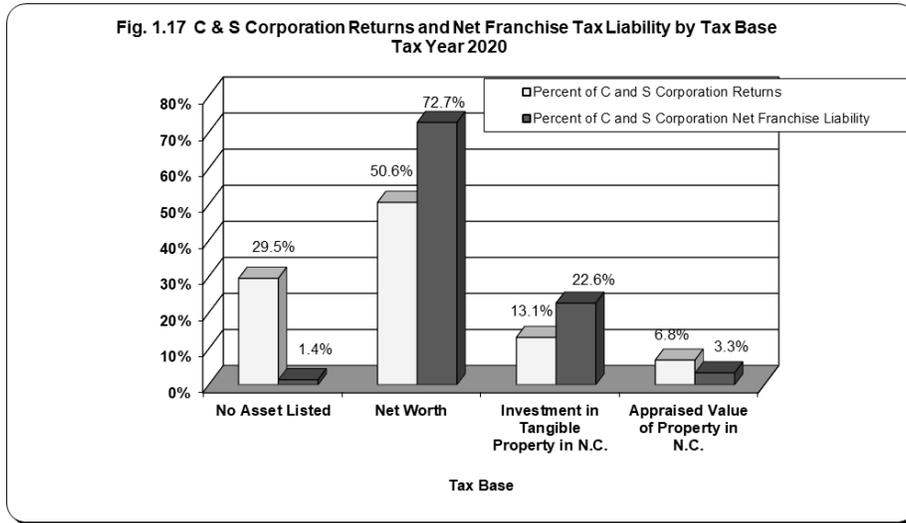
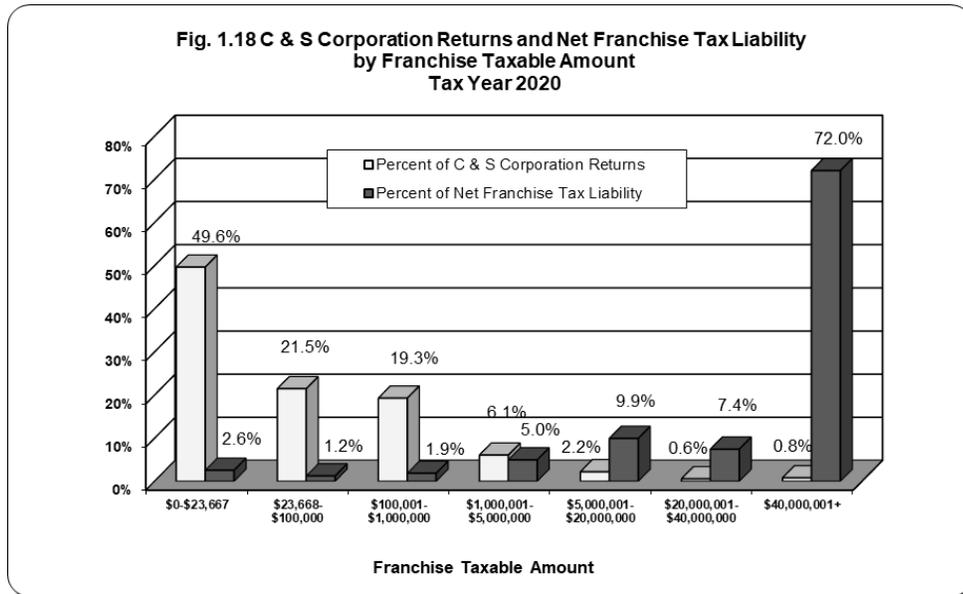
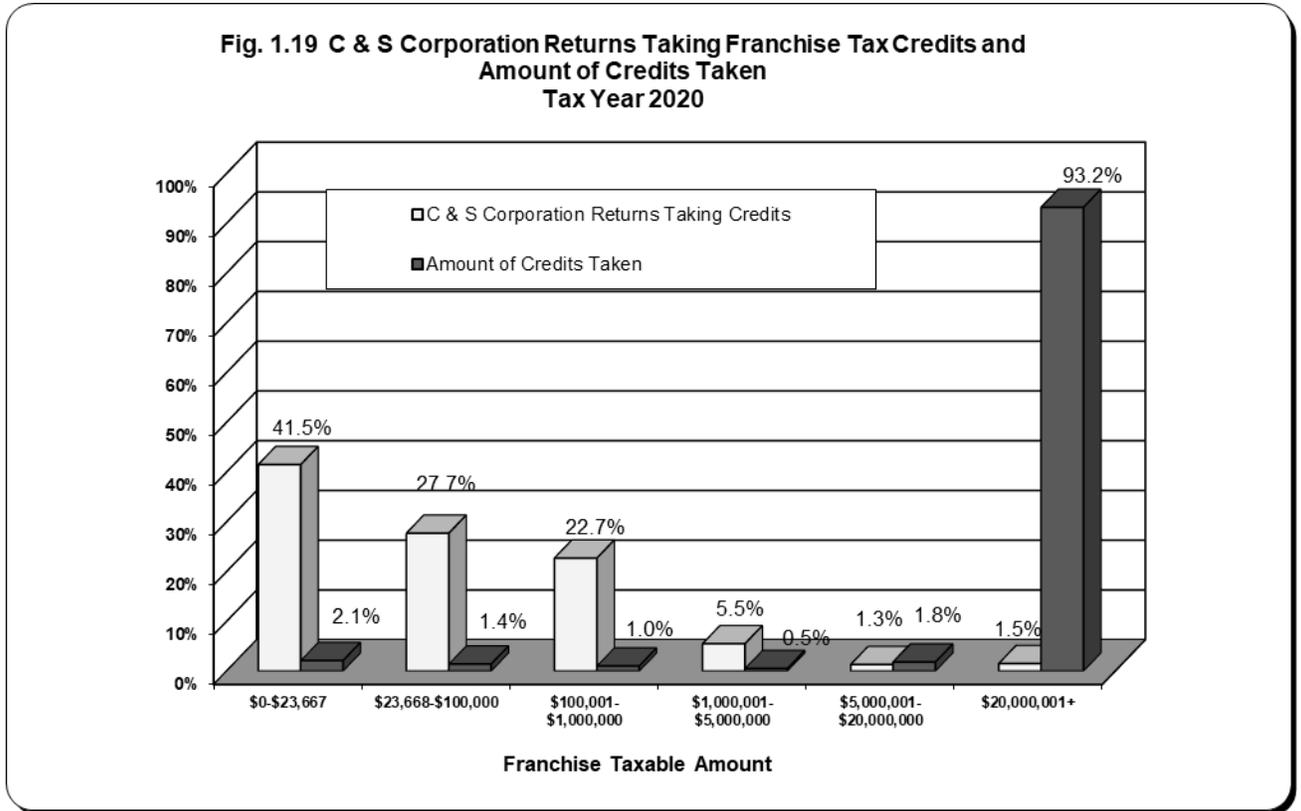


Figure 1.18 shows the number of C and S corporation returns and net franchise tax liability. Taxpayers with franchise taxable amount over \$20 million made up 1.4% of the returns, but incurred 79.4% of net franchise tax liability.



**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 16,125 of the 245,406 taxable corporations took credits in tax year 2020.¹² Corporations with over \$20 million as their franchise tax base took over 93% of all credits.



¹² The 245,406 taxable corporations include 26 C corporations and 1,239 S corporations that had zero net franchise tax because their tax credits exactly offset their tax liability. In addition, there were 103 nontaxable returns claiming the short-period tax credit.

C CORPORATIONS

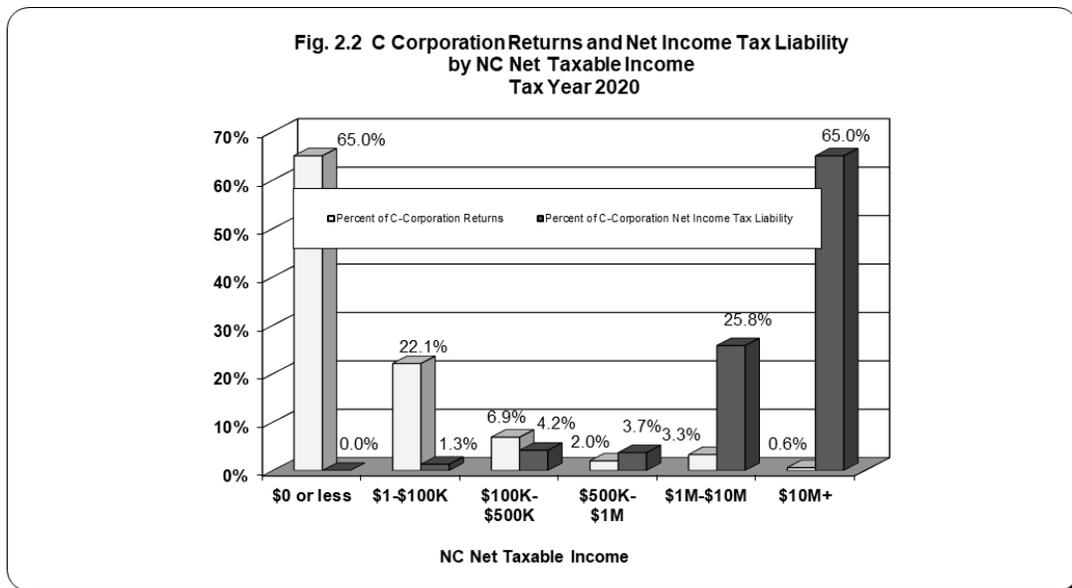
Of the 85,384 tax returns that were filed for tax year 2020, only 29,901 (35.0%) had positive NC taxable income and 29,575 (34.6%) of them had a net tax liability (i.e., a positive tax liability after credits were applied).

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 2020**

NC Net Taxable Income	Number of Returns	Percent	Cumulative Percent	Net Income Tax Liability [\$]	Percent	Cumulative Percent
\$0 or less	55,483	65.0%	65.0%	0	--	--
\$1-\$15,000	10,419	12.2%	77.2%	1,208,960	0.1%	0.1%
\$15,001-\$30,000	3,094	3.6%	80.8%	1,676,507	0.2%	0.4%
\$30,001-\$50,000	2,319	2.7%	83.5%	2,274,883	0.3%	0.6%
\$50,001-\$100,000	3,086	3.6%	87.1%	5,525,788	0.7%	1.3%
\$100,001-\$500,000	5,932	6.9%	94.1%	34,854,495	4.2%	5.5%
\$500,001-\$1,000,000	1,682	2.0%	96.1%	30,009,675	3.7%	9.2%
\$1,000,001-\$10,000,000	2,847	3.3%	99.4%	212,276,468	25.8%	35.0%
\$10,000,001+	522	0.6%	100.0%	533,628,694	65.0%	100.0%
Total	85,384	100.0%	--	821,455,470	100.0%	--

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

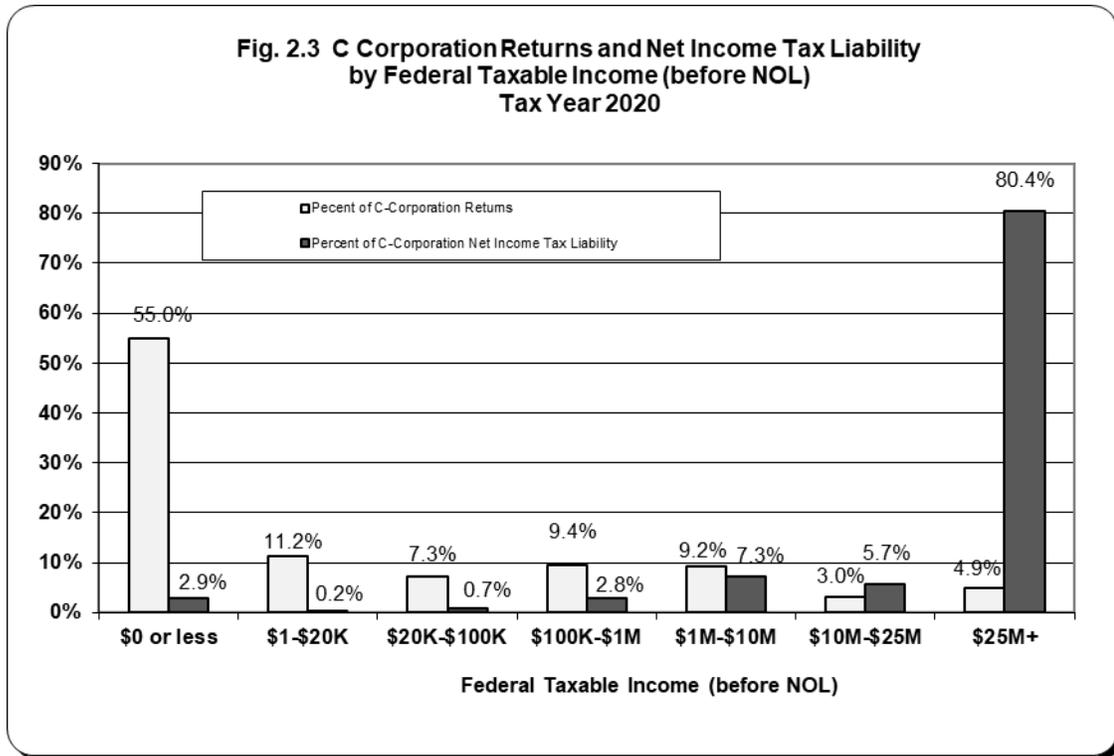


SECTION II INCOME TAX

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 90.8% of the C corporation income tax liability, but made up 3.9% of the corporations filing returns. Approximately 65% of the total C corporation net income tax liability was attributable to the 522 corporations with North Carolina Taxable Income of over \$10 million.

Figure 2.3 provides the distribution of returns and tax liability by federal taxable income *before Net Operating Loss (NOL) carryforwards* and also before subtracting income apportionable or allocable to other states. Therefore, this distribution gives a break-down of income based on a company's current-year national taxable income.

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



**SECTION II
INCOME TAX**

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

**Table 2.4
C Corporation Returns by Federal Taxable Income (Before NOL) and
Apportionment Percentage
Tax Year 2020**

Federal Taxable Income (before NOL)	NC Apportionment Percentage					Total
	<5%	5% - 24%	25% - 49%	50% - 99%	100%	
\$0 or less	16,517	2,586	498	664	26,684	46,949
\$1 - \$20,000	747	137	61	126	8,514	9,585
\$20,001- \$100,000	1,209	293	102	197	4,402	6,203
\$100,001 - \$ 1,000,000	3,925	899	218	426	2,581	8,049
\$1,000,001 - \$10,000,000	5,852	1,210	168	212	418	7,860
\$10,000,001-\$25,000,000	2,094	337	37	25	30	2,523
\$25,000,001+	3,677	465	24	33	16	4,215
Total	34,021	5,927	1,108	1,683	42,645	85,384

Note: Figures are based partially on unaudited returns.

Table 2.5 and Figure 2.6 show the net income tax liability by apportionment percentage and federal taxable income.

**Table 2.5
C Corporation Net Income Tax Liability by Federal Taxable Income (Before NOL) and
Apportionment Percentage
Tax Year 2020**

Federal Taxable Income (before NOL)	NC Apportionment Percentage					Total
	<5% [\$]	5% - 24% [\$]	25% - 49% [\$]	50% - 99% [\$]	100% [\$]	
\$0 or less	13,526,374	4,763,778	582,788	1,999,301	2,668,021	23,540,262
\$1 - \$20,000	18,379	36,779	6,189	50,875	1,612,520	1,724,742
\$20,001- \$100,000	59,574	65,390	50,590	447,288	5,041,817	5,664,659
\$100,001 - \$ 1,000,000	981,535	1,399,077	794,252	3,410,915	16,570,327	23,156,106
\$1,000,001 - \$10,000,000	9,615,259	11,559,288	4,557,655	12,015,401	22,177,078	59,924,681
\$10,000,001-\$25,000,000	14,033,132	11,886,974	4,676,232	5,397,650	10,731,174	46,725,162
\$25,000,001+	416,731,962	181,370,990	21,863,112	33,658,186	7,095,608	660,719,858
Total	454,966,215	211,082,276	32,530,818	56,979,616	65,896,545	821,455,470

Note: Figures are based partially on unaudited returns.

C corporations that operated exclusively within North Carolina, and so apportion all of their income to the state, made up 49.9% of the returns filed for tax year 2020. However, these corporations accounted for only 8.0% of the corporation income tax liability.

The State receives a significant portion of its corporation income taxes from a small number of large multi-state firms. Over 72 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.

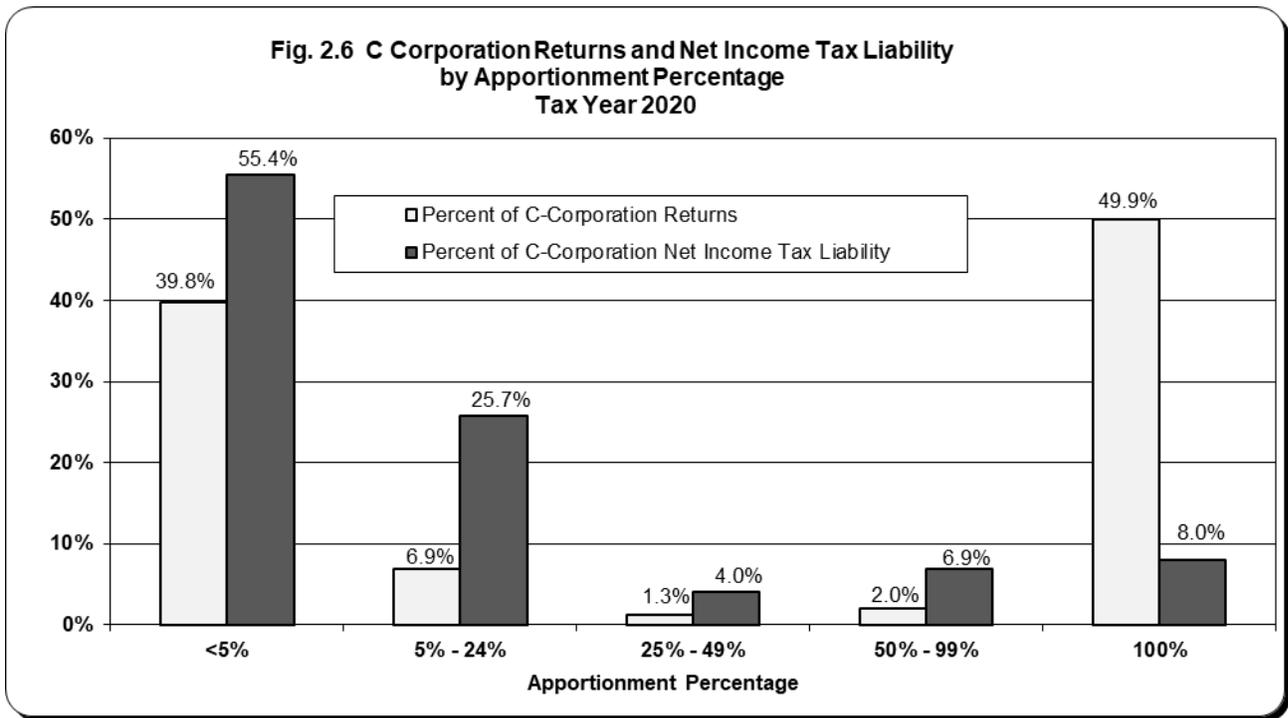


Table 2.7 on the next page shows statistics on the calculation of net tax liability at various steps, starting with federal taxable income. Returns are divided into taxable and nontaxable returns, where taxable returns are defined as those with a positive tax liability before credits are applied. The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

Out of 85,384 returns, 34.6% were taxable returns and 65.4% were nontaxable returns. Taxable returns with a federal taxable income over \$25 million made up 3.9% of the returns but accounted for 80.4% of the tax liability.

Of the 46,949 returns with federal taxable income of zero or less, 2,572 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 38,435 returns that did show a positive federal taxable income, 11,431 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 \$239.0 billion, there was a reduction of \$42.6 billion due to NC adjustments, a decrease of \$3.4 billion due to nonapportionable income, a reduction of \$222.8 billion due to apportioning income to North Carolina, and a reduction of \$4.95 billion due to State Net Loss carryforwards.¹³

Some corporations have negative federal taxable income but pay North Carolina taxes because provisions of the State tax code require that they add back certain amounts. One of those addbacks in 2000 was for the bonus depreciation allowances at the federal level. The Tax Cuts and Jobs Act (TCJA) of 2017 increased bonus depreciation to 100% for property acquired and placed in service after September 27, 2017. As such, these addbacks are only a temporary addition to tax, as they will be offset by future deductions.¹⁴

Finally, North Carolina tax credits for businesses reduced overall C corporation tax liabilities by \$19.1 million.

¹³ Eligible contributions have been deducted by taxpayers in determining their federal taxable income. For the calculation of NC taxable income on Form CD-405, these contributions are added back under adjustments to federal income. Then, contributions are deducted on separate lines of the return using the State's rules. A similar procedure is used for depletion adjustments.

¹⁴ Under the provisions of NCGS § 105-130.5B, taxpayers taking a special accelerated depreciation deduction under section 168(k) or 168(n) of the IRS Code must add back 85% of the amount to their NC taxable income. In each of the succeeding 5 taxable years, the taxpayer may deduct 20% of the add-back amount.

**SECTION II
INCOME TAX**

**Table 2.7
C Corporation Income Tax Calculation Detail by Federal Taxable Income (Before NOL)
Tax Year 2020**

			(+)	(-)	(-)	(-)	(=)
FIT 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	2,572	(25,698,171,077)	71,074,362,121	172,446,035	(106,111,999)	44,332,921,152	976,935,856
\$1-\$20,000	6,493	42,469,520	85,880,416	244,517	(1,212,013)	56,376,144	72,941,288
\$20,001-\$100,000	4,407	217,701,524	138,627,557	714,850	4,883,218	106,718,002	244,013,011
\$100,001-\$1,000,000	5,416	2,076,279,231	1,104,377,414	9,021,551	93,562,108	2,095,028,364	983,044,622
\$1,000,001-\$10,000,000	5,472	21,185,607,187	4,768,810,569	77,644,035	721,688,499	22,709,832,202	2,445,253,020
\$10,000,001-\$25,000,000	1,897	30,562,096,834	5,453,173,639	98,005,992	704,827,816	33,222,377,136	1,990,059,529
\$25,000,001+	3,319	1,085,325,211,126	47,484,078,759	8,490,555,254	4,476,219,253	1,091,575,284,148	28,267,231,230
Total, Taxable	29,576	1,113,711,194,345	130,109,310,475	8,848,632,234	5,893,856,882	1,194,098,537,148	34,979,478,556
<u>Nontaxable Returns</u>							
\$0 or less	44,377	(516,255,487,028)	89,392,722,351	214,332,317	(236,276,058)	(411,859,389,782)	(14,981,431,154)
More than \$0	11,431	239,001,086,833	(42,639,713,006)	1,125,808,361	3,662,007,702	189,058,437,899	2,515,119,865
Total, Nontaxable	55,808	(277,254,400,195)	46,753,009,345	1,340,140,678	3,425,731,644	(222,800,951,883)	(12,466,311,289)

	(+)	(-)	(-)	(-)	(=)		(-)	(=)
FIT of Corporation	Nonapportionable Income Allocated to NC	Percentage Depletion Over Cost Depletion	State Net Loss	Contributions to NC Donees	Net Taxable Income	Computed Income Tax	Tax Credits	Net Tax Liability
	[\$]	[\$]	[\$]	[\$]	[\$]	[\$]	[\$]	[\$]
<u>Taxable Returns</u>								
\$0 or less	**	**	65,621,981	782,574	969,012,012	**	**	23,540,262
\$1-\$20,000	**	**	4,531,893	258,272	69,101,439	**	**	1,724,742
\$20,001-\$100,000	**	**	18,208,858	946,643	226,680,858	**	**	5,664,659
\$100,001-\$1,000,000	**	**	73,451,346	3,483,652	926,914,007	23,172,902	16,796	23,156,106
\$1,000,001-\$10,000,000	**	**	126,706,805	7,030,928	2,409,289,593	60,232,327	307,646	59,924,681
\$10,000,001-\$25,000,000	**	**	124,279,498	2,848,794	1,892,270,606	47,306,778	581,616	46,725,162
\$25,000,001+	**	**	1,067,921,065	227,809,542	27,128,458,158	678,211,493	17,491,635	660,719,858
Total, Taxable	**	**	1,480,721,446	243,160,405	33,621,726,673	840,543,529	19,088,059	821,455,470
<u>Nontaxable Returns</u>								
\$0 or less	**	**	3,482,754,133	1,755,744	(18,654,496,984)	-	-	-
More than \$0	**	**	4,952,735,910	89,634,279	(2,554,348,290)	-	-	-
Total, Nontaxable	**	**	8,435,490,043	91,390,023	(21,208,845,274)	-	-	-

**Not shown to maintain taxpayer confidentiality due to the low number of taxpayers claiming depletion adjustments and tax credits. Amounts for suppressed tax and credits are included in totals.
Note: Amounts are based on both audited and unaudited returns.

**SECTION II
INCOME TAX**

Income Tax Credits: Table 2.8 shows the number of taxpayers taking income tax credits, broken out by the percentage of income tax offset by the credits. Over 99% of the 29,576 returns with positive tax liability before credits did not take any income tax credits. Over eighty-seven percent of the 122 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 88.5% of the total credits taken.

**Table 2.8
Number of C Corporation Taxable Returns Taking Credits as a Percentage of Tax Liability
Tax Year 2020**

NC Taxable Income	No Tax Credits	Income Tax Credits as a Percentage of Tax				Total w/ credits
		0.1% -9.9%	10% -19.9%	20% -39.9%	40% +	
\$1-\$100,000	18,561	**	0	0	**	32
\$100,001-\$500,000	5,919	0	0	0	**	**
\$500,001-\$1,000,000	1,677	0	0	0	**	**
\$1,000,001-\$10,000,000	2,805	**	**	**	34	42
\$10,000,001+	492	**	**	**	24	30
Total	29,454	**	**	**	107	122

**Not shown to maintain taxpayer confidentiality. Amounts are included in totals.

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

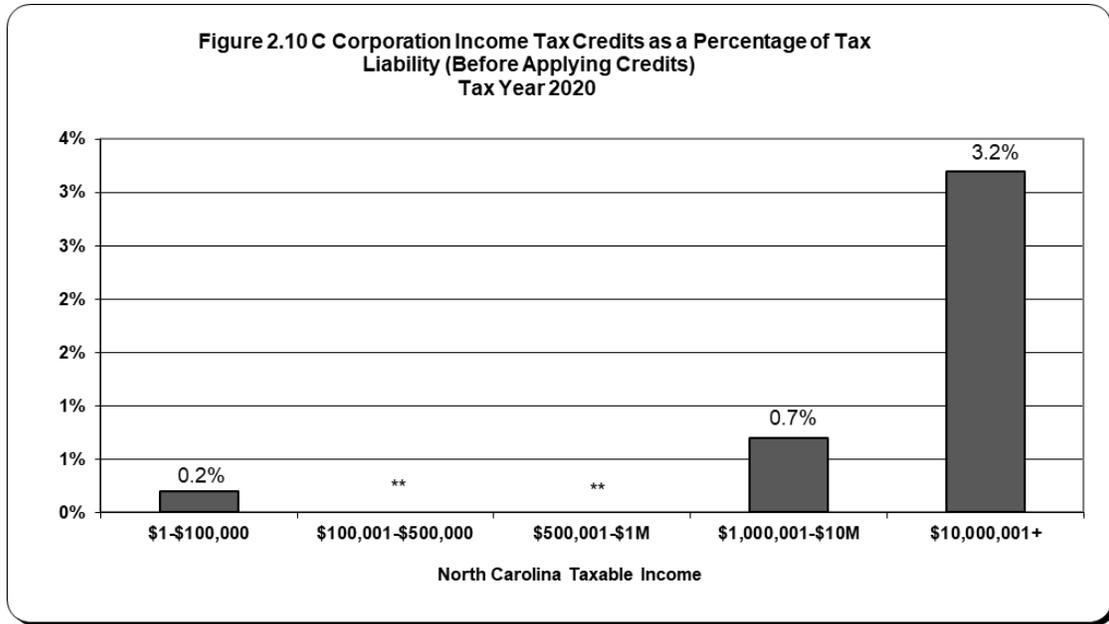
**Table 2.9
Amount of C Corporation Tax Credits Taken as a Percentage of Tax Liability
Tax Year 2020**

NC Taxable Income	Income Tax Credits as a Percentage of Tax				Total
	0.1% -9.9% [\$]	10% -19.9% [\$]	20% -39.9% [\$]	40% + [\$]	
\$1-\$100,000	**	0	0	**	17,104
\$100,001-\$500,000	0	0	0	**	**
\$500,001-\$1,000,000	0	0	0	**	**
\$1,000,001-\$10,000,000	**	**	**	1,491,588	1,565,711
\$10,000,001+	**	**	**	15,289,585	17,415,259
Total	**	**	**	16,888,259	19,088,059

**Not shown to maintain taxpayer confidentiality. Amounts are included in totals.

Note: Figures are based partially on unaudited returns.

Figure 2.10 shows the average amount of tax liability offset by tax credits for the various taxable income groups, for all taxpayers within that group whether they claimed credits or not. The offset was greater for taxpayers with at least \$50 million in federal taxable income.



Note: Amounts for taxable income groups between \$100,001 and \$1 million could not be reported due to confidentiality requirements.

**Table 2.11
C Corporation Income Tax Credits by Credit Type
Tax Year 2020**

Income Tax Credits	All Returns	
	Number of Credits*	Amount (\$)
Non-Limited Credits and Carryforwards	13	1,692,405
Tax Credit Subject to 50% of Tax Limit	115	17,885,092
C-Corporation adjustment**	120	(489,438)
Credits Taken	122	19,088,059

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

** Most C corporation income tax credits are reduced due to NCGS § 105-130.5(a)(10).

Note: Calculations are based partially on unaudited returns.

S CORPORATIONS

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

Table 2.12 and Figure 2.13 show the number of returns and net income tax liability by North Carolina taxable income. Corporations with taxable income of \$1 million or more accounted for 71.1% of the tax liability, but only 2.4% of returns.

The total net tax liability of \$174.9 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 2020**

NC Taxable Income*	Number of Returns	Percent	Number With Tax Due for Nonresidents	Net Tax Liability [\$]	Percent
\$0 or less	60,555	33.8%	0	0	0.0%
\$1-\$15,000	28,738	16.0%	3,921	972,469	0.6%
\$15,001-30,000	16,079	9.0%	1,242	1,359,975	0.8%
\$30,001-\$50,000	14,707	8.2%	904	1,767,412	1.0%
\$50,001-\$100,000	20,747	11.6%	1,317	4,705,961	2.7%
\$100,001-\$500,000	29,190	16.3%	2,182	24,803,001	14.2%
\$500,001-\$1,000,000	4,915	2.7%	501	16,956,440	9.7%
\$1,000,001-\$10,000,000	4,129	2.3%	530	60,538,811	34.6%
\$10,000,001+	231	0.1%	35	63,749,182	36.5%
Total	179,291	100.0%	10,632	174,853,251	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.

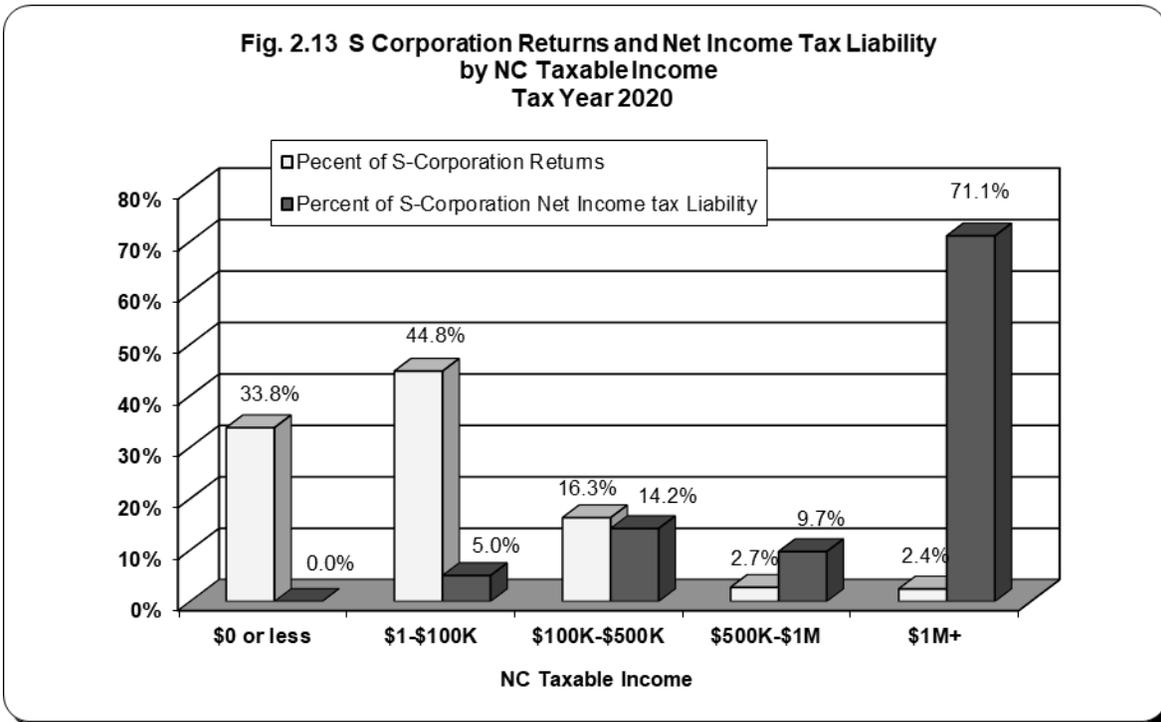
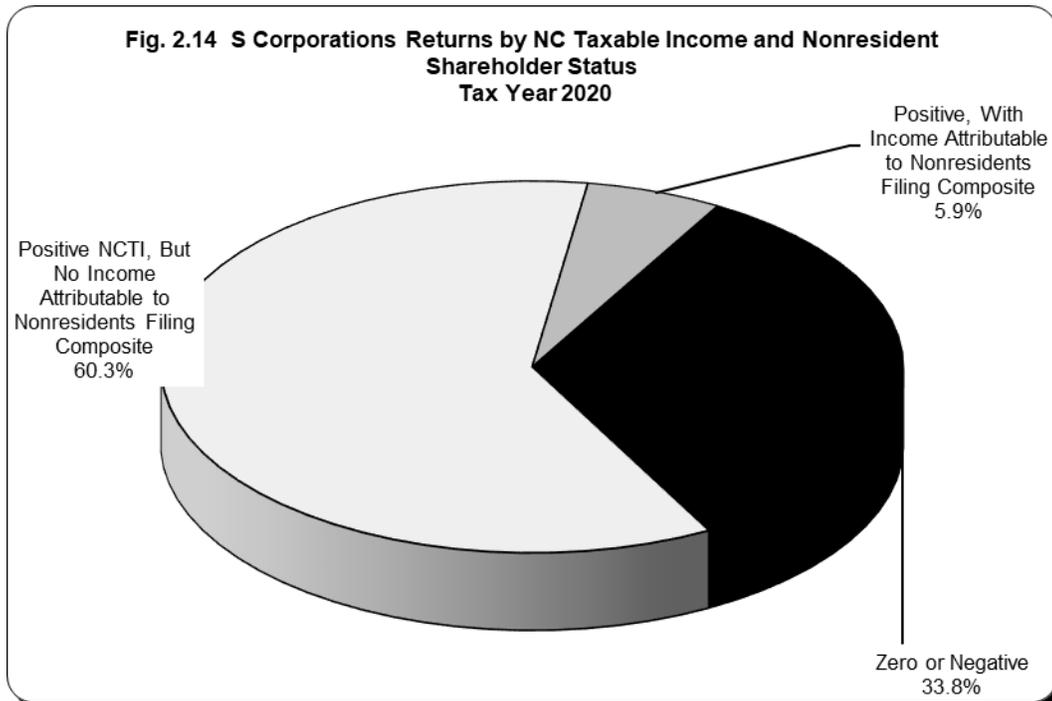


Figure 2.14 illustrates the distribution of returns by North Carolina taxable income and nonresident shareholder filing status. Only 5.9% of S corporation returns had a tax liability attributable to nonresidents who chose to allow the S corporation to file a composite return on their behalf.



**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 2020**

		(+)	(+)	(-)	(-)	(=)	(+)
NC Taxable Income	Number of Returns	Federal Corporation Income [\$]	Adjustments to Federal Income [\$]	Nonapportion- able Income [\$]	Reduction Due To Apportionment [\$]	Income Apportioned to NC [\$]	Nonapportion- able Income Allocated to NC [\$]
Zero or Negative	60,555	12,418,773,832	2,074,816,508	2,653,127,376	14,171,726,328	(2,331,263,364)	(12,775,590)
Positive, But No Income Attributable to Nonresidents Filing Composite	108,102	52,794,177,696	6,706,766,433	1,272,348,549	33,970,288,081	24,258,307,499	280,697,639
Positive, With Income Attributable to Nonresidents Filing Composite	10,634	96,450,932,337	7,484,044,354	2,507,640,586	97,798,407,116	3,628,928,989	63,482,562
Total	179,291	161,663,883,865	16,265,627,295	6,433,116,511	145,940,421,525	25,555,973,124	331,404,611

	(=)	(+)	(=)			(-)	(=)
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	(2,344,038,954)	2,160,672,823	(183,366,131)	**	-	-	-
Positive, But No Income Attributable to Nonresidents Filing Composite	24,539,005,138	(24,539,005,138)	-	2,012,173	105,640	-	105,640
Positive, With Income Attributable to Nonresidents Filing Composite	3,692,411,551	(372,279,638)	3,320,131,913	**	**	**	174,747,611
Total	25,887,377,735	(22,750,611,953)	3,136,765,782	12,096,777	**	**	174,853,251

**Not shown to maintain taxpayer confidentiality. Amounts are included in totals.

Note: Figures are based partially on unaudited returns.

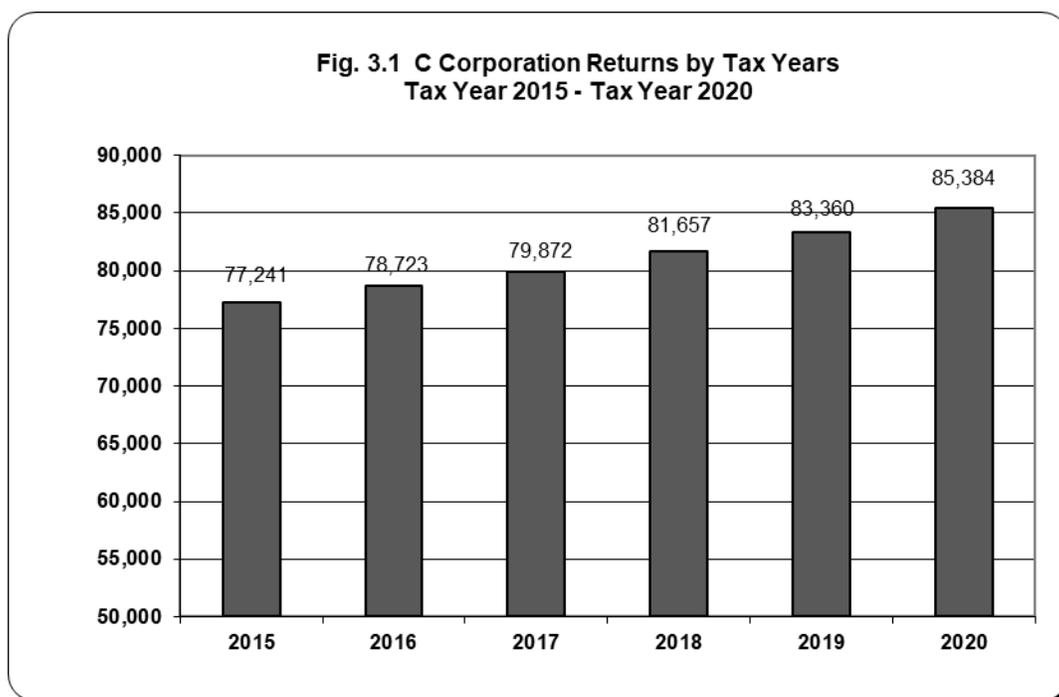
Due to the small number of S corporations claiming income tax credits, no statistics on these can be provided.

C CORPORATIONS

In this section, data on corporate returns are presented for tax years 2015 through 2020. Similar information for earlier years can be found in previous editions of this publication.

Table 3.1 compares the number of C corporation returns by tax year. Since the 2007 recession, there was a general decline from a peak of 80,552 returns, but the number of returns has seen a rebound since 2014.¹⁵ The average increase has been slightly higher in the three years since 2018 than in the prior 4 years, which may be due to some businesses changing their status to C corporations since the federal tax reform in 2017, which lowered the tax rate on corporations. Covid-19 may have also impacted the number of returns for 2020 as the economic dislocation gave rise to different types of businesses.

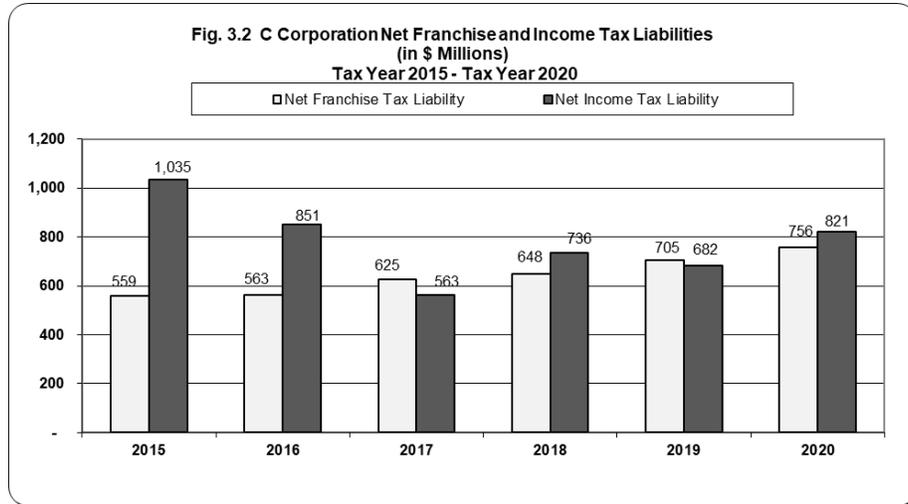
The number of first-time filers, as reported on the tax form, was 6,685 in 2020 and 6,244 in 2019. These numbers are higher than in prior years since the Great Recession. The number of new filers was approximately 5,000 annually during the period from 2005 through 2007.



¹⁵ There was a small increase in NC C corporation returns between 2010 and 2011.

Figure 3.2 shows the net tax liability for both the franchise tax and the corporation income tax from 2015 through 2020 for C corporations.

The decreases in income tax revenues since 2015 reflects mainly the decrease in the tax rates in these years. In 2015, the income tax rate was 5.0%. It decreased to 4.0% in 2016. In 2017 and 2018, the tax rate was 3.0%. And the tax rate in 2019 and 2020 was 2.5%.



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

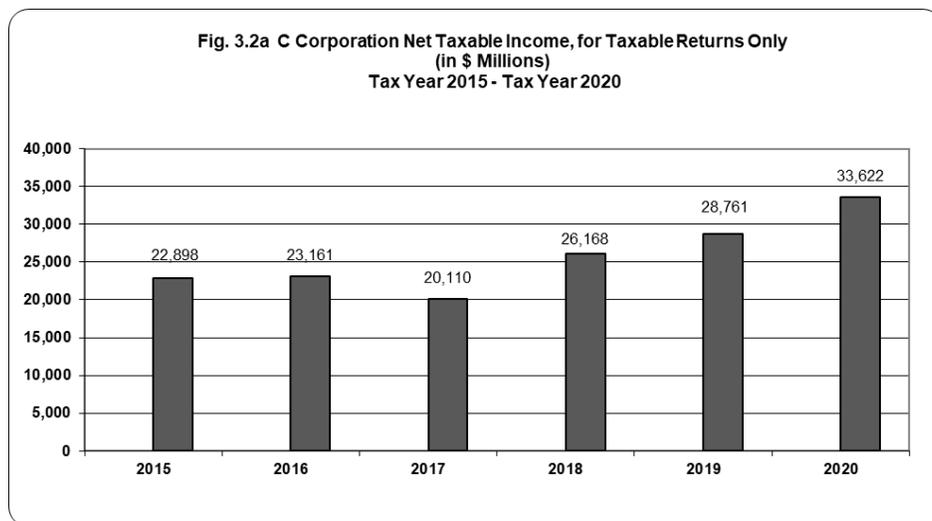
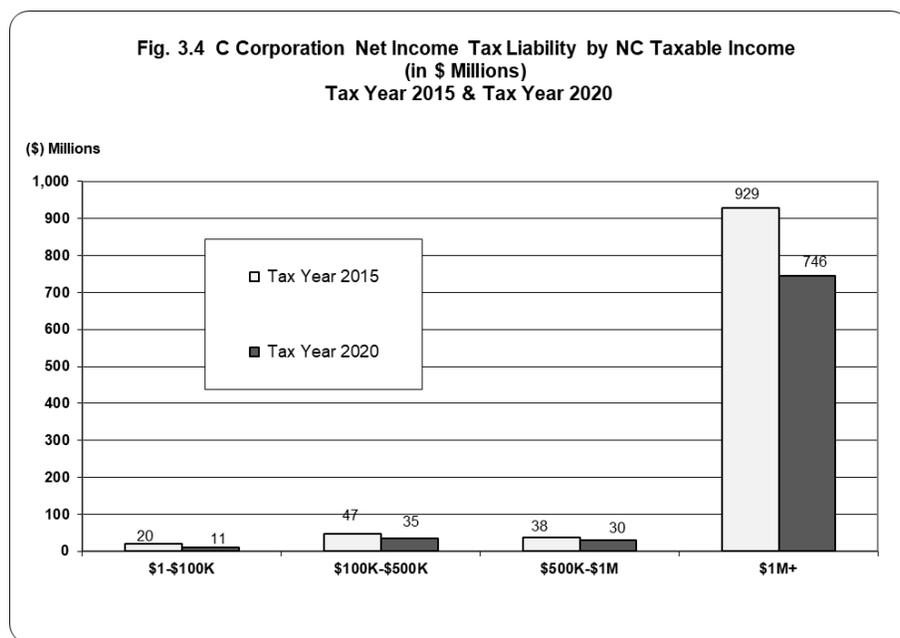


Table 3.3 and Figure 3.4 compare the net income tax liability of C corporations in tax year 2015 and tax year 2020 by NC taxable income brackets. Each taxable income bracket has experienced a decrease in tax liability due to the decline in the tax rate.

**Table 3.3
C Corporation Net Income Tax Liability by NC Taxable Income
Tax Year 2015 & Tax Year 2020**

NC Taxable Income	Net Income Tax Liability TY 2015	Net Income Tax Liability TY 2020	% Difference
\$0 or less	-	-	--
\$1-\$15,000	2,507,842	1,208,960	-51.8%
\$15,001-\$30,000	3,323,318	1,676,507	-49.6%
\$30,001-\$50,000	4,286,340	2,274,883	-46.9%
\$50,001-\$100,000	9,723,737	5,525,788	-43.2%
\$100,001-\$500,000	47,346,959	34,854,495	-26.4%
\$500,001-\$1,000,000	38,135,374	30,009,675	-21.3%
\$1,000,001-\$10,000,000	257,781,449	212,276,468	-17.7%
\$10,000,001+	671,711,929	533,628,694	-20.6%
Total	1,034,816,948	821,455,470	-20.6%

Note: The tax rate in 2015 was 5.0% and the tax rate in 2020 was 2.5%.



Trends in tax credit usage by C corporations. Over the preceding several years, a number of tax credits that have been used by corporations have been repealed. Table 3.5 provides a list of some of the tax credits that have been available to corporations in recent years and information on the expiration date of generating these credits.

**Table 3.5
Various Tax Credits Available to Corporations in Recent Years**

Tax Credit Description	Credit allowed against		Limited to 50% of tax liability?	Last Tax Year to generate credits
	Franchise Tax	Corporate Income Tax		
Creating Jobs - Art 3J	Y	Y	Y	2013
Investing in Business Property - Art 3J	Y	Y	Y	2013
N.C. State Ports	N	Y	Y	2013
Work opportunity	Y	Y	Y	2013
Research & Development - Art 3F	Y	Y	Y	2015
Renewable Energy - Art 3B	Y	Y	Y	2016*
Film Production	N	Y	N†	**
Historic Mill Rehabilitation - Art 3H	Y	Y	N	***
Cigarette Exportation	N	Y	Y	2017
Historic Rehabilitation - Art 3L	Y	Y	N	****
Railroad Intermodal Facility - Art 3K	Y	Y	Y	2037
Recycling Facility - Art 3C	Y	Y	N	None
Short period credit for change in income year	Y	N	N†	None

Notes:

†This is a refundable tax credit; amount of credit is not limited by tax liability

*A biomass resource project may generate credits if placed in service before May 5, 2017

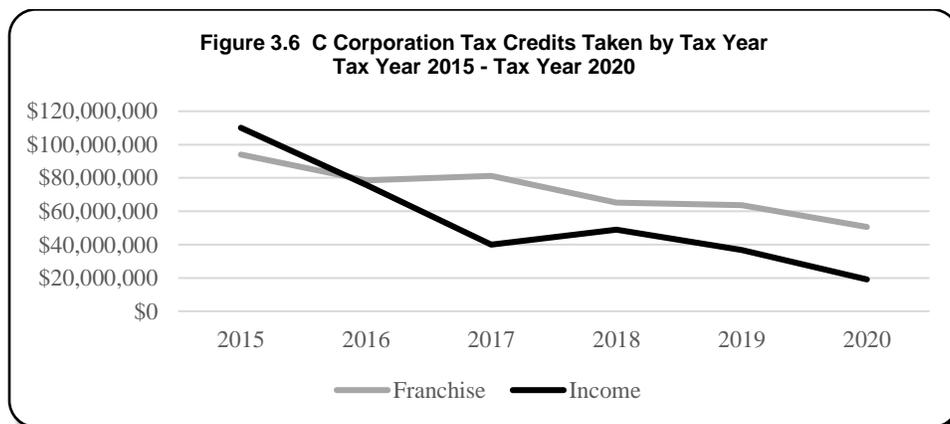
**A taxpayer can claim a credit for expenses occurring before Jan. 1, 2015

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

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

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

Figure 3.6 shows the amount of credits taken by C corporations against the franchise and corporate income tax for tax years 2015 through 2020. Income tax credits have decreased sharply since 2015, while franchise tax credits have had a much smaller decline since 2015. Even though some credits cannot be generated after a certain date, installments and carryforwards of unused credits will continue to be taken in future years.¹⁶



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

S CORPORATIONS

Figure 3.7 compares the number of S corporation returns by tax years 2015 through 2020. Over the long term, the number of returns has grown. The rate of growth of the number of S corporations slowed after the 2007 recession. The number of returns increased 14.9% between tax years 2015 and 2020. This is equivalent to an annualized rate of growth of 2.8%.

In Tax Year 2020, there were 11,295 taxpayers that indicated that they were first-time filers. In the prior year, there had been 11,338.

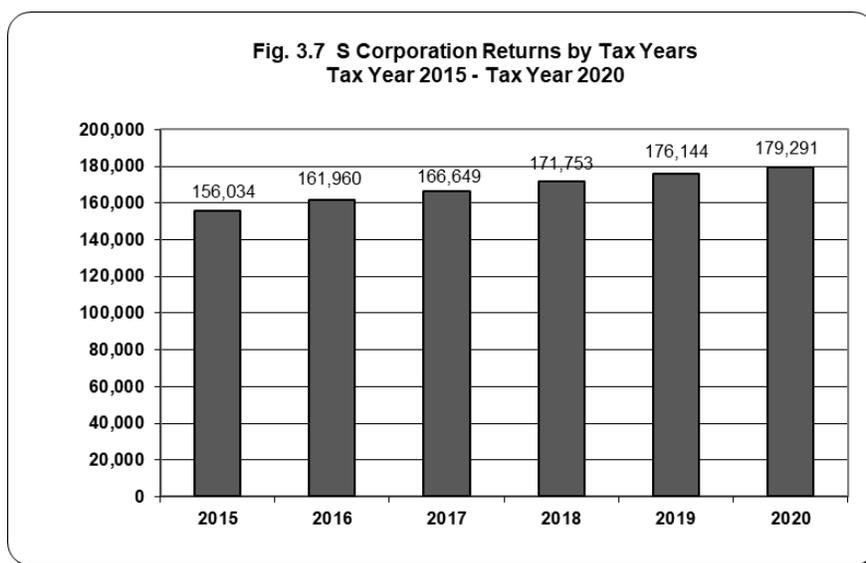


Figure 3.8 on the next page illustrates the relative amounts of net tax liabilities for 2015 through 2020 for S corporations. As discussed in Section II, the income tax liability for S corporations only includes taxes paid for nonresident shareholders filing a composite return. Therefore, comparisons across time may be misleading if certain larger taxpayers alter their behavior in this regard.

Beginning in 2014, the income tax rate for individuals, which is applicable to S corporations, was changed from a graduated rate structure with tax rates from 6% to 7.75% to a flat tax with a 5.8% rate. The rate declined to 5.75% in 2015. The tax rate on S corporation income fell to 5.499% for 2018 and 2018. In 2019 and 2020, the tax rate was 5.25%.

The large increase in the franchise tax liability in Tax Year 2016 is due primarily to the increase in the minimum tax from \$35 to \$200. The decline in Tax Year 2018 and succeeding years is mainly due to the reduction in the tax on the first \$1 million of taxable assets.

There was an increase of \$58.6 million in income tax liability between Tax Year 2019 and Tax Year 2020. Approximately \$8.6 million was due to the difference in the tax liabilities of new taxpayers in 2020 and exiting taxpayers from 2019 (that did not appear in the 2020 database). The remaining \$50 million was the net increase in tax liabilities for continuing taxpayers.

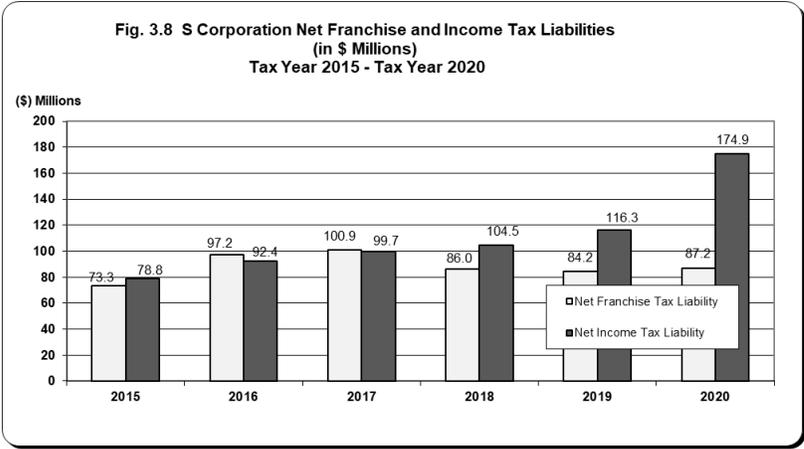
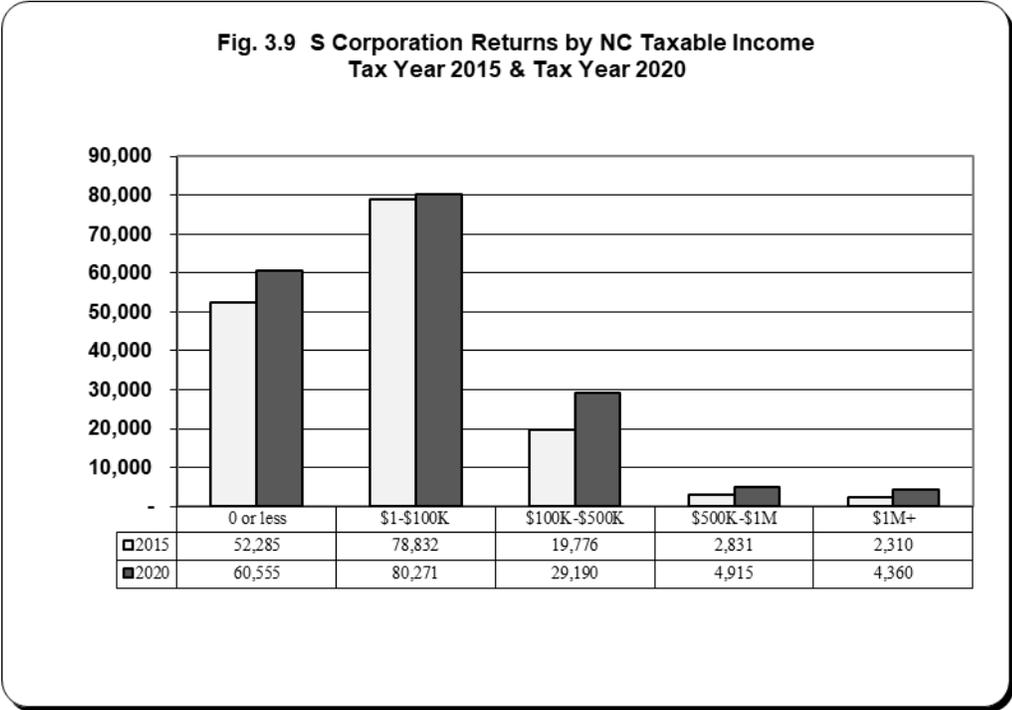


Figure 3.9 compares the number of S corporation returns in tax years 2015 and 2020 by NC taxable income brackets. The total number of returns has grown in each bracket, with the smallest increase for those in the \$1 to \$100,000 taxable income bracket. The percentage growth has been greatest in the \$1 million and above taxable income bracket.



**SECTION IV
FISCAL YEAR STATISTICS**

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

Table 4.1 shows the distribution of C corporation returns by the month in which their fiscal year begins, as well as for short-period returns. Calendar year returns comprised 79.0% of full-year returns and 74.5% of all returns. Their net franchise tax liability was 73.9% of the total, and their net income tax liability made up 69.6% of the total.

**Table 4.1
C Corporation Statistics by Fiscal Year Start Month
Tax Year 2020**

Tax Year Start Month	All Returns	Franchise Tax		Income Tax	
	Number of returns	Number	Amount (\$)	Number	Amount (\$)
January	63,606	52,792	558,436,586	21,331	571,913,264
February	1,120	1,070	34,383,009	384	48,701,715
March	605	583	2,988,977	241	2,770,982
April	3,155	3,016	27,796,524	1,295	30,880,900
May	862	800	5,771,607	377	9,403,844
June	844	758	7,410,648	357	15,921,425
July	3,930	3,311	23,376,504	1,517	28,260,214
August	798	732	6,009,110	370	14,622,554
September	821	765	6,342,791	336	7,284,037
October	3,052	2,833	36,728,727	1,278	47,158,797
November	1,080	1,030	9,228,659	454	13,114,717
December	636	595	5,208,608	258	7,984,701
Short-period returns	4,875	4,170	31,961,704	1,377	23,438,320
Total	85,384	72,455	755,643,454	29,575	821,455,470

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

For S corporations, calendar year filers comprised 94.4% of the 179,291 returns and 98.8% of the 171,391 full-year returns. They represented 90.9% of net franchise tax liabilities and 94.9% of the net corporation income tax liabilities.

There were 7,900 short-period returns included in the S corporation returns, 4.4% of the total number. They represented 2.0% of net franchise tax liabilities and 1.2% of the net corporation income tax liabilities.

C-CORPORATIONS

Table 5.1 shows franchise and income tax liabilities by major industry sector. The manufacturing sector had the largest tax liability for both the franchise tax and the income tax, approximately 24.1% of the total amount. Other sectors with relatively high shares of tax liability include finance and insurance; information; retail; professional, scientific, and technical services; wholesale; and real estate, rental & leasing.

**Table 5.1
C Corporation Franchise Tax and Income Tax Liability by Industry Sector
Tax Year 2020**

Industry Sector	All Returns	Franchise Tax		Income Tax	
	Number of returns	Number	Amount (\$)	Number	Amount (\$)
Agriculture, Forestry, Fishing and Hunting	1,070	1,030	3,772,937	364	3,859,869
Mining	164	158	3,616,865	53	2,334,220
Utilities	237	216	43,370,343	66	2,223,642
Construction	6,104	5,897	15,975,203	2,522	34,500,985
Manufacturing	8,296	8,078	200,454,811	3,484	180,338,648
Wholesale	6,080	5,890	46,878,294	2,910	52,274,244
Retail	5,468	5,228	51,833,474	2,285	92,784,231
Transportation	2,232	2,149	10,908,006	917	15,861,443
Couriers and Warehousing	207	203	1,867,881	81	1,732,596
Information	3,003	2,877	76,381,955	939	84,120,171
Finance and Insurance	7,901	7,264	118,826,157	3,049	185,260,711
Real Estate and Rental & Leasing	11,744	7,027	57,740,935	2,710	40,612,306
Professional, Scientific and Technical Services	12,115	11,596	50,371,992	4,037	55,122,893
Management of Companies / see note	2,677	2,532	39,367,168	886	28,723,860
Administration & Support and Waste Management & Remediation Services	3,338	2,689	7,854,449	1,191	12,765,480
Educational Services	468	419	1,101,071	140	1,273,031
Health Care and Social Assistance	2,640	2,511	11,728,393	858	13,682,977
Arts, Entertainment and Recreation	840	726	1,976,161	243	1,811,856
Accommodations and Food Services	2,176	2,064	6,355,173	860	5,425,505
Other Services	4,895	2,737	2,780,021	1,284	3,812,811
Unidentifiable	3,729	1,164	2,482,165	696	2,933,991
Total	85,384	72,455	755,643,454	29,575	821,455,470

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." Seventy-two (72) of these taxpayers were reassigned to other industries based on information concerning the main business of these companies. (These reassignments were made by staff of the Tax Research & Equity Division, mainly for four of the industry sectors: manufacturing; retail; information; and finance and insurance.) In addition, all 58 bank holding companies (NAICS=551111) were reassigned to the Finance & Insurance sector.

**SECTION V
INDUSTRY SECTORS**

Table 5.2 provides a breakout of the income tax calculation similar to Table 2.7 for various industry sectors.

**Table 5.2
C Corporation Income Tax Calculation Detail for Certain Industry Sectors
Tax Year 2020**

	Total	Construction	Manufacturing	Wholesale	Retail	Information	Finance & Insurance	Real Estate, Rental & Leasing	Professional Services
Taxable Returns									
Number of Returns	29,576	2,522	3,485	2,910	2,285	939	4,852	2,710	4,037
Federal Taxable Income, Before NOL	1,113,711,194,345	10,567,639,973	299,396,989,754	63,522,326,996	82,940,483,662	118,321,125,524	-27,447,316	32,694,014,444	88,119,401,493
(+) Adjustments to Federal Income	130,109,310,475	-1,368,498,518	27,402,763,790	6,080,845,783	14,794,887,333	22,843,787,587	-2,707,563,068	4,555,103,320	16,512,016,159
(-) Contributions to Donees Outside NC	8,848,632,234	-47,978,987	2,842,225,894	574,473,643	1,488,706,430	1,229,989,297	189,256,932	143,282,400	514,949,460
(-) Nonapportionable Income	5,893,856,882	-2,312,753	364,996,942	754,187,347	25,290,711	1,100,003,233	-279,306,891	380,611,331	13,680,588
(-) Reduction Due to Apportionment	1,194,098,537,148	7,798,000,117	315,818,212,451	66,137,163,170	92,212,109,840	135,068,783,231	-2,113,990,490	35,068,127,589	101,736,495,653
(=) Income Apportioned to NC	34,979,478,556	1,451,433,078	7,774,318,257	2,137,348,619	4,009,264,014	3,766,137,350	-530,969,935	1,657,096,444	2,366,291,951
(+) Nonapportionable Income Allocated to NC	**	998,251	**	33,938,482	**	**	-147,994,103	**	559,259
(-) Percentage Depletion Over Cost Depletion	**	0	**	0	**	**	0	**	0
(-) State Net Loss	1,480,721,446	68,099,243	252,103,333	70,700,541	74,604,062	328,402,714	244,919,645	68,992,428	123,975,605
(-) Contributions to NC Donees	243,160,405	2,999,656	9,590,099	2,561,553	161,601,819	5,479,361	45,165,429	5,342,736	2,636,520
(=) Net Taxable Income	33,621,726,673	1,381,332,430	7,544,148,908	2,098,025,007	3,776,190,293	3,410,432,130	7,622,480,133	1,626,781,323	2,240,239,085
Computed Income Tax	840,543,529	**	188,603,776	**	**	**	190,562,030	**	56,006,007
(-) Tax Credits	19,088,059	**	8,265,128	**	**	**	5,301,319	**	883,114
(=) Net Tax Liability	821,455,470	34,500,985	180,338,648	52,274,244	92,784,231	84,120,171	185,260,711	40,612,306	55,122,893
Non-Taxable Returns									
Number of Returns	55,808	3,582	4,811	3,170	3,183	2,064	4,852	7,927	8,078
Federal Taxable Income, Before NOL	-277,254,400,195	1,764,246,098	-47,124,416,127	-11,677,538,051	-22,234,541,123	-66,035,182,522	-27,447,316	-7,192,766,178	-21,393,862,459
(+) Adjustments to Federal Income	46,753,009,345	2,561,596,708	7,284,084,089	3,586,034,102	4,221,365,447	24,100,270,611	-2,707,563,068	-8,209,119,696	-3,182,966,726
(-) Contributions to Donees Outside NC	1,340,140,678	12,211,419	776,874,448	50,204,151	93,649,548	45,499,365	189,256,932	1,729,323	49,629,815
(-) Nonapportionable Income	3,425,731,644	6,769,657	624,690,645	359,223,537	20,182,377	1,477,412,951	-279,306,891	453,197,898	620,298,129
(-) Reduction Due to Apportionment	-197,954,602,414	4,215,633,709	-38,828,830,989	-7,938,736,201	-17,383,854,926	-42,354,286,186	-2,113,990,490	-15,192,074,184	-23,022,131,716
(=) Income Apportioned to NC	-12,466,311,289	91,228,021	-2,413,066,142	-562,195,436	-743,152,675	-1,103,538,041	-530,969,935	-664,738,911	-2,224,625,413
(+) Nonapportionable Income Allocated to NC	**	**	**	**	**	**	**	**	-3,269,885
(-) Percentage Depletion Over Cost Depletion	**	**	**	**	**	**	0	**	0
(-) State Net Loss	8,435,490,043	716,031,552	1,958,645,149	322,687,907	411,009,199	**	538,546,234	228,720,427	648,444,917
(-) Contributions to NC Donees	91,390,023	70,332	709,023	104,222	20,926	**	**	83,857	46,481
(=) Net Taxable Income	-21,208,845,274	-625,486,862	-4,372,202,427	-877,357,228	-1,165,236,100	-2,993,444,535	-1,217,598,897	-896,114,751	-2,876,386,696
Computed Income Tax	0	0	0	0	0	0	0	0	0
(-) Tax Credits	0	0	0	0	0	0	0	0	0
(=) Net Tax Liability	0	0	0	0	0	0	0	0	0

Note: Refer to the note on the previous page for identification of NAICS code industry sectors. A "*" in a cell indicates that the amount is withheld to protect taxpayer confidentiality. Amounts are based on both audited and unaudited returns.

S CORPORATIONS

Table 5.3 shows franchise and income tax liabilities by major industry sector for S corporations. Industry sectors that pay a relatively high share of the franchise tax include (1) retail; (2) construction; (3) manufacturing; and (4) real estate and rental & leasing.

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

**Table 5.3
S Corporation Franchise Tax and Income Tax Liability by Industry Sector
Tax Year 2020**

Industry Sector	All Returns	Franchise Tax		Income Tax	
	Number of returns	Number	Amount (\$)	Number	Amount (\$)
Agriculture, Mining & Utilities	4,260	4,138	3,560,665	109	1,427,390
Construction	28,084	27,196	11,596,664	1,339	19,721,368
Manufacturing	7,291	7,017	10,415,582	1,033	21,014,269
Wholesale	6,917	6,612	7,231,485	952	19,582,953
Retail	16,750	16,022	12,122,747	540	11,837,839
Transportation	5,548	5,339	2,033,849	290	4,612,850
Couriers and Warehousing	533	507	243,938	33	294,945
Information	2,548	2,422	1,860,419	302	3,902,373
Finance and Insurance	7,288	6,967	3,776,947	704	32,523,392
Real Estate and Rental & Leasing	19,954	19,036	10,221,807	801	5,815,397
Professional, Scientific and Technical Services	29,575	28,224	7,600,386	2,687	17,222,289
Management of Companies	1,320	1,236	1,758,668	372	6,208,984
Administration & Support and Waste Management & Remediation Services	8,087	7,712	2,103,923	637	14,125,702
Educational Services	1,322	1,235	368,068	69	1,469,032
Health Care and Social Assistance	12,071	11,635	3,530,223	152	3,175,159
Arts, Entertainment and Recreation	3,922	3,709	1,663,766	194	491,713
Accommodations and Food Services	9,208	8,811	3,733,956	160	10,085,079
Other Services	13,093	12,499	2,919,511	233	1,304,856
Unidentifiable	1,520	1,472	466,841	25	37,661
Total	179,291	171,789	87,209,445	10,632	174,853,251

Note: Calculations are based partially on unaudited returns. Agriculture, Mining and Utilities were reported as one sector to protect confidentiality of taxpayers. In some cases, revisions were made to the NAICS codes reported by taxpayers. If it was evident that a taxpayer reported an old NAICS or SIC code, these were converted to newer codes. Also, taxpayers that were holding companies often listed their NAICS code as "Management of Companies." Twenty-one (21) of these taxpayers were reassigned to other industries based on information concerning the main business of these companies. (These reassignments were made by staff of the Revenue Research section of the Financial Services Division.)

**SECTION V
INDUSTRY SECTORS**

Table 5.4 shows the North Carolina net taxable income of S corporations in tax year 2020 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) retail; (4) manufacturing; (5) health care and social assistance; and (6) finance and insurance.

**Table 5.4
S Corporation NC Net Taxable Income by Industry Sector
Tax Year 2020**

Industry Sector	Net Taxable Income		
	Number of returns	Amount (\$)	Share of total amount
Agriculture, Forestry, Fishing and Hunting	3,789	408,606,767	1.6%
Mining	114	20,606,063	0.1%
Utilities	158	22,762,885	0.1%
Construction	25,429	4,304,587,685	16.6%
Manufacturing	6,561	2,422,607,315	9.4%
Wholesale	6,304	1,878,732,559	7.3%
Retail	15,883	3,094,449,429	12.0%
Transportation	5,103	560,189,970	2.2%
Couriers and Warehousing	484	60,734,157	0.2%
Information	2,284	461,673,561	1.8%
Finance and Insurance	6,368	1,917,481,212	7.4%
Real Estate and Rental & Leasing	18,500	1,794,137,763	6.9%
Professional, Scientific and Technical Services	26,526	3,332,379,478	12.9%
Management of Companies	1,076	608,882,448	2.4%
Administration & Support and Waste Management & Remediation Services	7,374	1,068,263,030	4.1%
Educational Services	1,244	95,296,655	0.4%
Health Care and Social Assistance	11,534	2,008,296,692	7.8%
Arts, Entertainment and Recreation	3,450	165,846,637	0.6%
Accommodations and Food Services	8,680	941,661,881	3.6%
Other Services	12,583	637,088,550	2.5%
Unidentifiable	1,063	83,092,998	0.3%
Total	164,507	25,887,377,735	

Note: Amounts shown in the table include accounts with negative values for net taxable income. Calculations are based partially on unaudited returns. In some cases, revisions were made to the NAICS codes reported by taxpayers. If it was evident that a taxpayer reported an old NAICS or SIC code, these were converted to newer codes. . Also, taxpayers that were holding companies often listed their NAICS code as "Management of Companies." Twenty-one (21) of these taxpayers were reassigned to other industries based on information concerning the main business of these companies. (These reassignments were made by staff of the Tax Research & Equity Division.)

**SECTION V
INDUSTRY SECTORS**

Table 5.5 shows the North Carolina net taxable income of S corporations in tax year 2020 by industry sector for taxpayers who had positive amounts of net taxable income. The industry sectors with the largest net taxable income are (1) construction; (2) professional, scientific and technical services; (3) retail; (4) manufacturing; (5) health care and social assistance; and (6) real estate and rental & leasing.

**Table 5.5
S Corporation NC Net Taxable Income (Positive Values Only) by Industry Sector
Tax Year 2020**

Industry Sector	Net Taxable Income (Positive Values Only)		
	Number	Amount (\$)	Share of total amount
Agriculture, Forestry, Fishing and Hunting	2,381	515,912,918	1.8%
Mining	72	22,480,088	0.1%
Utilities	118	27,928,709	0.1%
Construction	18,941	4,650,339,545	16.5%
Manufacturing	4,686	2,606,350,307	9.2%
Wholesale	4,753	1,969,004,770	7.0%
Retail	11,312	3,291,804,640	11.7%
Transportation	3,569	638,928,886	2.3%
Couriers and Warehousing	351	66,987,166	0.2%
Information	1,571	495,721,020	1.8%
Finance and Insurance	5,269	1,981,752,486	7.0%
Real Estate and Rental & Leasing	13,248	2,017,706,048	7.1%
Professional, Scientific and Technical Services	19,956	3,553,466,513	12.6%
Management of Companies	779	658,752,104	2.3%
Administration & Support and Waste Management & Remediation Services	5,441	1,145,916,019	4.1%
Educational Services	799	107,441,522	0.4%
Health Care and Social Assistance	9,110	2,129,832,326	7.5%
Arts, Entertainment and Recreation	1,977	286,749,731	1.0%
Accommodations and Food Services	5,161	1,202,560,203	4.3%
Other Services	8,505	768,245,337	2.7%
Unidentifiable	689	93,609,154	0.3%
Total	118,688	28,231,489,492	

Note: Amounts shown in the table include accounts with negative values for net taxable income. Calculations are based partially on unaudited returns. In some cases, revisions were made to the NAICS codes reported by taxpayers. If it was evident that a taxpayer reported an old NAICS or SIC code, these were converted to newer codes. Also, taxpayers that were holding companies often listed their NAICS code as "Management of Companies." Twenty-one (21) of these taxpayers were reassigned to other industries based on information concerning the main business of these companies. (These reassignments were made by staff of the Tax Research & Equity Division.)